First Midwest Financial, Inc.

1995

Annual Report

Corporate Profile

First Midwest Financial, Inc., is the holding company for First Federal Savings Bank of the Midwest. This includes the Main Bank Office in Storm Lake, Iowa, and its 6 branch offices in a four-county area of Northwest Iowa. It also includes the 2 offices of Brookings Federal Bank in Brookings, South Dakota, a Division of First Federal Savings Bank of the Midwest.

The Bank markets a variety of deposit, checking, and loan products, as well as other financial services to meet the needs of its customers. Non-insured financial products such as tax-deferred annuities and mutual funds are marketed through the Investment Services Division of First Services Financial Limited, a subsidiary of First Federal.

Brookings Federal Insurance Agency, operating through Brookings Service Corporation, a subsidiary of First Services Financial Limited, offers a full range of insurance products. PrimeVest Investment Center, also operating through Brookings Service Corporation, offers full service brokerage and a wide range of alternative investment products.

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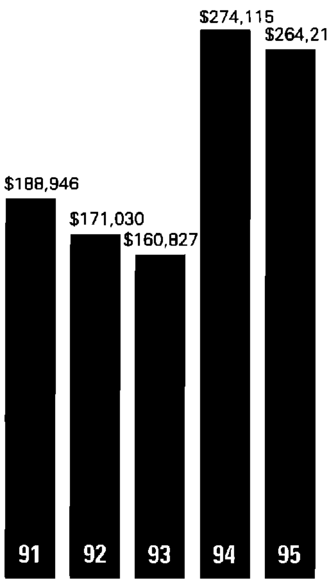
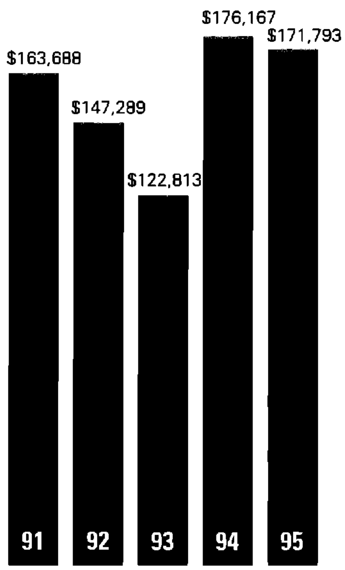
Financial Highlights

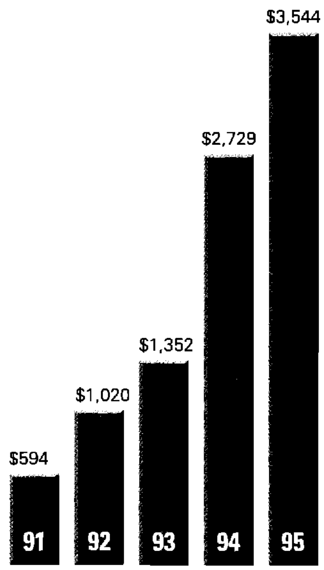
At September 30	1991	1992	1993	1994	1995
			(Dollars in Thousands except Per Share Data)		
Total Assets	$188,946	$171,030	$160,827	$274,115	$264,213
Total Loans	68,237	74,561	80,224	155,497	178,552
Total Deposits	163,688	147,289	122,813	176,167	171,793
Stockholders' equity	13,950	14,970	33,438	34,683	38,013
Book value per common share	N/A	N/A	$ 16.82	$ 18.69	$ 21.19
Total equity to assets	7.38%	8.75%	20.79%	12.65%	14.39%

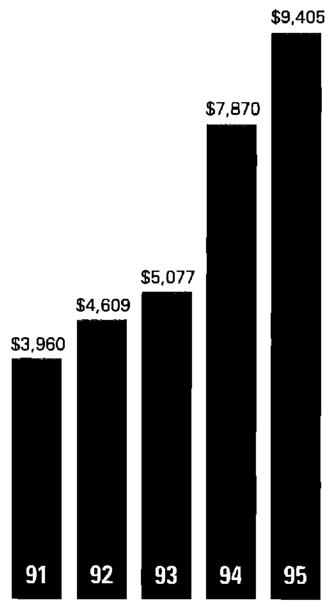
For the Fiscal Year	1991	1992	1993	1994	1995
			Dollars in Thousands except Per Share Data)		
Net interest income	$3,960	$4,609	$5,077	$7,870	$9,405
Net income	594	1,020	1,352	2,729	3,544
Net income per share	N/A	N/A	$0.66[1]	$ 1.37	$ 1.99
Net yield on interest-earning assets	2.01%	2.63%	3.21%	3.94%	3.63%
Return on average assets	.29%	.57%	.84%	1.29%	1.31%
Return on average equity	4.41%	7.08%	7.10%	7.89%	9.86%

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



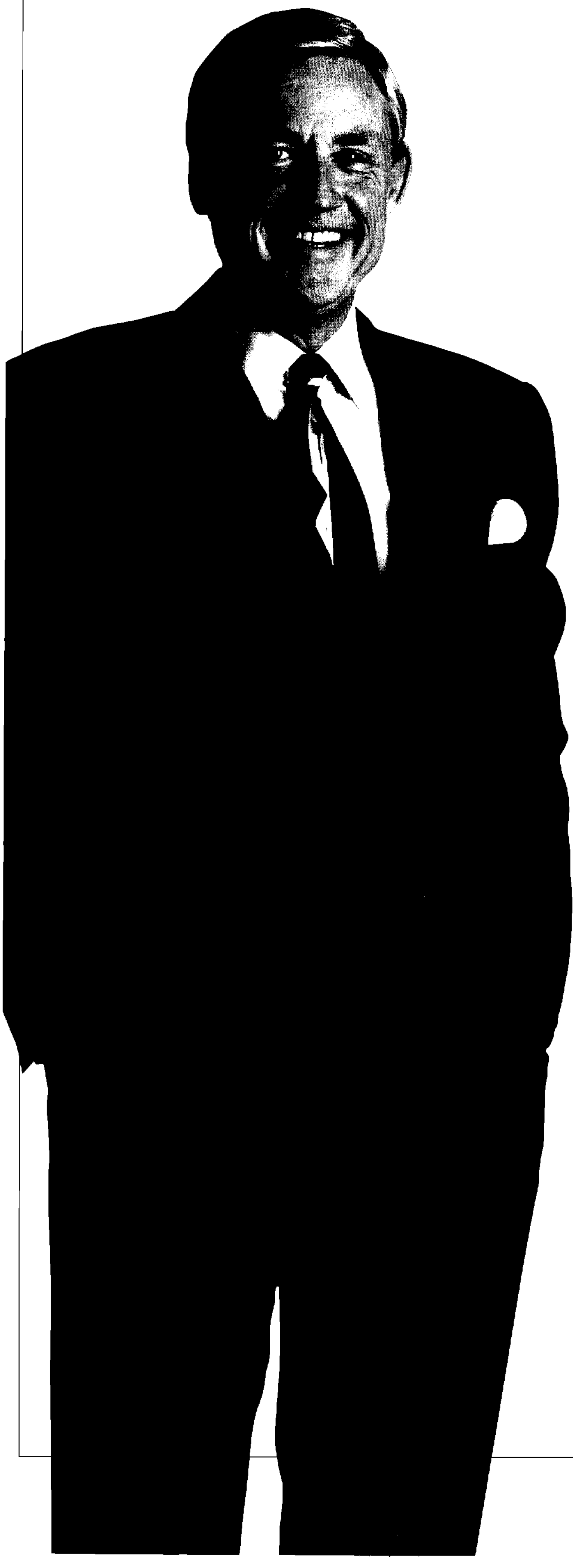






All figures indicate dollar amounts in thousands

Total Assets **Total Deposits** **Net Income** **Net Interest Income**



Chairman's Letter

To Our Stockholders:

First Midwest Financial, Inc. achieved excellent results in fiscal 1995 with net income of $3,544,000, or $1.99 per share. We plan to do even better in the years ahead.

On August 22, 1995 we announced the anticipated acquisition of Iowa Bancorp, Inc., parent company of Iowa Savings Bank, a federal savings bank, in Des Moines, Iowa. Under the definitive agreement executed with Iowa Bancorp, Inc., First Midwest Financial, Inc. will acquire all outstanding shares, including shares subject to option, of Iowa Bancorp, Inc. for $8 million. Subject to approval of the shareholders of Iowa Bancorp, Inc. and the Office of Thrift Supervision, we anticipate that the transaction will be completed by the end of the year. Iowa Savings Bank is one of the best capitalized financial institutions in the state of Iowa with a tangible and core capital ratio in excess of 21% as of September 30, 1995. The merger of Iowa Savings Bank into First Federal Savings Bank of the Midwest will provide the opportunity to expand our retail banking network into Des Moines, giving us a presence in the largest market in Iowa. Jeanne Partlow, President and Chief Executive Officer of Iowa Bancorp, Inc. will be appointed to the Board of Directors of First Midwest Financial, Inc., upon completion of the merger. Mrs. Partlow will also remain as president of Iowa Savings Bank, which will operate as a division of First Federal.

The stock repurchase program announced September 20, 1994 was completed on February 27, 1995. During that period, 94,228 shares, or approximately 5% of the shares outstanding at that time, were repurchased at prevailing market prices. Another stock repurchase program was announced on September 25, 1995 with plans to repurchase approximately 5% of the then outstanding 1,798,225 shares in the open market by September 30, 1996.

A major enhancement to the Bank's data processing system was accomplished this past year, resulting in improved productivity and internal operating efficiencies.

In addition, extensive remodeling and redecorating was recently completed in First Federal's Main Bank Office in Storm Lake. These improvements have created a more customer-friendly retail banking environment and are benefiting our staff in their efforts to serve customers more efficiently. Other First Federal bank offices are scheduled for redecorating in 1996.

On November 27, 1995 First Midwest Financial, Inc. announced that the corporation will increase its quarterly cash dividend from 7 1/2 cents per share to 11 cents per share for the first fiscal quarter of 1996. The dividend, which represents an increase of 47%, will be payable on January 2, 1996 to stockholders of record on December 15, 1995. We are pleased to pay this additional cash dividend to the stockholders of First Midwest Financial, Inc.

Operating Highlights:

Net income for fiscal 1995 exceeded $3.5 million. Earnings were enhanced by a 20% increase in net interest income. This was due to a significant increase in the Bank's loan portfolio and the benefits of a full year of operations from First Federal's Brookings Division. Operating results were further enhanced by a gain on the sale of securities resulting from restructuring of the bank's mortgage-backed securities portfolio.

Deposits totaled $171.8 million, with assets of $264.2 million at the close of fiscal 1995. Lending activity increased during fiscal 1995 with originations of $65.3 million. As of September 30, 1995 the loan portfolio balance totaled $178.6 million, which was a 15% increase from the previous year.

Stockholders' equity at the end of fiscal 1995 totaled $38.0 million, compared to $34.7 million at the end of the previous year, which was an increase of over 9%. This increase is a result of the Company's strong earnings during the fiscal year, and reflects the effect of the stock repurchase programs during that same period.

First Federal's tangible and core capital as a percentage of total assets increased to 12.37% at the end of fiscal 1995 which exceeds the regulatory requirements by 10.87% and 9.37%, respectively. Risk-based capital, which is an indication of the level of credit risk in the Bank's loan portfolio and other investments, was 20.42%, which is more than two and one half times that required by federal regulation.

Expectations for Future Success:

First Midwest Financial, Inc. continues to seek out additional acquisitions of savings banks, commercial banks, and other related-service companies in our geographic areas. We will evaluate them carefully and pursue any that represent opportunities to help achieve our goal of profitable long term growth.

First Federal management is implementing a variety of strategies for improving growth in our retail banking operations. These include defining expectations and increasing accountability for sales and service efforts by all bank employees, activating more aggressive marketing to prospective customers, and directing better focused cross selling efforts to current customers.

Our satisfaction with the Company's fiscal 1995 results is exceeded only by our expectations for future success! Driven by the desire to "work smarter", we are actively defining how that philosophy can be put into practice every day, by every employee in each department, each office and each division of this Company. We are confident that your investment in First Midwest Financial, Inc. will be rewarded with increased stockholder value as a result of our continued efforts to achieve profitable long term growth.

Sincerely,

James S. Haahr
CHAIRMAN OF THE BOARD, PRESIDENT & CEO
December 13, 1995

Larry Schultz, Owner - Storm Lake Honda, 207 East Milwaukee
First Federal provides financing for Storm Lake Honda customers, through dealer loan accounts. This includes loans for vehicles such as motorcycles, snowmobiles, personal water craft, and 4-wheelers.

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

The recently completed remodeling and redecorating of the Main Bank Office has provided a more customer-friendly retail operation as well as improvements to internal operating efficiencies.

FIRST FEDERAL SAVINGS BANK OF THE MIDWEST

FIRST FEDERAL IS PROUD TO CONTINUE ITS LONG TERM COMMITMENT TO HOME LENDING. THIS INCLUDES FINANCING FOR NEW CONSTRUCTION, PURCHASE, REFINANCING, AND HOME IMPROVEMENTS. A VARIETY OF LOAN PROGRAMS, WITH BOTH FIXED AND ADJUSTABLE RATE OPTIONS, ENABLE US TO SERVE THE UNIQUE NEEDS OF INDIVIDUAL BORROWERS.

Thane and Jennifer Brown work to complete a new home for their family on White Cap Road in Storm Lake, with the help of a construction loan from First Federal.

The management and staff of First Federal have renewed our commitment to achieving profitable growth in our retail bank network. Capital improvements made during 1995 have provided valuable support to our efforts in achieving that goal. The up-grade to the Bank's data processing system and the remodeling of the Main Bank Office have resulted in numerous opportunities for staff to improve their efficiency and productivity. Improved productivity means more time for sales and service as we work together to aggressively market bank products to current and prospective customers.

First Federal offers all types of loans, with home lending as the cornerstone of our loan portfolio. The Bank's commitment to home financing includes loans for new construction, purchases, refinancing, and home improvements. The Key Plan for Homeowners, which was introduced last year, has become the most popular choice for mortgage loans at First Federal. This product packages core bank products, including checking, savings, and escrow accounts, with a reduced rate mortgage loan. Key Plan customers save money on mortgage loan interest expense and the Bank benefits from multiple-account relationships with those customers.

In an effort to help make home ownership affordable for more people, First Federal continues to participate in a variety of special assistance programs, including the Affordable Housing Program through the Federal Home Bank of Des Moines, the Iowa Housing Assistance Program through the Iowa Finance Authority, and the Iowa League of Savings Institutions' Affordable Housing Program.

First Federal is proud to be a portfolio lender, unlike the current trend in banking, which is to package and sell loans. As a portfolio lender, mortgage loans originated at First Federal are serviced by First Federal. This gives the Bank more flexibility in structuring rates and terms to the unique needs of individual borrowers. Customers also benefit from local service in handling their payments and by getting prompt responses to any questions on their loan and escrow accounts.

1995 Fall term enrollment at Buena Vista University in Storm Lake totals 2,519, up 6% from last Fall. This figure includes students attending the main campus in Storm Lake and nine branch campuses throughout Iowa. Buena Vista recently announced the addition of its accredited Master of Science in Education program. Courses for this three-year graduate program will begin in June 1996.

ECONOMIC HIGHLIGHTS:
Storm Lake, Iowa
Average Land Value for prime farm land in a 12 county area of Northwest Iowa: $1,972 per acre (November 1995)
Building Permits:
Residential $1,978,337
Commercial $3,326,763
(YTD 1995 thru 10/31)
Taxable Retail Sales: $105,937,705 (1994)
Unemployment Rate: for Buena Vista County: 2.4 % (September 1995)

Deb Otto, "Henri", Owner of Henri's Unique Wearables & Gifts, 618 Lake Avenue in Storm Lake. With financing from First Federal, this previously home-based business was able to expand both retail and wholesale operations in Storm Lake's downtown area.

Consumer lending, including home equity loans, continues to be an important segment of First Federal's total loan program. In order to help increase consumer loan production, we have established a number of dealer loan accounts. These relationships enable First Federal to be a source of financing through dealers for consumer purchases such as autos, appliances, and furniture. In addition, a pre-approved consumer loan campaign targeting selected First Federal customers is in progress.

The Agricultural and Commercial Loan Department at First Federal provides financing and service for start-up and existing operations of any size. Many of the Bank's new agricultural and commercial loan customers are being referred to us by our current customers, which is an endorsement of our commitment to quality service.

First Federal offers checking accounts designed to satisfy different types of customer needs. A full range of FDIC-insured savings accounts and certificates of deposit are offered to savers. The Savings Plus Account was introduced last spring as an attractive choice for depositors with short term savings needs. Savings Plus offers the convenience of statement savings "plus" a higher yield.

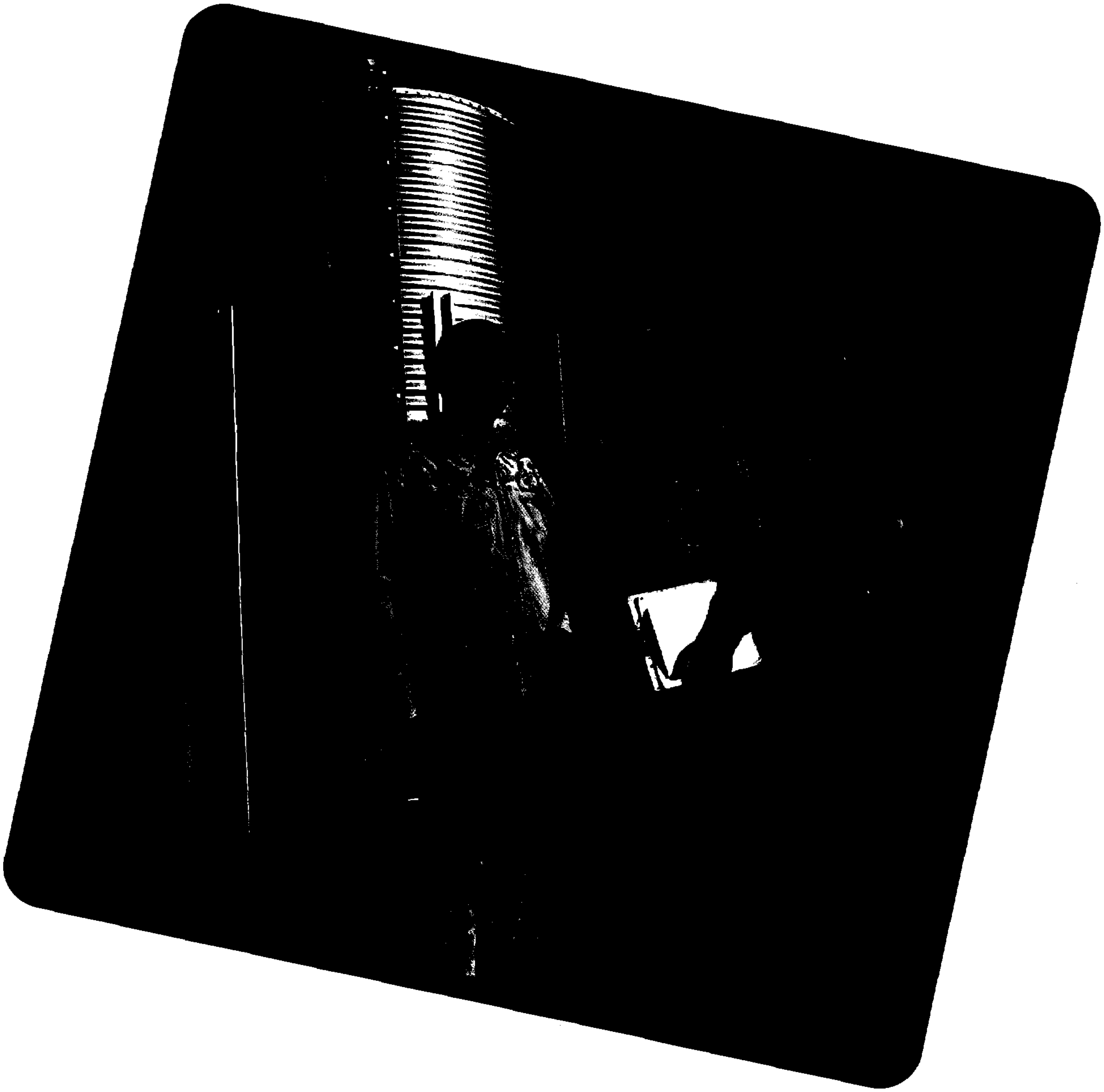
The Trust and Retirement Department at First Federal trustees IRA, KEO, and SEPP plans. These tax-deferred retirement plans offer customers a full range of qualified investment choices. In addition, they offer trust services such as the professional administration and management of assets, including estates and agency accounts.

First Services Financial Limited

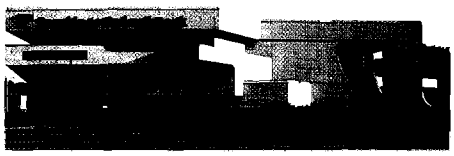
Investment Services Division

The Investment Services Division of First Federal's subsidiary, First Services Financial Limited, has offices located at 118 East Fifth Street in Storm Lake and in the Bank's Manson office. Registered Representatives provide alternative investment products, including tax-deferred annuities (fixed and variable), mutual funds, life insurance, and discount brokerage services. (These products are not FDIC-insured nor guaranteed by First Federal or any affiliates.)

Richard A. Wehde, Vice President - Commercial/Agricultural Loans, visits with brothers Kenny and Kevin Lindquist. The Lindquists farm 900 acres near Albert City, Iowa, and farrow-to-finish approximately 8,000 pigs per year. First Federal is pleased to provide financing for their farming operation.



Kevin Rindels of Brookings enjoys his new boat on Lake Campbell near Brookings. Brookings Federal provides consumer loans for most any need.



Brookings Federal Bank, a Division of First Federal Savings Bank of the Midwest, 600 Main Avenue, Brookings, South Dakota.

BROOKINGS DIVISION

ECONOMIC HIGHLIGHTS:
Brookings, South Dakota
Average Land Value in East Central South Dakota: $475 per acre (February 1995)
Building Permits:
Residential $2,790,050
Commercial $9,460,100 (YTD 1995 thru 9/30)
Taxable Retail Sales: $190,163,113 (1994)
Unemployment Rate: .8% (September 1995)

The Brookings Division has made a significant contribution to the Bank's net earnings since they were acquired in March 1994. Fiscal 1995 was the first full year of Brookings Federal operating as a Division of First Federal, and the benefits of that are reflected in the Bank's increase in net income.

Brookings Federal continues to be one of the dominant home mortgage lenders in their market area. The Key Plan for Homeowners was introduced in the Brookings market this past year and has been well received by new mortgage loan customers. In order to help make home ownership affordable for first-time and low-income home buyers, the Brookings Division participates in the South Dakota Housing Authority's Assistance Program.

Consumer lending through the Brookings Division continues to increase. Brookings Federal is also involved with dealer loan accounts and the pre-approved loan campaign.

Brookings Federal increased their commitment to agricultural lending this past year with the addition of Steve Almos as Assistant Vice President - Agricultural Loans. A long-time resident of the Brookings area, he brings over 16 years of agricultural banking experience to Brookings Federal. As a result, the Bank's base of agricultural customers has increased significantly and continues to grow. Commercial lending has also increased. Brookings Federal continues to seek quality commercial loans for any size business.

Brookings Federal offers a full line of deposit products including checking accounts, savings accounts, and certificates of deposit. The Savings Plus account was also introduced in the Brookings market this past year.

Earlier this year, Brookings Federal developed Preferred Banking Benefits, a special package of banking services featuring a pre-approved line of credit loan, tied to direct deposit of payroll. The program was introduced to employees of Larson Manufacturing Company in Brookings, South Dakota, as a part of their benefit package. Larson Manufacturing Company manufactures and distributes a line of energy-efficient storm doors and employs over 600 people at their

Brookings Federal is pleased to have provided a construction loan as well as permanent financing for Ben and Shelley Gates' home in Brookings.

South Dakota State University, Brookings, South Dakota, 1995 Fall term enrollment off- and on- campus is 9,323, an increase from 9,140 last year.

Bob Wakeman, Owner of Brookings Engraving Inc. and Bob's Sport Shop, located in downtown Brookings. Brookings Federal provides financing for this business, which manufactures engraved plates that are distributed throughout 25 states.

Brookings location. Preferred Banking Benefits is proving to be successful in attracting new bank customers with checking accounts and consumer loans, as well as other bank products.

Brookings Service Corporation

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

Brookings Federal Advisory Board

The Brookings Federal Advisory Board is instrumental in providing advice and counsel to the Brookings Division regarding business and social issues in the Brookings market area. Members of this board as pictured L-R below include:

JAMES C. WINTERBOER:	*President, Brookings Federal*
EARL R. RUE:	*Retail Manager, Running's*
VIRGIL G. ELLERBRUCH:	*Assistant Dean of Engineering South Dakota State University*
STEVEN P. MYERS:	*Vice Chairman of the Board, and Senior Vice President, First Midwest Financial, Inc., and Senior Vice President, First Federal*
O. DALE LARSON:	*Chairman of the Advisory Board Owner, Larson Manufacturing*
FRED J. RITTERSHAUS:	*Vice Chairman of the Advisory Board Consulting Engineer and Partner, Banner and Associates, Inc.*

James C. Winterboer
President
Brookings Federal

Brookings Federal Advisory Board

Ron Gorder discusses his farming operation with Agricultural Loan Officer Steve Almos. Ron operates a 1200 acre farm north of Brookings, which includes 70 dairy cattle and 90 stock cows. This is one of the many farming operations in the area financed by Brookings Federal.

First Federal Savings Bank of the Midwest Office Locations

Economic Highlights:

Storm Lake, Iowa

Average Land Value:
for prime farm land in a 12 county area of Northwest Iowa: $1,972 per acre (November 1995)

Building Permits:
Residential $1.978,337
Commercial $3,326,763
(YTD 1995 thru 10/31)

Taxable Retail Sales:
$105,937,705 (1994)

Unemployment Rate:
for Buena Vista County: 2.4 % (September 1995)

Brookings, South Dakota

Average Land Value:
in East Central South Dakota: $475 per acre (February 1995)

Building Permits:
Residential $2,790,050
Commercial $9,460,100 (YTD 1995 thru 9/30)

Taxable Retail Sales:
$190,163,113 (1994)

Unemployment Rate:
.8% (September 1995)

STORM LAKE
Main Bank Office
Fifth at Erie
P.O. Box 1307
Storm Lake, Iowa 50588
712-732-4117
800-792-6815

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

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

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

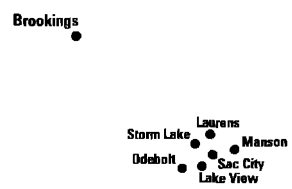
Manson
Eleventh at Main
Manson, Iowa 50563
712-469-3319

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

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

BROOKINGS FEDERAL
A Division of First Federal
600 Main Avenue
Brookings, South Dakota 57006
605-692-2314
800-842-7452

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



FINANCIAL CONTENTS

Selected Consolidated Financial Information

September 30,	1995	1994	1993	1992	1991
					(In Thousands)
Selected Financial Condition Data:					
Total assets	$264,213	$274,115	$160,827	$171,030	$188,946
Cash and cash equivalents	4,616	6,430	20,544	4,377	29,844
Securities available-for-sale	48,829	13,222	20	20	4,656
Mortgage-backed securities available-for-sale	21,403	23,958	—	—	—
Securities held-to-maturity	—	18,000	31,293	54,494	43,327
Mortgage-backed securities held-to-maturity	—	47,917	24,792	32,907	38,193
Loans receivable, net	178,552	155,497	80,224	74,561	68,237
Excess of cost over net assets acquired, net	1,690	1,815	—	—	—
Deposits	171,793	176,167	122,813	147,289	163,688
Total borrowings	52,248	61,218	3,115	7,554	9,115
Stockholders' equity	38,013	34,683	33,438	14,970	13,950

Year Ended September 30,	1995	1994	1993	1992	1991
					(In Thousands)
Selected Operations Data:					
Total interest income	$21,054	$15,153	$ 11,586	$13,791	$ 17,424
Total interest expense	11,649	7,283	6,509	9,182	13,464
Net interest income	9,405	7,870	5,077	4,609	3,960
Provision for loan losses	250	105	225	50	238
Net interest income after provision for loan losses	9,155	7,765	4,852	4,559	3,722
Non-interest income:					
Loan fees and service charges	712	598	523	518	452
Gain (loss) on sales of loans, mortgage-backed securities, investment securities and other assets	1,070	9	708	19	538
Other non-interest income	504	471	324	510	372
Total non-interest income	2,286	1,078	1,555	1,047	1,362
Total non-interest expense	5,576	4,938	3,725	3,995	3,962
Income before income taxes, extraordinary item and cumulative effect of change in accounting principle	5,865	3,905	2,682	1,611	1,122
Income tax expense	2,321	1,433	1,045	591	518
Income before extraordinary item and cumulative effect of change in accounting principle	3,544	2,472	1,637	1,020	604
Extraordinary items — net of taxes	—	—	(285)	—	(10)
Cumulative effect of change in accounting principle	—	257	—	—	—
Net income	$ 3,544	$ 2,729	$ 1,352	$ 1,020	$ 594

Year Ended September 30,	1995	1994	1993	1992	1991
Selected Financial Ratios and Other Data:					
PERFORMANCE RATIOS:					
Return on assets (ratio of net income to average total assets)[1]	1.31%	1.29%	0.84%	0.57%	0.29%
Interest rate spread information:					
Average during year	3.13	3.25	2.69	2.25	1.57
End of year	2.85	2.96	2.88	2.55	1.43
Net yield on average interest-earning assets	3.63	3.94	3.21	2.63	2.01
Ratio of operating expense to average total assets	2.06	2.30	2.31	2.22	1.96
Return on retained earnings (ratio of net income to average equity)[1]	9.86	7.89	7.10	7.08	4.41
QUALITY RATIOS:					
Non-performing assets to total assets at end of year	.29	.34	.78	.23	.77
Allowance for loan losses to non-performing loans	227.27	148.51	65.42	239.04	56.47
CAPITAL RATIOS:					
Retained earnings to total assets at end of period	14.39	12.65	20.79	8.75	7.38
Average retained earnings to average assets	13.28	20.52	11.83	8.00	6.68
Ratio of average interest-earning assets to average interest-bearing liabilities	111.35%	119.04%	112.69%	107.18%	106.36%
Number of full-service offices	9	9	7	10	13

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

Management's Discussion and Analysis

General

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

The Company offers a variety of financial services to meet the needs of customers in its market area. The Company's market area includes the counties of Buena Vista, Calhoun, Ida, Pocahontas and Sac located in northwest Iowa, and Brookings county located in east central South Dakota. The Company attracts retail deposits from the general public and has historically used those deposits, together with other funds, to originate single-family residential mortgage loans. Recently, the Company's lending activities have expanded to include increased originations and purchases of multi-family and commercial real estate loans and the increased origination of agricultural related loans.

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.

Acquisition Announced

On August 21, 1995, the Company entered into an Agreement and Plan of Merger and Reorganization (the "Agreement") with Iowa Bancorp, Inc. ("Iowa Bancorp"), and its wholly-owned subsidiary, Iowa Savings Bank, a federal savings bank, located in Des Moines, Iowa. The Agreement calls for the Company to acquire all outstanding shares of Iowa Bancorp in exchange for a cash payment of $8.0 million, which is subject to adjustment in accordance with the terms of the Agreement. The transaction is subject to approval by Iowa Bancorp's stockholders and to approval by the Office of Thrift Supervision.

At September 30, 1995, Iowa Bancorp had total assets and stockholders' equity of approximately $24.9 million and $7.0 million, respectively.

Acquisition Completed

On March 28, 1994, the Company acquired Community Financial Systems, Inc. ("Community") and its wholly-owned subsidiary, Brookings Federal Bank, a federal savings bank, located in Brookings, South Dakota. The cash purchase price totaled approximately $10.5 million (purchase price of $31.38 per share to acquire all of the 333,513 shares of Community's issued and outstanding common stock). At the date of acquisition, Brookings Federal Bank had total assets of $69.4 million and deposits of $57.2 million. The two offices of Brookings Federal now operate as the Brookings Federal Bank Division of First Federal Savings Bank of the Midwest. The acquisition was accounted for as a purchase and, accordingly, the accompanying Consolidated Statement of Operations includes the operating results of Brookings Federal beginning March 28, 1994. The excess of cost over assets acquired,

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,	1995	1994	1993
WEIGHTED AVERAGE YIELD ON:			
Loans receivable	8.58%	7.99%	8.18%
Mortgage-backed securities held-to-maturity	7.97	6.85	8.66
Securities	6.79	7.66	5.90
Other interest-earning assets	5.44	4.66	2.81
Combined weighted average yield on interest-earning assets	8.13	7.46	7.25
WEIGHTED AVERAGE RATE PAID ON:			
Savings deposits	3.00	2.28	2.32
Demand, NOW deposits and Money Market	2.55	2.30	2.56
Time deposits	5.80	4.87	5.04
FHLB advances	6.14	5.10	6.59
Other borrowed money	5.75	4.70	6.83
Combined weighted average rate paid on interest-bearing liabilities	5.28	4.50	4.37
Spread	2.85%	2.96%	2.88%

totaling approximately $1.8 million, is being amortized over a fifteen year period, which totaled $125,000 and $63,000 for fiscal years 1995 and 1994, respectively (see Notes 1 and 2 to the Consolidated Financial Statements).

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

Financial Condition

The Company's total assets at September 30, 1995 were $264.2 million (which consisted primarily of the assets of the Bank), a decrease of $9.9 million, or 3.6%, from $274.1 million at September 30, 1994. The decrease in assets is primarily due to the sale of mortgage-backed securities during the period, and was partially offset by increased origination and purchase of loans.

During the quarter ended June 30, 1995, all securities previously designated as held-to-maturity, including mortgage-backed securities, were reclassified to the available-for-sale category. The reclassification was performed after consideration by management of a pending regulatory policy clarification regarding the measurement of interest sensitivity of adjustable-rate mortgage-backed securities. It was management's opinion that the pending regulatory policy clarification provided sufficient potential risk to the market value of this type of security to warrant reclassification of the securities held by the Company to the available-for-sale designation. In accordance with the requirements of SFAS 115 (see Notes 4 and 5 to the Consolidated Financial Statements), all other securities previously designated as held-to-maturity were also reclassified to available-for-sale. During the quarter ended June 30, 1995, the reclassified adjustable-rate mortgage-backed securities were sold.

The Company's portfolio of securities held-to-maturity and securities available-for-sale, excluding mortgage-backed securities, increased $17.6 million, or 56.4%, to $48.8 million at September 30, 1995 from $31.2 million at September 30, 1994. The increase was due to the acquisition of securities, primarily issued by agencies of the federal government with relatively short terms to maturity, in an amount that exceeded maturities during the period.

The balance in mortgage-backed securities, including those designated as held-to-maturity and

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,	**1994 vs. 1995**			**1993 vs. 1994**		
	Increase (Decrease) Due to Volume	Increase (Decrease) Due to Rate	Total Increase (Decrease)	Increase (Decrease) Due to Volume	Increase (Decrease) Due to Rate	Total Increase (Decrease)
					(Dollars in Thousands)	
INTEREST-EARNING ASSETS:						
Loans receivable	$ 4,180	$ (156)	$ 4,024	$ 3,058	$ 346	$3,404
Mortgage-backed securities	609	130	739	1,190	(533)	657
Securities	26	1,007	1,033	(489)	(47)	(536)
Other (FHLB Stock)	106	(1)	105	60	(18)	42
Total interest-earning assets	$ 4,921	$ 980	$ 5,901	$ 3,819	$ (252)	$3,567
INTEREST-BEARING LIABILITIES:						
Time deposits	1,414	660	2,074	340	(214)	126
Demand and NOW deposits	64	5	69	17	(5)	12
Savings deposits	6	(7)	(1)	1	(62)	(61)
FHLB advances	1,580	723	2,303	934	(109)	825
Other Borrowings	(60)	(19)	(79)	(54)	(74)	(128)
Total interest-bearing liabilities	$ 3,004	$ 1,362	$ 4,366	$ 1,238	$ (464)	$ 774
Net effect on net interest income	$ 1,917	$ (382)	$ 1,535	$ 2,581	$ 212	$2,793

available-for-sale, decreased by $50.5 million, or 70.2%, from $71.9 million at September 30, 1994, to $21.4 million at September 30, 1995. The decrease resulted primarily from the sale of approximately $47.9 million in adjustable-rate mortgage-backed securities which had been match-funded with adjustable-rate borrowings from the Federal Home Loan Bank of Des Moines. The remaining $2.6 million decrease in mortgage-backed securities was due to regular repayment of principal received on the portfolio.

During the year, the Company's net portfolio of loans receivable and loans held-for-sale increased by $23.2 million, or 14.9%, to $178.6 million at September 30, 1995 from $155.5 million at September 30, 1994. The increase in the loan portfolio was due to increased origination of residential and commercial mortgage loans, consumer loans and agricultural related loans. In addition, the loan portfolio increased as a result of the purchase of multi-family residential and commercial real estate loans.

The balance of customer deposits decreased by $4.4 million, or 2.5%, from $176.2 million at September 30, 1994 to $171.8 million at September 30, 1995. The decrease in deposits was primarily the result of the withdrawal of funds by non-retail customers (governmental and other public agencies) to meet cash needs, and for reinvestment at competitively higher interest rates. Deposit balances in retail customer accounts declined minimally during the period.

The Company's borrowings from the Federal Home Loan Bank of Des Moines decreased by $9.2 million, from $60.3 million at September 30, 1994 to $51.1 million at September 30, 1995. The decrease was due to the repayment of borrowings resulting from the sale of adjustable-rate mortgage-backed securities, offset by additional borrowings used to fund the increases in the loan portfolio and investment securities.

Results of Operations

The Company's results of operations are primarily dependent on net interest income, non-interest 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

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,	1995			1994			1993		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
								(Dollars in Thousands)	
INTEREST-EARNING ASSETS:									
Loans receivable[1]	$ 161,243	$13,768	8.54%	$112,317	$ 9,744	8.68%	$ 75,768	$ 6,340	8.37%
Mortgage-backed securities	51,157	3,905	7.63	42,914	3,166	7.38	29,106	2,509	8.62
Securities	42,674	3,111	7.29	42,130	2,078	4.93	51,846	2,614	5.04
FHLB stock	3,720	270	7.26	2,262	165	7.29	1,522	123	8.15
Total interest-earning assets	$ 258,794	$21,054	8.14%	$199,623	$15,153	7.59%	$158,242	$11,586	7.32%
INTEREST-BEARING LIABILITIES:									
Time deposits	$ 132,856	$ 7,232	5.44%	$104,283	$ 5,158	4.95 %	$ 97,344	$ 5,032	5.17%
Savings deposits	10,431	277	2.66	7,933	208	2.60	7,331	196	2.67
Demand and NOW deposits	31,139	736	2.36	30,861	737	2.38	30,865	798	2.58
FHLB advances	56,820	3,344	5.88	22,579	1,041	4.61	2,321	216	9.31
Other borrowed money	1,159	60	5.18	2,043	139	6.80	2,556	267	10.45
Total interest-bearing liabilities	$ 232,405	$11,649	5.01%	$167,699	$ 7,283	4.34%	$140,417	$ 6,509	4.63%
Net earning assets	$ 26,389			$ 31,924			$ 17,825		
Net interest income		$ 9,405			$ 7,870			$ 5,077	
Net interest rate spread			3.13%			3.25%			2.69%
Net yield on average interest-earning assets			3.63%			3.94%			3.21%
Average interest-earning assets to average interest-bearing liabilities	111.35%			119.04%			112.69%		

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

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

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

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

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

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

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

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

Provision for Loan Losses The provision for possible loan losses for the year ended September 30, 1995 was $250,000 compared to $105,000 for the same period in 1994. The $145,000 increase in the provision, and a resulting increase in the allowance for loan losses, reflects the increase in the level of agricultural related, multi-family, and commercial real estate lending activity. These types of lending activities are considered to carry a higher degree of risk than single-family residential loans due to the nature of the collateral securing such loans, and the generally larger average size of individual loans. The ratio of non-performing assets to total assets declined to .29% at September 30, 1995, compared to .34% at the end of 1994.

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

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

Non-interest expense for the period ended September 30, 1995 was increased by $140,000 as a result of the Company's implementation of the American Institute of Certified Public Accountants Statement of Position 93-6, "Employer's Accounting for Employee Stock Ownership Plans" (SOP 93-6). The SOP 93-6 addresses the accounting for shares of stock issued to employees by an employee stock ownership plan (ESOP) (see Note 13 to the Consolidated Financial Statements). The SOP 93-6 requires that the employer record compensation expense in an amount equal to the fair value of shares committed to be released from the ESOP to employees. Assuming shares of the Company's common stock appreciate in value over time, SOP 93-6 will likely increase compensation expense relative to the ESOP, as compared with prior guidance which required the recognition of compensation expense based on the cost of shares acquired by the ESOP.

Federal law requires that the FDIC maintain reserves at both the Savings Association Insurance Fund ("SAIF") and the Bank Insurance Fund ("BIF") of at least 1.25% of insured depositor accounts. The reserves are funded through the payment of insurance premiums by the insured institution members of each fund. The BIF reached this level during 1995, and the FDIC reduced insurance premiums applicable to BIF-insured institutions while retaining the premiums applicable to SAIF members, such as First Federal, at their current level of .23% of deposits until the SAIF reaches its required reserve level. Proposed federal legislation provides for a one time assessment of .85% to .90% of insured deposits to be imposed on all SAIF-insured deposits, including those held by commercial banks, and for BIF deposit insurance premiums to be used to pay the Financing Corporation ("FICO") bond interest on a pro rata basis together with SAIF premiums. If a requirement were implemented as of September 30, 1995 for the Bank to pay a one-time assessment equal to .90% of insured deposits, the amount of such assessment would be approximately $1.5 million, although it would also be anticipated that future SAIF premiums would be significantly lower than the current level.

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

Effect of Accounting Change For the year ended September 30, 1994, net income was increased by $257,000 due to the cumulative effect of a change in accounting principle resulting from the implementation of SFAS 109 (Accounting for Income Taxes). There was no such effect on net income during the year ended 1995.

Comparison of Operating Results for the Years Ended September 30, 1994 and September 30, 1993

General Net income for the year ended September 30, 1994 increased $1.4 million, or 101.8%, to $2.7 million, from $1.3 million for the same period ended September 30, 1993. The increase in net income primarily reflects an increase in net interest income, offset by a reduction in non-interest income, and an increase in non-interest expense. The acquisition of Brookings Federal during the year contributed significantly to the overall increase in net income. The increase in net income was also, to a lesser extent, due to a $120,000 reduction in the provision for loan losses for the year ended September 30, 1994 compared to the previous year. Operating results for the year ended September 30, 1994 include the cumulative effect of a change in accounting principle resulting from the implementation of SFAS 109 (Accounting for Income Taxes), which increased net income by $257,000. During the year ended September 30, 1993, operating results reflected a non-recurring gain on the sale of branch deposits and assets of $708,000 and, additionally, was reduced by an extraordinary expense of $285,000, net of income taxes, related to the payment of a penalty on the prepayment of Federal Home Loan Bank advances.

Net Interest Income The Company's net interest income of $7.9 million for the year ended September 30, 1994 represents an increase of $2.8 million, or 55.0%, from $5.1 million for the same period ended September 30, 1993. The increase in net interest income reflects an overall increase in interest earning assets resulting from the acquisition of Brookings Federal. In addition, the net yield on average earning assets increased from 3.21% for the period ended September 30, 1993 to 3.94% for the same period ended in 1994, due to a higher average yield on interest-earning assets and a lower average cost on interest-bearing liabilities.

Interest Income Interest income for the year ended September 30, 1994 increased $3.6 million, or 30.8%, to $15.2 million from $11.6 million for the same period in 1993. The most significant factor causing the increase of interest income is the increase of $3.4 million in interest earned on the loan portfolio. The increase resulted from the significantly higher balance in the average portfolio of loans receivable and, to a lesser extent, the higher overall yield on the loan portfolio during the period ended September 30, 1994 compared to the same period in 1993. Interest income on mortgage-backed securities increased by $657,000 during the year ended September 30, 1994 compared to the year ended 1993 due to the increase in the average portfolio balance as a result of the structured purchase of adjustable-rate securities during the year. Interest income on securities held-to-maturity and securities available-for-sale decreased by $536,000 from $2.6 million for the year ended September 30, 1993 to $2.1 million during the comparable period in 1994. The decline in interest income on securities was due primarily to the decline in the average portfolio balance of these securities during the period ended September 30, 1994 compared to the same period in 1993.

Interest Expense Interest expense increased $773,000, or 11.9%, to $7.3 million for the period ended September 30, 1994 from $6.5 million for the same period in 1993. The increase in interest expense was primarily due to a significant increase in the average outstanding balance of interest-bearing liabilities during the period ended September 30, 1994 compared to the same period in 1993. The effect of increased interest-bearing liabilities was offset by an overall reduction in the rate of interest paid on these liabilities during the period ended September 30, 1994.

Provision for Loan Losses The provision for possible loan losses for the year ended September 30, 1994 was $105,000 compared to $225,000 for the same period in 1993. The decrease in the provision for possible loan losses, and the resulting effect on the allowance for loan losses, reflects management's analysis of the Company's potential risk of loss on its loan portfolio. The analysis took into consideration the decline in non-performing loans to 0.34% of assets at September 30, 1994 compared to 0.78% at the end of 1993. In addition, management considered factors such as the effect that improved weather conditions would have on the Company's portfolio of agricultural loans and the relative level of the allowance for loan losses.

Non-Interest Income Non-interest income for the year ended September 30, 1994 decreased $478,000, or 30.7%, to $1.1 million from $1.6 million for the same period in 1993. Non-interest income during the period ended September 30, 1993 included a gain on the sale of branch office deposits and assets in the amount of $708,000. During the period ended September 30, 1994, non-interest income from service charges on deposit accounts and fees charged on loans increased $75,000 compared to the same period in 1993. Overall, non-interest income increased during fiscal year 1994 compared to 1993 due to the acquisition of Brookings Federal, excluding the effect of the sale of branches in 1993.

Non-Interest Expense Non-interest expense increased by $1.2 million, or 32.6%, to $4.9 million for the year ended September 30, 1994 compared to $3.7 million for the same period in 1993. The increase primarily reflects the additional operating expenses associated with the acquisition of the Brookings Federal. In addition, the increase in non-interest expense includes an increase of $74,000 in federal deposit insurance premiums due to the overall increase in insured deposit accounts.

Income Tax Expense Income tax expense increased by $388,000, or 37.1%, to $1.4 million for the year ended September 30, 1994 from $1.0 million for the same period in 1993. The increase in income tax expense reflects net income before taxes that was 45.6% higher for the period ended September 30, 1994 compared to the same period in 1993.

Extraordinary Item The Company incurred an extraordinary expense of $285,000, net of income taxes, during the year ended September 30, 1993. This was due to the payment of a penalty on the prepayment of Federal Home Loan Bank advances. No such extraordinary expense was incurred during the year ended September 30, 1994.

Effect of Accounting Change For the year ended September 30, 1994, net income was increased by $257,000 due to the cumulative effect of a change in accounting principle resulting from the implementation of SFAS 109 (Accounting for Income Taxes). There was no such effect on net income during the year ended 1993.

Asset/Liability Management

Net Portfolio Value The Office of Thrift Supervision ("OTS") provides 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. 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.

Presented below, as of September 30, 1995, is an analysis of the Bank's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 400 basis points, in accordance with OTS regulations. As illustrated in the table below, the Bank's NPV is similarly responsive to increases and decreases in rates. Management feels this interest rate sensitivity position provides an acceptable level of risk in the event interest rates increase from current levels, while positioning the Bank to take advantage of a decline in interest rates.

As of September 30, 1995, an increase in interest rates of 200 basis points would have resulted in a 2.09% decrease in the Bank's NPV (as a percentage of the net present value of the Bank's total assets), while a decrease in interest rates of 200 basis points would have resulted in a 1.94% increase in the Bank's NPV (as a percentage of the net present value of the Bank's total assets). Therefore, under current OTS regulation, the Bank's level of interest rate risk is minimally above that which is considered "normal". Management reviews the interest rate sensitivity measurements on a quarterly basis.

In addition to monitoring selected measures of NPV, management also monitors effects on net interest income resulting from increases or decreases in interest rates. This measure is used in conjunction with NPV measures to identify excessive interest rate risk. As of September 30, 1995, an increase in interest rates of 200 basis points is estimated to have resulted in a 1.17% decrease in net interest income, while a decrease in interest rates of 200 basis points is estimated to have resulted in a 3.81% increase in net interest income.

		At September 30, 1995	
Change in Interest Rate (Basis Points)	Estimated NPV	Amount Change	Percent Change
	(Dollars in Thousands)	*(Dollars in Thousands)*	
+400 bp	$26,384	$(11,547)	(30.4)%
+300 bp	29,347	(8,583)	(22.6)
+200 bp	32,372	(5,558)	(14.7)
+100 bp	35,262	(2,669)	(7.0)
0 bp	37,930	—	—
-100 bp	40,451	2,521	6.6
-200 bp	43,098	5,167	13.6
-300 bp	46,225	8,294	21.9
-400 bp	49,792	11,861	31.3

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

Asset Quality It is management's belief, based on information available, that the Company's historical level of asset quality has been satisfactory and that asset quality will continue to remain strong. Non-performing assets at September 30, 1995 decreased to $759,000 (0.29% of total assets) from $941,000 (0.34% of total assets) for the at September 30, 1994. The decline in the ratio of non-performing assets to total assets reflects the overall reduction in non-performing assets, combined with an increase in total assets.

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 the Bank to maintain minimum levels of liquid assets. Currently, the Bank is required to maintain liquid assets of at least 5% of the average daily balance of net withdrawable savings deposits and borrowings payable on demand in one year or less during the preceding calendar month, of which short-term liquid assets must comprise not less than 1%. Liquid assets for purposes of this ratio include cash, certain time deposits, U.S. Government, governmental agency and corporate securities and obligations generally having remaining terms to maturity of less than five years. The Bank has historically maintained its liquidity ratio at levels significantly in excess of those required. The Bank's regulatory liquidity ratios were 34.0%, 8.0% and 12.2% at September 30, 1993, 1994 an 1995, respectively.

Liquidity management is both a daily and long-term function of the Company's management strategy. The Company adjusts its investments in liquid assets based upon management's assessment of (i) expected loan demand in the Company's market area, (ii) the projected availability of purchased loan products, (iii) expected deposit flows, (iv) yields available on interest-bearing deposits, and (v) the objectives of its asset/liability management program. Excess liquidity is generally invested in interest-earning overnight deposits and other short-term government agency obligations. If the Company requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the Federal Home Loan Bank of Des Moines and has collateral eligible for use with reverse repurchase agreements.

The primary investing activities of the Company are the origination and purchase of loans and the purchase of securities. During the years ended September 30, 1993, 1994 and 1995, the Company originated loans of $24.0 million, $50.3 million and S65.3 million, respectively. Purchases of loans totaled $8.5 million, $22.1 million and $19.2 million during the years ended September 30, 1993, 1994 and 1995, respectively. During the years ended September 30, 1993, 1994 and 1995, the Company purchased mortgage-backed securities held-to-maturity, mortgage-backed securities available-for-sale, securities held-to-maturity and securities available-for-sale in the amount of $9.0 million, $76.4 million and $43.5 million, respectively.

At September 30, 1995, the Company had outstanding commitments to originate and purchase loans of $6.8 million. Certificates of deposit scheduled to mature in one year or less from September 30, 1995 total $75.1 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.

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 savings institutions, including the Bank, have been substantially increased. The Bank is 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, nearly 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. Although interest rates do not necessarily move in the same direction, or to the same extent, as the prices of goods and services, increases in inflation generally have resulted in increased interest rates.

Independent Auditors' Report

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

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

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

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

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

DELOITTE & TOUCHE LLP
November 17, 1995
Omaha, Nebraska

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

September 30, 1995 and 1994

Assets	**1995**	**1994**
Cash and cash equivalents- Including federal funds sold of $1,219,316 in 1994	$ 4,615,712	$ 6,430,235
Securities available-for-sale - Amortized cost of $48,661,536 and $13,246,048	48,829,103	13,221,136
Mortgage-backed securities available-for-sale - Amortized cost of $20,658,949 and $24,071,769	21,402,989	23,957,527
Securities held-to-maturity - Approximate fair value of $17,810,000	—	18,000,000
Mortgage-backed securities held-to-maturity - Approximate fair value of $47,167,799	—	47,917,370
Loans receivable - net of allowances of $1,649,520 and $1,442,077	178,551,501	155,496,739
Real estate owned	48,418	—
Accrued interest receivable	2,745,747	2,240,810
Federal Home Loan Bank Stock	3,915,300	3,015,500
Premises and equipment	1,976,647	1,530,255
Other assets	438,030	490,953
Excess of cost over net assets acquired - net of accumulated amortization of $187,744 and $62,584	1,689,776	1,814,936
Total assets	$264,213,223	$274,115,461

Liabilities and Stockholders' Equity		
LIABILITIES:		
Deposits	$171,792,997	$176,166,707
Advances from Federal Home Loan Bank	51,098,388	60,308,065
Securities sold under agreements to repurchase	1,149,918	909,918
Advances from borrowers for taxes and insurance	501,522	430,603
Accrued interest payable	788,008	835,670
Other liabilities	869,694	781,210
Total liabilities	226,200,527	239,432,173
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, 800,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.01 par value, 5,200,000 shares authorized, 1,991,453 issued	19,915	19,915
Additional paid-in capital	19,310,045	18,955,192
Retained earnings - substantially restricted	22,080,579	19,051,322
Employee stock ownership plan	(967,200)	(1,186,000)
Treasury stock, 197,428 and 135,716 shares at cost	(3,002,207)	(2,070,177)
Unrealized gain (loss) on securities available-for-sale, net of deferred income taxes of $340,190 and $43,568	571,564	(86,964)
Total stockholders' equity	38,012,696	34,683,288
Total liabilities and stockholders' equity	$264,213,223	$274,115,461

See notes to consolidated financial statements.

First Midwest Financial, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME *for the years ended September 30, 1995, 1994 and 1993*

	1995	1994	1993
INTEREST INCOME:			
Loans receivable	$13,768,064	$9,743,957	$6,339,392
Securities available-for-sale	3,110,480	1,810,662	860
Mortgage-backed securities available-for-sale	3,904,665	2,032,268	—
Securities held-to-maturity	—	261,133	2,613,315
Mortgage-backed securities held-to-maturity	—	1,139,691	2,509,125
Dividends on Federal Home Loan Bank stock	270,261	164,980	123,228
Total interest income	21,053,470	15,152,691	11,585,920
INTEREST EXPENSE:			
Deposits	8,245,227	6,102,042	6,026,132
Other borrowings	3,403,497	1,180,452	483,136
Total interest expense	11,648,724	7,282,494	6,509,268
NET INTEREST INCOME	9,404,746	7,870,197	5,076,652
PROVISION FOR LOAN LOSSES	250,000	105,000	225,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,154,746	7,765,197	4,851,652
OTHER INCOME:			
Loan fees and service charges	712,345	597,984	523,405
Gain on sales of securities and mortgage-backed securities available-for-sale - net	1,070,247	9,170	—
Brokerage commissions from subsidiary	297,777	328,343	251,424
Gain on sale of assets and deposits	—	—	708,469
Other income	206,101	142,270	72,291
Total other income	2,286,470	1,077,767	1,555,589
OTHER EXPENSE:			
Employee compensation and benefits	3,400,190	3,079,769	2,070,500
Occupancy and equipment	432,571	316,375	250,558
SAIF insurance premium and special assessments	404,306	350,314	276,796
Data processing	291,961	200,219	177,655
Other general and administrative expense	1,047,149	991,020	949,313
Total other expense	5,576,177	4,937,697	3,724,822
INCOME BEFORE INCOME TAXES, EXTRAORDINARY ITEM AND CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES	5,865,039	3,905,267	2,682,419
INCOME TAX EXPENSE	2,320,687	1,433,519	1,045,300
INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES	3,544,352	2,471,748	1,637,119
EXTRAORDINARY ITEM - Prepayment of Federal Home Loan Bank advances penalty - net of income taxes of $167,000	—	—	284,611
INCOME BEFORE CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES	3,544,352	2,471,748	1,352,508
CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES:			
Change in method of accounting for income taxes	—	257,163	—
NET INCOME	$ 3,544,352	$2,728,911	$1,352,508
EARNINGS PER SHARE:			
Fully diluted:			
Income before extraordinary item and cumulative effects of changes in accounting principles	$ 1.99	$ 1.24	$ 0.80
Extraordinary item	—	—	(0.14)
Cumulative effect of accounting principles	—	0.13	—
NET INCOME	$ 1.99	$ 1.37	$ 0.66

See notes to consolidated financial statements.

First Midwest Financial, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY *for the years ended September 30, 1995, 1994 and 1993*

	Common Stock	Additional Paid-in Capital	Retained Earnings	ESOP Borrowing	Treasury Stock	Net Unrealized Gain (Loss) on Securities Available-For-Sale	Total
BALANCE, September 30, 1992	$ —	$ —	$14,969,903	$ —	$ —	$ —	$14,969,903
Issuance of 1,917,625 common shares	19,176	18,480,824	—	—	—	—	18,500,000
Issuance of 70,952 shares in connection with recognition and retention plan	710	(710)	—	—	—	—	—
ESOP borrowing	—	—	—	(1,534,100)	—	—	(1,534,100)
Payment on ESOP borrowing	—	—	—	150,000	—	—	150,000
Net income	—	—	1,352,508	—	—	—	1,352,508
BALANCE, September 30, 1993	19,886	18,480,114	16,322,411	(1,384,100)	—	—	33,438,311
Reduction of conversion costs	—	93,210	—	—	—	—	93,210
Purchase of 135,716 common shares	—	—	—	—	(2,070,177)	—	(2,070,177)
Payment on ESOP borrowing and fair market value adjustment	—	—	—	198,100	—	—	198,100
Issuance of 4,794 shares in connection with recognition and retention plan	48	(48)	—	—	—	—	—
Retirement of 1,918 common shares	(19)	19	—	—	—	—	—
Amortization of recognition and retention plan	—	381,897	—	—	—	—	381,897
Net change in unrealized loss on securities available-for-sale, net of deferred income taxes	—	—	—	—	—	(86,964)	(86,964)
Net income	—	—	2,728,911	—	—	—	2,728,911
BALANCE, September 30, 1994	19,915	18,955,192	19,051,322	(1,186,000)	(2,070,177)	(86,964)	34,683,288
Purchase of 61,712 common shares	—	—	—	—	(932,030)	—	(932,030)
Payment on ESOP borrowing and fair market value adjustment	—	87,789	—	218,800	—	—	306,589
Amortization of recognition and retention plan and tax benefit of restricted stock under the plan	—	267,064	—	—	—	—	267,064
Dividends paid	—	—	(515,095)	—	—	—	(515,095)
Net change in unrealized gain on securities available-for-sale, net of deferred income taxes	—	—	—	—	—	658,528	658,528
Net income	—	—	3,544,352	—	—	—	3,544,352
BALANCE, September 30, 1995	$19,915	$19,310,045	$22,080,579	$ (967,200)	$(3,002,207)	$ 571,564	$38,012,696

See notes to consolidated financial statements.

First Midwest Financial, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS *for the years ended September 30, 1995, 1994 and 1993*

	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$3,544,352	$ 2,728,911	$1,352,508
Adjustments to reconcile net income to net cash provided by operations:			
Cumulative effects of changes in accounting principles	—	(257,163)	—
Depreciation, amortization of premiums and accretion of discounts	479,079	492,655	278,528
Provision for loan losses	250,000	105,000	225,000
Provision for losses on real estate owned	—	—	9,600
Gain on sale of assets and deposits	—	—	(708,469)
Gain on sale of securities and mortgage-backed securities available-for-sale	(1,070,247)	(9,170)	—
Stock dividends from Federal Home Loan Bank stock	—	—	(92,000)
Proceeds from the sale of loans	—	—	2,803,163
Origination of loans for resale	—	—	(477,144)
(Increase) decrease in assets:			
Accrued interest receivable	(504,937)	(221,613)	246,300
Other assets	(55,643)	5,181	22,537
Increase (decrease) in liabilities:			
Accrued interest payable	(47,662)	350,455	(96,153)
Other liabilities	(122,777)	(343,537)	369,798
Net cash from operating activities	2,472,165	2,850,719	3,933,668
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of securities available-for-sale	(31,580,132)	(10,342,303)	—
Purchase of securities held-to-maturity	(11,888,625)	(18,000,000)	(8,952,207)
Purchase of mortgage-backed securities held-to-maturity	—	(48,050,121)	—
Proceeds from sales of securities available-for-sale	491,875	16,136,827	—
Proceeds from sale of mortgage-backed securities available-for-sale	48,953,383	—	—
Proceeds from maturities of securities available-for-sale	25,610,000	15,790,000	—
Proceeds from maturities of securities held-to-maturity	—	—	32,096,166
Proceeds from principal repayment of mortgage-backed securities available-for-sale	3,495,289	185,260	—
Proceeds from principal repayment of mortgage-backed securities held-to-maturity	27,205	8,256,744	8,244,508
Loans originated	(65,295,034)	(50,267,318)	(24,043,495)
Loans purchased	(19,211,940)	(22,059,813)	(8,545,628)
Loan principal repayments	61,014,272	47,985,562	24,307,543
Proceeds from sale of real estate owned	78,738	2,000	466,402
Purchase of Federal Home Loan Bank stock	(899,800)	(1,134,900)	—
Acquisition of assets and liabilities	—	(6,801,434)	—
Purchase of equipment	(581,126)	(34,366)	(11,812)
Proceeds from sale of assets	—	—	522,563
Net cash from investing activities	10,214,105	(68,333,862)	24,084,040
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in NOW, passbook and money market accounts	(5,082,644)	(5,066,686)	(4,201,056)
Increase (decrease) in certificate accounts	708,934	1,829,381	(20,275,671)
Repayments of advances from the FHLB	(255,209,677)	(240,308,847)	(4,008,088)
Repayments for securities sold under agreements to repurchase	240,000	(1,488,152)	(431,275)
Proceeds from advances from the FHLB	246,000,000	298,300,000	—
Advances from borrowers for taxes and insurance	70,919	(24,545)	(50,110)
Net proceeds from issuance of stock	—	—	18,500,000
Employee stock ownership plan borrowing	218,800	198,100	(1,384,100)
Dividends paid	(515,095)	—	—
Purchase of treasury stock	(932,030)	(2,070,177)	—
Net cash from financing activities	(14,500,793)	51,369,074	(11,850,300)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,814,523)	(14,114,069)	16,167,408
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,430,235	20,544,304	4,376,896
CASH AND CASH EQUIVALENTS AT END OF YEAR	$4,615,712	$6,430,235	$20,544,304

(Continued)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS *(CONTINUED)*

for the years ended September 30, 1995, 1994 and 1993

	1995	1994	1993
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$11,696,386	$6,594,377	$6,754,493
Income taxes	$ 2,366,886	$1,463,427	$ 788,100
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Loans transferred to real estate	$ 129,408	$ —	$ 47,850

See notes to consolidated financial statements.

First Midwest Financial, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *for the years ended September 30, 1995, 1994 and 1993*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - First Midwest Financial, Inc. (the "Company") is located in Storm Lake, Iowa, and was organized and incorporated under the laws of the State of Delaware for the purpose of acquiring all of the capital stock to be issued by First Federal Savings Bank of the Midwest (the "Bank") upon the conversion described below.

On September 20, 1993, First Federal Savings and Loan Association of Storm Lake (the "Association") was converted from a federally chartered mutual savings and loan association to a federally chartered stock savings bank and the name of the Association was changed to First Federal Savings Bank of the Midwest.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, which include the Bank, First Services Financial, Limited, which offers mutual funds, insurance products, annuities and brokerage services and Brookings Service Corporation (See Note 2). All significant intercompany balances and transactions have been eliminated.

In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the valuation of real estate owned, management obtains independent appraisals for significant properties.

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, 1995 and 1994, trust assets totaled approximately $9,245,000, and $9,194,000, respectively.

Cash and Cash Equivalents - For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, demand deposits at other financial institutions, federal funds sold and investments with original maturities of three months or less. Generally, federal funds are purchased and sold for one day periods.

Securities and Mortgage-Backed Securities - Effective October 1, 1993, the Company implemented Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* SFAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and all investments in debt securities. SFAS No. 115 requires these securities to be classified in one of three categories and accounted for as follows:

- Debt securities that the company has the positive intent and ability to hold to maturity are classified as "held-to-maturity securities" and reported at amortized cost.
- Debt and equity securities that are acquired and held principally for the purpose of selling them in the near term are classified as "trading securities" and reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either held-to-maturity or trading securities are classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses, after

applicable taxes, excluded from earnings and reported in a separate component of stockholders' equity. Declines in the value of debt securities and marketable equity securities that are considered to be other than temporary are recorded in noninterest income as a loss on investment securities.

In implementing SFAS No. 115, the Company originally designated the securities and mortgage-backed securities held at October 1, 1993 as available-for-sale securities. Securities acquired since October 1, 1993 have been designated at acquisition as available-for-sale or held-to-maturity, however, in May 1995, all securities previously designated as held-to-maturity, including mortgage-backed securities, were transferred to the available-for-sale category (See Notes 4 and 5). The Company does not have any securities classified as trading at September 30, 1995 or 1994. Although the Company does not have a current intent to sell the securities available-for-sale, and it is management's opinion that the Company has the ability to hold these securities to maturity, management considers the designation as available-for-sale to provide flexibility in adjusting the composition of the securities portfolio as may become desirable in the future.

Premiums and discounts are amortized over the contractual lives of the related securities using the level yield method. Gains or losses on sales of these securities are based on the specific identification method.

Loans Receivable and Loans Held-for-Sale - The Bank originates loans for portfolio investment or for sale in the secondary market. During the period of origination, loans are designated as held-for-sale or for investment purposes. Loans held-for-sale are carried at the lower of cost or fair value, determined on an individual loan basis.

Interest on Loans and Mortgage-Backed Securities - Interest on first mortgage loans is credited to income as earned except interest on loans that are contractually past due more than 90 days is charged off, or an allowance is established based on management's periodic evaluation. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

Premiums or discounts on loans and mortgage-backed securities are amortized into income over their respective lives using the interest method.

Interest Rate Protection Contracts - The Bank utilizes interest rate swap and interest rate cap contracts (collectively referred to as interest rate protection contracts) as an integral part of its asset/liability management program. Interest rate swap agreements have been utilized as a hedge against both interest bearing liabilities and interest earning assets. Interest rate swap agreements are instruments in which the Bank and another party agree to exchange interest payments on a notional amount. When using interest rate cap agreements, the Company pays or receives a premium from another party in exchange for interest payments on a notional amount in the event that a specified index (generally LIBOR) exceeds a specified rate. The notional amounts of interest rate protection contracts are not reflected in the consolidated statements of financial condition.

Realized and unrealized gains and losses on interest rate cap contracts designated as hedges are deferred and recognized as income or expense over the lives of the hedged instruments. Net interest settlements on interest rate swap contracts are recognized as interest income or expense over the lives of the agreements.

Real Estate Owned and in Judgment - Real estate acquired through foreclosure and real estate in judgment are stated at the lower of cost or fair value minus estimated costs to sell. Costs relating to the development and improvement of property are capitalized; holding costs are charged to expense. Valuation allowances for estimated losses on real estate are provided when the carrying value exceeds the fair value minus estimated costs to sell the property.

Provisions for Losses - Provisions for losses include charges to reduce the recorded balances of loans receivable and real estate to their estimated net realizable value or fair value, as applicable. Such provisions, which includes a review of assets for which full collectibility may not be reasonably assured, considers among other matters, the estimated net realizable and fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that are particularly susceptible to changes that could result in a material adjustment to results of operations in the near term. Recovery of the carrying value of such loans and real estate is dependent to a great extent on economic, operating and other conditions that may be beyond the Company's control.

Loan Fees - The Bank defers certain fees (net of direct loan origination costs) incurred in the origination process, with recognition thereof over the contractual life of the related loan as a yield adjustment. Any unamortized fees on loans sold are credited to income in the year such loans are sold.

Premises and Equipment - Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed based on the straight-line method of depreciation over the estimated useful lives of the assets. Estimated useful lives are 20 to 30 years for buildings and improvements and 3 to 7 years for furniture, fixtures and equipment.

Excess of Cost over Net Assets Acquired - Cost in excess of fair value of net assets acquired (goodwill) arising from the acquisition (see Note 2) is being amortized over 15 years on a straight-line basis. Amortization expense for fiscal years 1995 and 1994 was $125,160 and $62,584, respectively.

Securities Sold Under Agreements to Repurchase - The Bank 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 Bank.

Income Taxes - Effective October 1, 1993, the Company adopted SFAS No. 109, *Accounting for Income Taxes.* This statement supersedes both Accounting Principles Board (APB) Opinion No. 11 and the guidance of APB Opinion No. 23 on the tax treatment of savings and loan bad debt reserves. SFAS No. 109 calculates income taxes on the liability method, under which the net deferred tax asset or liability is determined based on the tax effects of the differences between the book and tax bases of the various assets and liabilities of the Company and gives current recognition to changes in tax rates and laws.

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

The Company files consolidated federal and state income tax returns. The Company and its subsidiaries have entered into a tax-sharing agreement that provides for the allocation and payment of federal and state income taxes. The provision for income taxes of each corporation is computed on a separate company basis, subject to certain adjustments.

Reclassifications - Certain amounts reported in previous years have been reclassified to conform with the financial statement presentation used in the current year.

Earnings per Share - Earnings per share are calculated on the basis of the weighted average common shares outstanding and those outstanding options that are dilutive.

Earnings per share as presented in the 1993 consolidated statement of income is computed assuming that the weighted average shares outstanding at September 30, 1993 were outstanding the entire year and ignores the effect of stock options as they were only outstanding for the last 10 days of the fiscal year. The difference between primary and fully diluted earnings per share is not material. Pro forma earnings per share presented below is computed as if the net proceeds of $18,500,000 from the issuance of common stock had been invested at 7.32%, the Company's average yield on interest earning assets during fiscal year 1993, adjusted for applicable federal and state taxes.

Pro forma Earnings Per Share:	
Pro forma income before extraordinary item	$1.23
Extraordinary item	(.14)
Pro forma net income	$1.09

2. ACQUISITIONS

On March 28, 1994 the Company completed the acquisition of Community Financial Systems, Inc. ("Community"), and its wholly-owned subsidiary, Brookings Federal Bank, a federal savings bank, located in Brookings, South Dakota. Upon acquisition, Community was merged into the Company and Brookings Federal Bank was merged into the Bank. The two offices of Brookings Federal Bank will operate as the Brookings Federal Bank Division of First Federal. The Company purchased the 333,513 outstanding shares of Community's common stock for a cash payment of $31.38 per share, or a total purchase price of approximately $10.5 million. In addition to the purchase price, approximately $243,000 in acquisition related costs were incurred. The acquisition has been accounted for as a purchase, and the accompanying consolidated financial statements for the year ended September 30, 1994 reflect the combined results since the date of acquisition. The fair value assigned to the assets and liabilities, including the core value of the existing customer deposit base is as follows:

Cash	$ 3,664,204
Securities	10,877,419
Loans	51,206,527
Premises and equipment	907,865
Other assets	1,085,628
Excess of cost over net assets acquired	1,634,265
Deposits	(56,591,421)
Other liabilities	(2,318,849)
	$10,465,638

The unaudited consolidated results of operations on a pro forma basis for the fiscal year ended September 30, 1994 and 1993, as though the acquisition of the Community had occurred as of the beginning of the fiscal years, are as follows:

	1994	1993
Interest income	$ 17,593,876	$ 17,095,958
Interest expense	8,774,299	9,858,058
Net interest income	8,819,577	7,237,900
Provision for loan losses	288,506	325,494
Net interest income after provision for loan losses	8,531,071	6,912,406
Other income	1,212,961	1,882,962
Other expense	(5,717,351)	(5,143,743)
Income before income taxes and cumulative effects of changes in accounting principles	4,026,681	3,651,625
Income taxes	1,479,824	1,367,816
Income before extraordinary item and cumulative effects of changes in accounting principles	2,546,857	2,283,809
Extraordinary item	—	(284,611)
Income before cumulative effects of changes in accounting principles	2,546,857	1,999,198
Cumulative effects of changes in accounting principles	257,163	—
Net income	$ 2,804,020	$ 1,999,198
Earnings per common share:		
Income before extraordinary item and cumulative effects of changes in accounting principles	$ 1.28	$ 1.11
Extraordinary item	—	(0.14)
Cumulative effects of changes in accounting principles	0.13	—
Net income	$ 1.41	$ 0.97

On August 21, 1995, the Company entered into an Agreement and Plan of Merger and Reorganization (the "Agreement") with Iowa Bancorp, Inc. ("Iowa Bancorp"), and its wholly owned subsidiary, Iowa Savings Bank, a federal savings bank, located in Des Moines, Iowa. The Agreement calls for the Company to acquire all outstanding shares of Iowa Bancorp in exchange for a cash payment of $8.0 million, which is subject to adjustment in accordance with the terms of the Agreement. The transaction is subject to approval by Iowa Bancorp's stockholders and to approval by the Office of Thrift Supervision.

3. STOCK CONVERSION

On April 9, 1993, the Board of Directors of the Association adopted a Plan of Conversion (the "Conversion") to convert from a federally chartered mutual savings and loan association to a federally chartered stock savings bank with the concurrent formation of a holding company (the "Holding Company").

On September 20, 1993, the Holding Company received subscriptions for 1,917,625 shares of common stock at $10 per share for subscription proceeds of $18,500,000, net of costs of $676,250, which were reduced by $93,210 in fiscal year 1994.

At the time of the Conversion a liquidation account in an amount of $16,261,230 was established for the benefit of eligible account holders who continue to maintain their account with the Bank after the Conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation and only in the event of a complete liquidation, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held.

Subsequent to the Conversion, the Bank may not declare or pay cash dividends on or repurchase any of its shares of common stock if the effect thereof would cause stockholders' equity to be reduced below applicable regulatory capital maintenance requirements or if such declaration and payment would otherwise violate regulatory requirements.

4. SECURITIES AND MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

Securities and mortgage-backed securities classified as available-for-sale at September 30, 1995 and 1994 are as follows:

	September 30, 1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Securities:				
U.S. Treasury and other Government agency obligations	$45,442,279	$ 157,179	$ 87,473	$45,511,985
Corporate obligations	1,050,569	7,368	62	1,057,875
Marketable equity securities	2,168,688	90,555	—	2,259,243
Total securities	48,661,536	255,102	87,535	48,829,103
Mortgage-Backed Securities:				
Government National Mortgage Association	7,179,255	304,299	—	7,483,554
Federal Home Mortgage Association Corporation	3,750,778	218,263	276	3,968,765
Federal National Mortgage Association	3,230,930	199,769	6,492	3,424.207
Collateralized mortgage obligations	5,260,118	17,045	66,806	5,210,357
Privately issued mortgage pass-through certificates	1,237,868	78,238	—	1,316,106
Total mortgage-backed securities	20,658,949	817,614	73,574	21,402,989
	$69,320,485	$1,072,716	$161,109	$70,232,092

	September 30, 1994			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Securities:				
U.S. Treasury and other Government agency obligations	$10,542,699	$ 55,962	$ 55,469	$10,543,192
Corporate obligations	1,964,219	—	46,235	1,917,984
Marketable equity securities	739,130	38,750	17,920	759,960
Total securities	13,246,048	94,712	119,624	13,221,136
Mortgage-Backed Securities:				
Government National Mortgage Association	7,965,071	2,641	152,471	7,815,241
Federal Home Mortgage Association Corporation	5,074,410	189,703	50,385	5,213,728
Federal National Mortgage Association	3,985,373	151,082	4,203	4,132,252
Collateralized mortgage obligations	5,604,716	791	330,206	5,275,301
Privately issued mortgage pass-through certificates	1,442,199	78,806	—	1,521,005
Total mortgage-backed securities	24,071,769	423,023	537,265	23,957,527
	$37,317,817	$517,735	$656,889	$37,178,663

The amortized cost value and approximate fair value of debt securities by contractual maturity at September 30, 1995 are shown below. Actual maturities will differ from original maturities due to certain borrowers having the right to prepay obligations with or without penalty.

	Amortized Cost	Approximate Fair Value
Due in one year or less	$19,753,930	$19,791,501
Due after one year through five years	13,533,008	13,622,109
Due after five years through ten years	12,965,910	12,916,250
Due after ten years	240,000	240,000
	46,492,848	46,569,860
Marketable equity securities	2,168,688	2,259,243
	$48,661,536	$48,829,103

Mortgage-backed securities available-for-sale classified by type of interest payment and original maturity at September 30, 1995 and 1994, are shown below.

	September 30, 1995		
	Amortized Cost	Approximate Fair Value	Weighted Rate
Adjustable rate	$ 1,923,682	$ 2,000,015	7.18%
Fixed-rate, 5 year	469,123	475,685	8.00
Fixed-rate, 15 year	1,186,790	1,252,820	9.07
Fixed-rate, 30 year	11,819,236	12,464,112	8.08
	15,398,831	16,192,632	8.04
Collateralized mortgage obligations	5,260,118	5,210,357	6.34
	$20,658,949	$21,402,989	7.61%

	September 30, 1994		
	Amortized Cost	Approximate Fair Value	Weighted Rate
Adjustable rate	$ 2,276,003	$ 2,333,020	6.81%
Fixed-rate, 5 year	614,718	588,094	8.00
Fixed-rate, 7 year	16,354	15,903	5.00
Fixed-rate, 15 year	2,882,808	3,011,633	9.49
Fixed-rate, 30 year	12,677,170	12,733,576	8.12
	18,467,053	18,682,226	8.16
Collateralized mortgage obligations	5,604,716	5,275,301	6.43
	$24,071,769	$23,957,527	7.76%

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		
	1995	1994	1993
Proceeds from sales	$49,445,258	$16,136,827	$ —
Gross gains on sales	1,070,247	80,666	—
Gross losses on sales	—	71,496	—

5. SECURITIES HELD-TO-MATURITY

	September 30, 1994			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
U.S. Treasury and other Government agency obligations	$18,000,000	$ —	$190,000	$17,810,000

There were no securities held-to-maturity at September 30, 1995.

During the period ending September 30, 1994, there were no sales of securities held-to-maturity or transfers of securities between available-for-sale and held-to-maturity. In May 1995, the Company reclassified all securities, including mortgage-backed securities, previously designated as held-to-maturity to the available-for-sale category. The reclassification was performed after consideration by management of a pending regulatory policy clarification in regard to the measurement of interest sensitivity of floating-rate mortgage-backed securities. It was management's opinion that the pending regulatory policy clarification provided sufficient potential risk to the market value of this type of security to warrant reclassification of the securities held by the company to the available-for-sale designation. The amortized cost and approximate fair value of securities and mortgage-backed securities that were transferred to the available-for-sale category were $77,832,845 and $78,948,854, respectively.

6. MORTGAGE-BACKED SECURITIES HELD-TO-MATURITY

	September 30, 1994			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Collateralized mortgage obligations	$47,917,370	$296,298	$1,045,869	$47,167,799

There were no mortgage-backed securities held-to-maturity at September 30,1995.

Mortgage-backed securities at September 30, 1994 consisted of collateralized mortgage-obligations with a weighted average rate of 6.13%.

There was no activity related to the sale of mortgage-backed securities held-to-maturity for the years ended September 30, 1994. During the period ended September 30, 1995, all mortgage-backed securities were transferred to the available-for-sale category (see Note 5).

7. LOANS RECEIVABLE

	September 30,	
	1995	1994
One to four family residential mortgage loans:		
Insured by FHA or guaranteed by VA	$ 599,019	$ 748,983
Conventional	56,674,526	54,413,516
Construction	17,877,327	10,247,875
Commercial and multi-family real estate loans	73,418,931	59,920,149
Agricultural real estate loans	7,021,264	8,063,734
Commercial business loans	8,172,989	8,930,949
Agricultural business loans	11,905,367	7,784,275
Consumer loans	13,007,467	10,597,790
Subtotal	188,676,890	160,707,271
Less: Allowance for loan losses	1,649,520	1,442,077
Undistributed portion of loans in process	8,071,693	3,424,919
Deferred fees	404,176	343,536
Total -net	$178,551,501	$155,496,739

A summary of the activity in the allowance for loan losses is as follows:

	Years Ended September 30,		
	1995	1994	1993
Balance, beginning of period	$1,442,077	$825,000	$600,000
Provision	250,000	105,000	225,000
Brookings allowance at acquisition date	—	517,781	—
Less: Losses charged against allowance	(42,557)	(5,704)	—
Balance, end of period	$1,649,520	$1,442,077	$825,000

Virtually all of the Bank's originated loans are to Iowa and South Dakota-based organizations. The Bank's purchased loans total approximately $78,760,000 at September 30, 1995 and are secured by properties located, as a percentage of total loans as follows: 11% in Wisconsin, 7% in Minnesota, 5% in Iowa, 4% in South Dakota, 3% in New York and the remaining 14% in fifteen other states. The Bank's purchased loans totalled $64,891,000 at September 30, 1994 and were secured by properties located, as a percentage of total loans, as follows: 10% in Wisconsin, 6% in Iowa, 5% in South Dakota, 4% in New York, 3% in Nebraska and the remaining 12% in thirteen other states.

The Bank 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 Bank's commercial real estate loans include approximately $7,430,000 and $7,754,000 of loans secured by nursing homes at September 30, 1995 and 1994, respectively. The remainder of the commercial real estate portfolio is diversified by industry. The Bank's policy for requiring collateral and guarantees varies with the credit worthiness of each borrower.

The amount of restructured and related party loans as of September 30, 1995 and 1994 were not significant. The amount of non-accruing loans as of September 30, 1995 and 1994 were $726,000 and $734,000, respectively.

8. REAL ESTATE OWNED

	September 30, 1995	September 30, 1994
Real estate owned	$48,418	$ —
Less: Allowance for losses	—	—
Total	$48,418	$ —

A summary of the activity in the allowance for real estate owned is as follows:

	Years Ended September 30, 1995	1994	1993
Balance, beginning of period	$ —	$10,897	$89,653
Provision	—	—	9,600
Less: Losses charged against allowance	—	10,897	88,356
Balance, end of period	$ —	$ —	$10,897

9. PREMISES AND EQUIPMENT

	September 30, 1995	September 30, 1994
Land	$ 446,547	$ 446,547
Buildings and improvements	2,685,197	2,461,438
Furniture, fixtures and equipment	1,929,692	1,580,488
Total	5,061,436	4,488,473
Less accumulated depreciation	3,084,789	2,958,218
Total	$1,976,647	$1,530,255

Depreciation of premises and equipment, included in occupancy and equipment expense, was $134,733, $91,061, and $68,445 for fiscal years ended September 30, 1995, 1994 and 1993, respectively. One of the Bank's branch offices is located on leased land. The lease requires annual payments of $6,000 through fiscal year 2003 and has a purchase option.

10. DEPOSITS

Balances by Interest Rate	September 30, 1995 Amount	1995 %	1994 Amount	1994 %
Negotiable orders of withdrawal (NOW):				
Variable	$ 15,535,519	9.0%	$ 16,270,585	9.2%
Passbook:				
2.25 - 4.70%	12,112,476	7.1	9,256,724	5.3
Money market demand accounts:				
Variable	14,836,337	8.6	16,248,089	9.2
Certificate accounts:				
Variable	1,498,585	0.9	1,047,792	0.6
Less than 3.00%	15,040	0.1	753,709	0.4
3.00% - 3.99%	1,578,097	0.9	17,335,624	9.8
4.00% - 4.99%	18,717,963	10.8	57,170,385	32.6
5.00% - 5.99%	49,225,895	28.6	40,046,055	22.7
6.00% - 6.99%	53,518,743	31.2	12,060,297	6.8
7.00% - 7.99%	802,841	0.5	1,779,710	1.0
8.00% - 8.99%	1,751,453	1.0	1,744,858	1.0
9% and over	2,200,048	1.3	2,452,879	1.4
Total certificate accounts	129,308,665	75.3	134,391,309	76.3
Total deposits	$171,792,997	100.0%	$176,166,707	100.0%

Certificates of deposit in the amount of $100,000 or more (jumbo certificates) total approximately $6,957,500 and $10,274,300 at September 30, 1995 and 1994, respectively.

A summary of certificate accounts by scheduled maturities at September 30, 1995, is as follows:

	1996	1997	1998	1999	2000	Thereafter	Total
Variable	$ 941,607	$ 556,978	$ —	$ —	$ —	$ —	$ 1,498,585
Less than 3.00%	3,051	—	—	6,839	—	5,150	15,040
3.00 - 3.99%	1,573,203	—	4,894	—	—	—	1,578,097
4.00 - 4.99%	12,169,250	5,633,310	766,490	118,185	30,728	—	18,717,963
5.00 - 5.99%	30,059,351	14,848,341	3,684,236	598,542	23,800	11,625	49,225,895
6.00 - 6.99%	29,212,285	20,716,058	2,075,936	1,145,165	182,507	186,792	53,518,743
7.00 - 7.99%	237,969	493,390	10,000	15,788	45,694	—	802,841
8.00 - 8.99%	335,220	122,316	1,221,869	69,886	2,162	—	1,751,453
9.00% and over	540,316	9,982	241,442	1,408,308	—	—	2,200,048
	$ 75,072,252	$42,380,375	$8,004,867	$3,362,713	$284,891	$203,567	$129,308,665

A summary of interest expense on deposit accounts is as follows:

	Years Ended September 30, 1995	1994	1993
NOW accounts	$ 295,930	$ 263,216	$ 257,049
Passbook accounts	276,665	208,016	216,041
Money market demand accounts	440,393	473,246	528,507
Certificates	7,232,239	5,157,564	5,024,535
	$ 8,245,227	$6,102,042	$6,026,132

11. ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank was indebted to the Federal Home Loan Bank of Des Moines (FHLB) on notes maturing as follows:

	September 30,			
	1995		1994	
Years Ending September 30:	**Weighted Rate**	**Amount**	**Weighted Rate**	**Amount**
1995	—%	$ —	5.14%	$58,200,000
1996	6.20	31,200,000	6.62	200,000
1997	6.02	8,200,000	6.89	200,000
1998	5.88	10,200,000	7.15	200,000
1999	7.39	200,000	7.39	200,000
2000	7.55	200,000	7.55	200,000
2001	7.71	200,000	7.71	200,000
2002	6.86	898,388	6.68	908,065
Total	6.13%	$51,098,388	5.20%	$60,308,065

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

At September 30, 1995 and 1994, the Bank pledged securities with amortized costs of approximately $22,500,000 and $52,316,000 and fair values of approximately $22,468,000 and $50,078,000 against specific FHLB advances. In addition, certain loans are pledged as collateral.

12. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

At September 30, 1995 and 1994, securities sold under agreements to repurchase totaled $1,149,918 and $909,918, respectively.

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

	Years ended September 30,	
	1995	1994
Highest month-end balance	$1,312,411	$2,398,070
Average balance	$1,139,431	$2,042,876
Weighted average interest rate during the period	5.30%	6.80%
Weighted average interest rate at end of period	5.75%	4.70%

At September 30, 1995, securities sold under agreements to repurchase had maturities ranging from 2 to 15 months with a weighted average maturity at September 30, 1995 of 8 months.

The Bank pledged securities with amortized costs of approximately $1,580,000 and $941,000 and fair values of approximately $1,603,000 and $921,000, respectively, at September 30, 1995 and 1994 as collateral for securities sold under agreements to repurchase.

13. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan - The profit-sharing plan for substantially all full-time employees provides for the Company, at its option and subject to a percentage of employee earnings limitation imposed by the Internal Revenue Code, to contribute to a trust created by the plan. Related expense for years ended September 30, 1995, 1994 and 1993 was $106,188, $113,343, and $77,590, respectively.

Employee Stock Ownership Plan - All employees meeting age and service requirements are eligible to participate in the Employee Stock Ownership Plan (the "ESOP") established in fiscal year 1993. Contributions made by the Bank to the ESOP are allocated to participants by a formula based on compensation. Participant benefits become 20 percent vested after three years of service and then increases 20 percent each year until they are 100 percent vested after seven years of service. ESOP expense was $358,613 and $198,100 for the years ended September 30, 1995 and 1994.

The ESOP was capitalized with a $1,534,100 loan from the Company which was used to purchase 153,410 shares of the Company common stock. Through September 30, 1995, the ESOP has allocated to current and former participants 56,690 shares.

Incentive Compensation and Other Arrangements - The Bank has an incentive compensation plan (the "Plan") for selected officers. The Plan provides for annual bonuses based upon the achievement of pre-determined individual and Bank objectives. The Bank's policy is to fund incentive compensation as accrued. The total incentive compensation expense was $93,400, $125,000 and $58,140 for the years ended September 30, 1995, 1994 and 1993, respectively.

The Bank has entered into employment agreements with certain executive officers. Under the agreements, in the event of voluntary or involuntary termination of employment with the Bank and under specific circumstances (as detailed in the agreements) the officer would receive compensation based on average annual compensation. The agreements are in effect as long as the officer remains in the employ of the Bank.

Stock Option and Incentive Plans - Certain officers and directors of the Bank have been granted options to purchase common stock of the Company pursuant to the option plan. For the year ended September 30, 1995 options on 3,509 shares have been granted at an average exercise price of $20.00 per share and expire September 28, 2005. For the year ended September 30, 1994 options on 172,585 shares have been granted at an average exercise price of $10.00 per share and expire September 20, 2003. No options have been exercised or have expired during fiscal years 1995, 1994 or 1993.

The Bank granted 4,794 and 70,952 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 the 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.

14. INCOME TAXES

The Company is permitted under the Internal Revenue Code ("the Code") to deduct an annual addition to a reserve for bad debts in determining taxable income subject to certain limitations. The bad debt deduction allowable under this method equals 8% of taxable income determined without regard to that deduction and with certain adjustments. This addition differs from the bad debt experience used for financial accounting purposes. Bad debt deductions for income tax purposes are included in taxable income of later years if the bad debt reserve is used subsequently for purposes other than to absorb bad debt losses. Because the Company does not intend to use the reserve for purposes other than to absorb losses, no deferred income taxes have been provided in the accompanying consolidated financial statements. Retained earnings at September 30, 1995 includes approximately $6,200,000 of such bad debt deductions for which no deferred income taxes have been provided.

Income tax expense (benefit) consists of the following:

	Years Ended September 30,		
	1995	**1994**	**1993**
Current:			
Federal	$1,946,687	$1,348,519	$ 937,000
State	324,000	150,000	142,300
	2,270,687	1,498,519	1,079,300
Deferred:			
Federal	46,000	(59,700)	(30,000)
State	4,000	(5,300)	(4,000)
	50,000	(65,000)	(34,000)
	$2,320,687	$1,433,519	$1,045,300

The Company's provision for income taxes is reconciled with the amount of income tax computed by applying the federal statutory rate as follows:

	Years Ended September 30,		
	1995	**1994**	**1993**
Tax at Federal rate	$1,995,000	$1,327,790	$ 912,000
Increase (decrease) resulting from:			
Bad debt deduction - net	—	(34,000)	76,500
State income taxes - net of federal benefit	214,000	99,000	94,000
Excess of cost over net assets acquired	43,000	21,279	—
Fair value of ESOP shares released	48,000	—	—
Other - net	20,687	19,450	(37,200)
Total income tax expense	$2,320,687	$1,433,519	$1,045,300

The tax effect of temporary differences that give rise to significant portions of deferred tax assets and liabilities at September 30, 1995 and 1994, are as follows:

	1995	1994
Deferred tax assets:		
Reserve for losses on loans not currently deductible	$ 228,000	$308,000
Deferred loan fees	104,000	92,000
Management incentive program	83,000	61,000
Net unrealized loss on securities available-for-sale	—	43,568
Other items	33,000	38,000
	448,000	542,568
Deferred tax liabilities:		
Federal Home Loan Bank stock	419,000	419,000
Net unrealized gain on securities available-for-sale	337,349	—
Other	18,864	15,000
	775,213	434,000
Net deferred tax asset (liability)	$(327,213)	$108,568

Under APB No. 11, the provision for deferred income taxes for fiscal year ending September 30, 1993 is as follows:

Interest on delinquent loans	$(25,300)
Cash to accrual method adjustment	—
Deferred loan participation premiums	—
FHLB stock dividend	34,300
Adjustment of securities held for sale carrying value	—
Deferred loan fees, net	(13,100)
Write-down of rate caps	(24,300)
Other, net	(5,600)
Total deferred income tax benefit	$(34,000)

15. REGULATORY CAPITAL REQUIREMENTS

At September 30, 1995 the Bank's estimates of its capital amounts and the capital levels required under OTS capital regulations are as follows:

	Actual	Requirement	Excess
Bank's stockholder's equity	$35,036,349		
Less unrealized holding gain on securities available-for-sale, net	(539,023)		
Less intangible assets	(1,689,776)		
Less phase-out of investments in non-includable subsidiaries	(734,448)		
Tangible capital	$32,073,102	$3,890,652	$28,182,450
Tangible capital to adjusted assets (1)	12.37%	1.50%	10.87%
Core capital (Tier 1 capital)	$32,073,102	$ 7,781,304	$24,291,798
Core capital to adjusted assets (1)	12.37%	3.00%	9.37%
Core capital	$32,073,102		
Plus general loan loss allowances	1,634,680		
Less assets required to be deducted	(74,336)		
Risk-based capital (Total capital)	$33,633,446	$13,177,473	$20,455,973
Risk-based capital to risk-weighted assets (2)	20.42%	8.00%	12.42%

(1) Based on adjusted total assets totaling $259,376,804.
(2) Based on risk-weighted assets totaling $164,718,408.

The OTS, as the primary federal regulator of savings institutions, has broad supervisory and enforcement powers. The Bank is also subject to regulatory and supervisory enforcement authority under the Federal Deposit Insurance Corporation (FDIC) with respect to certain activities that may pose a risk to the deposit insurance fund. At periodic intervals, both the OTS and the FDIC routinely examine the Bankís financial statements as part of their legally prescribed oversight of the savings and loan industry. Based on these examinations, the regulators can direct the Bank's financial statements be adjusted in accordance with their findings.

The Federal Deposit Insurance Corporation Improvement Act of 1991, established five regulatory capital categories: well-capitalized, adequately-capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized; and authorized banking regulatory agencies to take prompt corrective action with respect to institutions in the three under-capitalized categories. These corrective actions become increasingly more stringent as an institutionís regulatory capital declines. At September 30, 1995, the Bank exceeded the minimum requirements for the well-capitalized category as shown in the following table.

	Tier 1 Capital to Adjusted Total Assets	Tier 1 Capital to Risk-Weighted Assets	Total Capital to Risk-Weighted Assets
Actual capital	$32,073,102	$32,073,102	$33,633,446
Percentage of adjusted assets	12.37%	19.47%	20.42%
Minimum requirements to be classified well-capitalized	5.00%	6.00%	10.00%

16. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments to extend credit which are not reflected in the accompanying consolidated financial statements.

At September 30, 1995 and 1994, the Bank had loan commitments approximating $6,839,000 and $1,060,000, respectively, excluding undisbursed portions of loans in process. Loan commitments at September 30, 1995 include commitments to originate fixed-rate loans with interest rates ranging from 7.75% to 11.75% totaling $551.000, adjustable-rate loan commitments with an interest rate of 7.75% to 9.50% totaling $3,080,000 and purchase adjustable-rate loan commitments of $3,208,000 with an interest rate of 8.75% to 9.38%. Loan commitments at September 30, 1994 include commitments to originate fixed-rate loans with interest rates ranging from 8.75% to 9.00% totaling $237,500, adjustable-rate loan commitments with an interest rate of 6.50% to 8.25% totaling $822,500. 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 Bank's exposure to credit loss in the event of nonperformance by other parties to financial instruments for commitments to extend credit is represented by the contract tual amount of those instruments. The Bank uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Bank pledged securities with amortized costs of approximately $6,465,000 and $10,449,000 and fair values of approximately $6,412,000 and $9,802,000 at September 30, 1995 and 1994 as collateral for public funds on deposit.

The Bank also pledged securities with amortized costs of approximately $999,000 and $592,000 and fair values of approximately $1,006,000 and $578,000 at September 30, 1995 and 1994, respectively, as collateral for individual, trust, and estate deposits.

The Bank also pledged securities with an amortized cost of approximately $690,000 and fair value of $691,000 as collateral for other deposits at September 30, 1994. There were no securities pledged as collateral for other deposits at September 30, 1995.

The Bank had purchased interest rate cap contracts with a broker in the notional amount of $10,000,000 at September 30, 1994, to reduce its long-term interest rate exposure. The agreement provided for the Bank to receive payments if the three month LIBOR rate exceeds a weighted average protected rate of 12%. During the year ended September 30, 1994 and 1993, no payments were paid under the interest rate cap contracts. This agreement expired in fiscal year 1995. Interest rate swaps were not utilized in fiscal years 1995, 1994 or 1993.

17. SALES OF ASSETS AND DEPOSITS

During the two years ended September 30, 1993, the Bank closed one branch office and consolidated five others as part of management's long-term business plan.

Loans held for sale, deposits and premises and equip ment with book values of $2,173,000, $9,318,000 and $41,000, respectively, were sold during the year ended September 30, 1993 resulting in a gain of $708,469.

18. EXTRAORDINARY ITEM

The Bank incurred prepayment penalties of $284,611, net of tax benefits of $167,000 for the year ended September 30, 1993, related to the prepayment (with cash from operations) of primarily long-term fixed-rate Federal Home Loan Bank advances of $4,000,000. Such penalties vary based on the remaining term to maturity (generally the closer the advance to maturity, the less significant the penalty), the contractual interest rate and the current borrowing rate.

19. FIRST MIDWEST FINANCIAL, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION

CONDENSED STATEMENTS OF FINANCIAL CONDITION *at September 30, 1995 and 1994*

	1995	1994
Cash and cash equivalents	$ 1,161,376	$ 415,412
Securities available-for-sale	694,950	235,625
Loan receivables from ESOP	967,200	1,186,000
Other assets	172,190	463,297
Investment in subsidiaries	34,497,327	32,493,650
Total assets	$37,493,043	$34,793,984
Accrued expenses and other liabilities	$ 19,370	$ 11,588
Total liabilities	19,370	11,588
Common stock	19,915	19,915
Additional paid-in capital	19,310,045	18,955,192
Employee Stock Ownership Plan	(967,200)	(1,186,000)
Retained earnings	22,080,578	19,051,322
Treasury stock	(3,002,207)	(2,070,177)
Unrealized gain on securities available-for-sale, net	32,542	12,144
Total stockholders' equity	37,473,673	34,782,396
Total liabilities and stockholders' equity	$37,493,043	$34,793,984

CONDENSED STATEMENTS OF INCOME *for the years ended September 30, 1995, 1994 and 1993*

	1995	1994	1993
Dividend income from the Bank	$1,800,000	$4,500,000	$ —
Interest income	177,901	238,357	12,541
Gain on sale of securities available-for-sale	51,250	46,342	—
Other expenses	(132,175)	(175,586)	(57)
Income before income taxes and equity in undistributed earnings of subsidiaries	1,896,976	4,609,113	12,484
Income tax expense	50,000	70,482	—
Income before equity in undistributed earnings of subsidiaries	1,846,976	4,538,631	12,484
Equity (loss) in undistributed earnings of subsidiaries	1,697,376	(1,809,720)	1,340,024
Net income	$3,544,352	$2,728,911	$1,352,508

	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES :			
Net income	$3,544,352	$ 2,728,911	$ 1,352,508
Equity (loss) in undistributed earnings of subsidiaries	(1,697,376)	1,809,720	(1,340,024)
Amortization of recognition and retention plan	208,159	381,897	—
Gain on sale of securities available-for-sale	(51,250)	(46,342)	—
(Increase) decrease in other assets	291,107	(463,297)	—
Increase (decrease) accrued expenses	54,984	(82,764)	181,595
Net cash flows from operating activities	2,349,976	4,328,125	194,079
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in subsidiaries	—	—	(9,250,000)
Loan to ESOP	—	—	(1,534,100)
Payment on loan from ESOP	218,800	198,100	150,000
Purchase of securities available-for-sale	(617,562)	(333,550)	—
Proceeds from sale of securities available-for-sale	241,875	162,378	—
Acquisition of assets and liabilities	—	(9,929,443)	—
Net cash flows from investing activities	(156,887)	(9,902,515)	(10,634,100)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from stock issuance	—	—	19,176,250
Stock issuance costs	—	—	(676,250)
Dividends paid	(515,095)	—	—
Purchase of treasury stock	(932,030)	(2,070,177)	—
Net cash flows from financing activities	(1,447,125)	(2,070,177)	18,500,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	745,964	(7,644,567)	8,059,979
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	415,412	8,059,979	—
CASH AND CASH EQUIVALENTS AT END OF YEAR	$1,161,376	$ 415,412	$8,059,979

20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended			
	December 31	March 31	June 30	September 30
FISCAL YEAR 1995:				
Total interest income	$5,202,586	$5,558,039	$5,162,491	$5,130,354
Total interest expense	2,815,729	3,154,619	2,897,007	2,781,369
Net interest income	2,386,857	2,403,420	2,265,484	2,348,985
Provision for loan losses	30,000	30,000	130,000	60,000
Net income	$ 776,494	$ 774,220	$1,262,075	$ 731,563
Earnings per share (fully diluted):				
Income before cumulative effect of changes in accounting principles	$0.43	$0.44	$0.72	$0.41
Cumulative effects of changes in accounting principles	—	—	—	—
Net income	$0.43	$0.44	$0.72	$0.41
FISCAL YEAR 1994:				
Total interest income	$ 2,741,732	$2,894,417	$4,506,061	$5,010,481
Total interest expense	1,355,277	1,211,200	2,169,440	2,546,577
Net interest income	1,386,455	1,683,217	2,336,621	2,463,904
Provision for loan losses	—	25,000	—	80,000
Income before cumulative effect of changes in accounting principles	382,994	601,972	844,765	642,017
Cumulative effects of changes in accounting principles	257,163	—	—	—
Net income	$ 640,157	$ 601,972	$ 844,765	$ 642,017

FISCAL YEAR 1993:				
Total interest income	$ 3,159,406	$2,930,886	$2,836,864 ✓	$2,658,764
Total interest expense	1,878,482	1,728,919	1,458,187 ✓	1,443,680
Net interest income	1,280,924	1,201,967	1,378,677 ✓	1,215,084 ✓
Provision for loan losses	50,000	150,000	25,000	—
Income before extraordinary items	278,581	563,547	453,882	341,109
Extraordinary item	—	(284,611)	—	—
Net income	$ 278,581	$ 278,936	$ 453,882	$ 341,109

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments, requires that the Company disclose estimated fair value amounts of its financial instruments. It is managementís belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of September 30, 1995 and 1994, as more fully described below. It should be noted that the operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the Bank's capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

The following presents the carrying value and fair value of the assets and liabilities held by the Company at September 30, 1995 and 1994. This information is presented solely for compliance with SFAS No. 107 and is subject to change over time based on a variety of factors.

	1995		1994	
	Carrying Value	Approximate Fair Value	Carrying Value	Approximate Fair Value
SELECTED ASSETS:				
Cash (including short-term investments)	$ 4,615,712	$ 4,615,712	$ 6,430,235	$ 6,430,235
Securities available-for-sale	48,829,103	48,829,103	13,221,136	13,221,136
Mortgage-backed securities available-for-sale	21,402,989	21,402,989	23,957,527	23,957,527
Securities held-to-maturity	—	—	18,000,000	17,810,000
Mortgage-backed securities held-to-maturity	—	—	47,917,370	47,167,799
Loans receivable, net	178,551,501	181,147,759	155,496,739	151,968,998
Federal Home Loan Bank stock	3,915,300	3,915,300	3,015,500	3,015,500
SELECTED LIABILITIES:				
Deposits:				
NOW checking accounts	$15,535,519	$15,535,519	$16,270,585	$16,270,585
Passbook accounts	12,112,476	12,112,476	9,256,724	9,256,724
Market rate savings accounts	14,836,337	14,836,337	16,248,089	16,248,089
Certificates of deposit	129,308,665	130,292,108	134,391,309	134,376,913
Total deposits	171,792,997	172,776,440	176,166,707	176,152,311
Advances from Federal Home Loan Bank	51,098,388	51,123,467	60,308,065	60,382,944
Other borrowings	1,149,918	1,147,622	909,918	898,842
OFF-BALANCE SHEET INSTRUMENTS:				
Commitments	$ 6,839,000	$ 6,839,000	$ 1,060,000	$ 1,060,000

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 1995 and 1994.

Cash and Short-Term Investments - The book value of cash and short-term investment is assumed to approximate the fair value of such assets.

Securities - Quoted market prices or dealer quotes were used to determine the fair value of securities available-for-sale and held-to-maturity.

Mortgage-Backed Securities - For mortgage-backed securities available-for-sale and held-for-maturity, the Bank has utilized quotes for similar or identical securities in an actively traded market, where such a market exists, or has obtained quotes from independent security brokers to determine the fair value of such assets.

Loans Receivable - The fair value of loans receivable 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, 1995 and 1994. The fair value of loans held for sale is determined by outstanding commitments from investments or current investor yield requirements calculated on an aggregate loan basis. In addition, when computing the estimated fair value for all loans, allowances for loan losses have been subtracted from the calculated fair value for consideration of credit issues.

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

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

Advances from Federal Home Loan Bank - The fair value of such advances was estimated by discounting the expected future cash flows using current interest rates as of September 30, 1995 and 1994, for advances with similar terms and remaining maturities.

Securities Sold Under Agreements to Repurchase - The fair value of securities sold under agreements to repurchase was estimated by discounting the expected future cash flows using derived interest rates approximating market over the contractual maturity of such borrowings.

Commitments - The commitments to originate and purchase loans have terms that are consistent with current market terms. Accordingly, the Bank estimates that the face amounts of these commitments approximates amortized cost.

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

22. RECENT ACCOUNTING STATEMENTS

Accounting by Creditors for Impairment of a Loan - In May 1993, the Financial Accounting Standards Board (FASB) issued SFAS No. 114, *Accounting by Creditors for Impairment of a Loan.* SFAS No. 114, as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosure* in October 1994, is applicable to all creditors and to all loans, uncollateralized as well as collateralized, except large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, loans that are measured at fair value or at the lower of cost or fair value, leases, and debt securities as defined in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* SFAS No. 114 applies to all loans that are restructured in a troubled debt restructuring involving a modification of terms. SFAS No. 114 requires that impaired assets which are within the scope of this Statement be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

SFAS No. 114 amends SFAS No. 5, *Accounting for Contingencies*, to clarify that a creditor should evaluate the collectibility of both contractual interest and contractual principal of all receivables when assessing the need for a loss accrual. This Statement also amends SFAS No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings,* to require a creditor to measure all loans that are restructured in a troubled debt restructuring involving a modification of terms in accordance with this Statement.

SFAS No. 114 and SFAS No. 118 applies to financial statements for fiscal years beginning after December 15, 1994. The Company does not believe the effect of these statements will have a significant impact on its financial statements.

Disclosure of Certain Significant Risks and Uncertainties - In December 1994, the Accounting Standards Executive Committee issued Statement of Position 94-6 (SOP 94-6) entitled *Disclosure of Certain Significant Risks and Uncertainties.* The disclosures required by SOP 94-6 focus primarily on risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term or the near-term functioning of the reporting entity. The risks and uncertainties this SOP deals with result from the nature of the entity's operations, from the necessary use of estimates in the preparation of the entity's financial statements, and from significant concentrations in certain aspects of the entity's operations. This disclosure requirements of the SOP in many circumstances are similar to or overlap the disclosure requirements in certain pronouncements of the FASB and the Securities and Exchange Commission. The provisions of SOP 94-6 are effective for fiscal years ending after December 5, 1995, or effective as of October 1, 1995, for the Company, and for financial statements for interim periods in fiscal years subsequent to the year for which the SOP is first applied. Since this statement requires only disclosures, in most cases, having already been met by compliance with other authoritative pronouncements, the provisions of SOP 94-6 will not affect the Con nancial position or results of operations.

Accounting for the Impairment of L ved Assets - In March 1995, the Financial ng Standards Board (FASB) issued Statem ancial Accounting Standards No. 121 (SFAS N ntitled *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.* SFAS No. 121 establishes accounting standards for the recognition and measurement of the impairment of long-lived assets, certain identifiable intangibles and goodwill. This statement does not apply to core deposit intangibles or mortgage and other servicing rights. The provisions of this statement require that long-lived assets and certain identifiable intangibles to be held and used should be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review of recoverability, the provisions of SFAS No. 121 require the estimation of the expected future cash flows (undiscounted and without interest charges) to result from the use of the asset and its eventual disposition with an impairment loss recognized if the sum of such cash flows is less than the carrying amount of the asset. SFAS No. 121 is effective for fiscal years beginning after December 15, 1995, or effective as of October 1, 1996, for the Company. Management of the Company has not determined the time period in which to implement the provisions of SFAS No. 121 and does not believe such adoption of SFAS No. 121 will have a material effect on the Company's financial position or results of operations.

Accounting for Mortgage Servicing Rights - In May 1995, the FASB issued Statement of Financial Accounting Standards No. 122 (SFAS No. 122) entitled *Accounting for Mortgage Servicing Rights*. SFAS No. 122 amends SFAS No. 65, *Accounting for Certain Mortgage Banking Operations* by eliminating the distinction in accounting for mortgage servicing rights depending on whether the loan was originated by the servicer or purchased. SFAS No. 122 requires mortgage servicers that sell or securitize loans and retain the servicing rights to allocate the total cost of the loans to the servicing rights and loans based on their fair value if practicable to estimate. If not practicable, the cost of acquiring the loans should be allocated to the mortgage loans only. Purchased mortgage servicing rights are mortgage servicing rights that have been purchased from other parties. Originated mortgage servicing rights generally represent the mortgage servicing rights acquired when an institution originates and subsequently sell mortgage loans but retains the servicing rights. Currently, only purchased mortgage servicing rights are capitalized as assets.

However, upon implementation of SFAS No. 122, originated mortgage servicing rights must be capitalized as assets on a prospective basis. In addition, SFAS No. 122 requires all capitalized mortgage servicing rights, both originated and purchased, to be evaluated for impairment based on their fair values.

SFAS No. 122 is effective for fiscal years beginning after December 15, 1995, or effective as of October 1, 1996 for the Company, with earlier application encouraged and retroactive restatement prohibited. The effect of SFAS No. 122 is dependent, among other items, upon the volume and type of loans originated, the general levels of market interest rates and the rate of estimated loan prepayments. Management of the Company is currently reviewing the provisions of this statement to determine its implementation date and has not as of this date determined the effect of such implementation.

Accounting for Stock-Based Compensation - In October 1995, the FASB issued SFAS No. 123 entitled *Accounting for Stock-Based Compensation.* SFAS No. 123 establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock including stock purchase plans, stock options and restricted stock. The Statement defines a fair value based method of accounting for an employee stock option or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, the Statement also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting presently prescribed by Accounting Principles Bulletin Opinion No. 25. Entities electing to remain with the accounting in Opinion 25 must make pro forma disclosures of net income and, if presented, earnings per share, as if the fair value based method of accounting defined in SFAS No. 123 had been applied.

The accounting requirements of SFAS No. 123 are effective for transactions entered into in fiscal years that begin after December 15, 1995 while the disclosure requirements are effective for financial statements for fiscal years beginning after December 15, 1995. Pro forma disclosures required for entities that elect to continue to measure compensation cost using Opinion No. 25 must include the effects of all awards granted in fiscal years that begin after December 15, 1994. Management of the Company is currently reviewing the provisions of this statement to determine the effect of implementation.

Directors of First Midwest Financial, Inc., and First Federal Savings Bank of the Midwest

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

Steven P. Myers
Vice Chairman of the Board and Senior Vice President for First Midwest Financial, Inc., and Senior Vice President for First Federal Savings Bank of the Midwest

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

E. Wayne Cooley
Executive Secretary
Iowa Girls' High School Athletic Union
Des Moines, Iowa

J. Tyler Haahr
Partner in the Law Firm of Lewis and Roca L.L.P.
Phoenix, Arizona

E. Thurman Gaskill
Owner
Grain Farming Operation
Corwith, Iowa

From left to right:
Lorie J. Wittmaack
Donald J. Winchell
Fred A. Stevens
Kristi L. Frey
Steven P. Myers
James S. Haahr
Susan C. Van Sickle
Richard A. Wehde
Melody A. Buckendahl

EXECUTIVE OFFICERS

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

Steven P. Myers
Vice Chairman of the Board and Senior Vice President for First Midwest Financial, Inc., and Senior Vice President for First Federal Savings Bank of the Midwest

Fred A. Stevens
Vice President, Secretary and Chief Operating Officer for First Midwest Financial, Inc., and Executive Vice President, Secretary, Chief Operating Officer, and Trust Officer for First Federal Savings Bank of the Midwest

Donald J. Winchell, CPA
Vice President, Treasurer and Chief Financial Officer for First Midwest Financial, Inc., and Senior Vice President, Treasurer and Chief Financial Officer for First Federal Savings Bank of the Midwest

Kristi L. Frey
Senior Vice President - Marketing and Sales
First Federal Savings Bank of the Midwest

Susan C. Van Sickle
Senior Vice President - Branch Administration and Compliance Officer
First Federal Savings Bank of the Midwest

Lorie J. Wittmaack
Vice President - Loans
First Federal Savings Bank of the Midwest

Richard A. Wehde
Vice President - Commercial/Agricultural Loans
First Federal Savings Bank of the Midwest

Melody A. Buckendahl
Vice President - Savings
First Federal Savings Bank of the Midwest

Additional First Federal Savings Bank Officers and Management

Main Bank Office — Storm Lake, Iowa

Barbara A. Kestel
Executive Secretary

Brad A. Lenhart
Assistant Treasurer & Controller

Dan B. Berglund
Assistant Secretary

Nyla Bertram
Assistant Secretary-Savings

Linda L. Groth
Assistant Secretary-Account Services

Vicki D. Page
Account Services Supervisor

Cindy J. Pudenz
Retirement Plans Administrator

Other Bank Offices

Carol A. Pierce
Regional Vice President
Laurens Office

Karen Waller
Regional Vice President
Manson Office

Laureen L. Snyder
Branch Manager
Lake View Office

Virginia M. Thayer
Branch Manager
Odebolt Office

Marilyn C. Winkel
Branch Manager
Sac City Office

Renae Babcock
Office Supervisor
Odebolt Office

Deb Baker
Office Supervisor
Storm Lake Plaza Office

Kate Ellis
Office Supervisor
Laurens Office

Charlene M. Kilbride
Office Supervisor
Sac City Office

Marlene M. Nimke
Office Supervisor
Manson Office

Brookings Division

James C. Winterboer
President
Brookings Federal

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

Jay M. Johnson
Assistant Vice President
Brookings Federal

Steve C. Almos
Assistant Vice President
Agricultural Loans
Brookings Federal

John D. Heylens
Loan Officer
Brookings Federal

Cheryl A. Engel
Customer Service Supervisor
Brookings Federal

Susan E. Schutt
Director of Marketing & Sales
Brookings Federal

Corporate Information

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

Annual Meeting of Stockholders
The Annual Meeting of Stockholders will convene at 1 p.m. on Tuesday, January 23, 1996. The meeting will be held in the Board Room of First Federal Savings Bank of the Midwest, Fifth at Erie, Storm Lake, Iowa. Further information with regard to this meeting can be found in the proxy statement.

General Counsel
Mack, Hansen, Gadd, Armstrong & Schiller, P.C.
316 East Sixth Street
Storm Lake, Iowa 50588

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

Independent Auditors
Deloitte & Touche LLP
2000 First National Center
Omaha, Nebraska 68012

Stockholder Services and Investor Relations
Stockholders desiring to change the name, address or ownership of stock, to report lost certificates or to consolidate accounts should contact the corporation's transfer agent:
Registrar & Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
1-800-368-5948

Analysts, investors and others seeking a copy of the Form 10-K or other public financial information should contact:
Investor Relations - Attention: Kristi L. Frey,
First Midwest Financial, Inc.,
First Federal Building, Fifth at Erie,
P.O. Box 1307,
Storm Lake, Iowa 50588
Telephone 712-732-4117

Stock Market Information

First Midwest Financial, Inc.'s common stock is traded through the Nasdaq National Market System using the common stock symbol "CASH". The Wall Street Journal publishes daily trading information for our stock under the abbreviation "FstMidwFnl" in the National Market Listing.

	1994 Dividend Paid	1995 Dividend Paid	Fiscal Year 1994 Low	Fiscal Year 1994 High	Fiscal Year 1995 Low	Fiscal Year 1995 High
First quarter	N/A	$.075	$14.25	$17.00	$14.25	$16.00
Second quarter	N/A	$.075	$13.25	$15.75	$14.25	$16.25
Third quarter	N/A	$.075	$13.00	$15.00	$14.25	$17.50
Fourth quarter	N/A	$.075	$14.25	$16.50	$17.38	$21.75

As of September 30, 1995, there were 1,794,025 shares of common stock outstanding which were held by 346 stockholders of record, and 176,094 shares subject to outstanding options. The stockholders of record number does not reflect the persons or entities who hold their stock in nominee or "street" name.

As of September 30, 1995, the following securities firms indicated they were acting as market makers for First Midwest Financial, Inc., stock:

Herzog, Heine, Geduld, Inc.
John G. Kinnard & Co., Inc.
Kemper Securities Group Inc.
Mayer & Schweitzer Inc.
Piper Jaffray Companies Inc.
Robert W. Baird & Co., Inc.
Sterne, Agee & Leach
Howe, Barnes & Johnson, Inc.

FIRST MIDWEST FINANCIAL, INC.

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