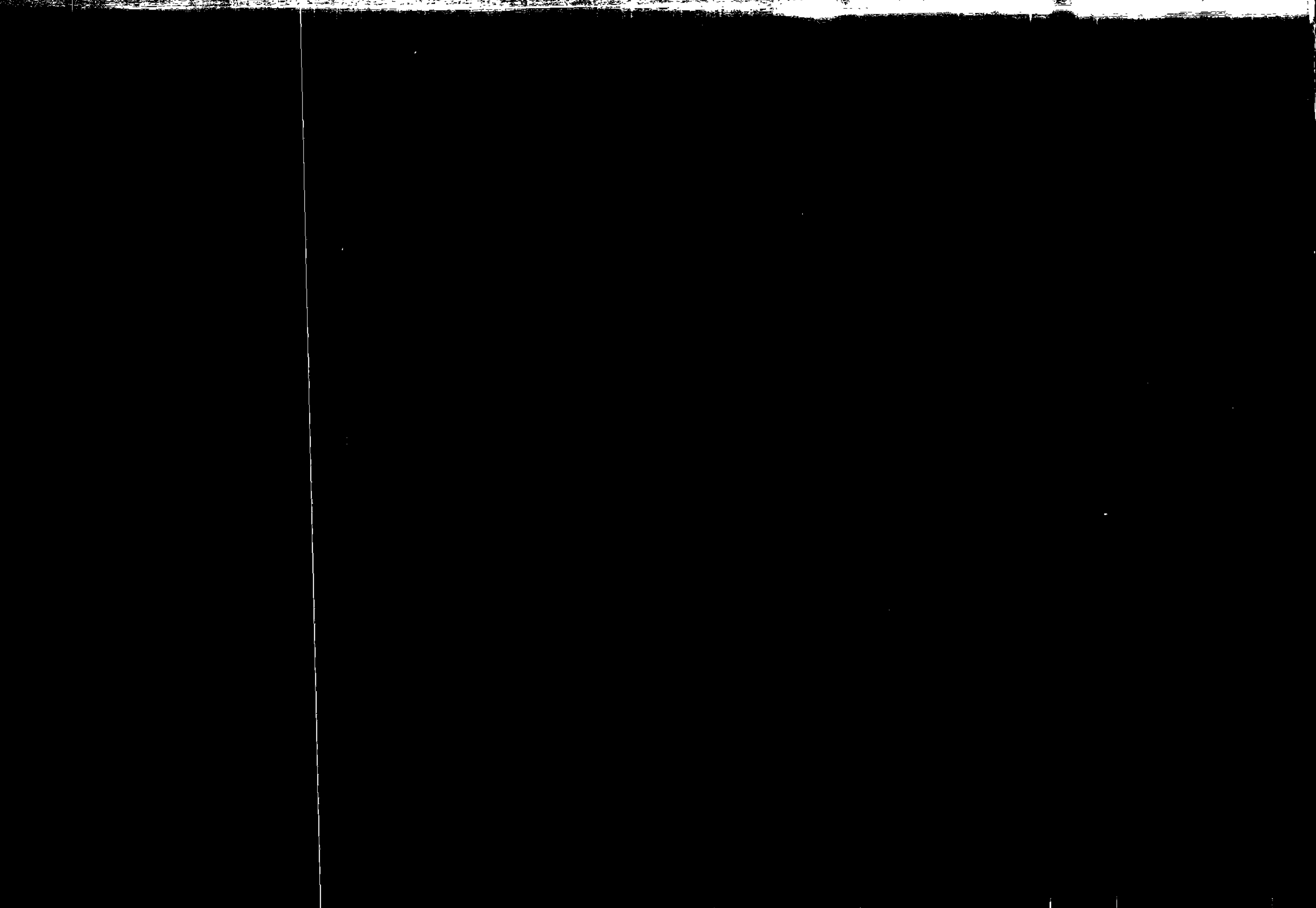
First Midwest Financial, Inc.

1997



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

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

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

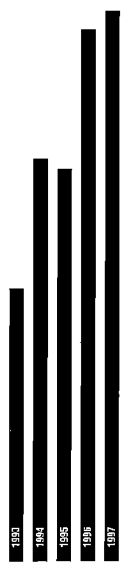
PrimeVest Investment Center, operating through Brookings Service Corporation, a subsidiary of First Services, offers full service brokerage and a wide range of noninsured investment products.

1997
ANNUAL REPORT

Financial Highlights

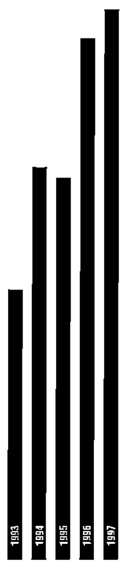
At September 30	1993	1994	1995	1996	1997
			(Dollars in Thousands except Per Share Data)		
Total assets	$160,827	$274,115	$264,213	$388,008	$404,589
Total loans	80,224	155,497	178,552	243,534	254,641
Total deposits	122,813	176,167	171,793	233,406	246,116
Stockholders' equity	33,438	34,683	38,013	43,210	43,477
Book value per common share[1]	$ 11.21	$ 12.46	$ 14.13	$ 14.81	$ 16.11
Total equity to assets	20.79%	12.65%	14.39%	11.14%	10.75%

For the Fiscal Year	1993	1994	1995	1996	1997
			(Dollars in Thousands except Per Share Data)		
Net interest income	$ 5,077	$ 7,870	$ 9,405	$ 10,359	$ 11,946
Net income	1,352	2,729	3,544	2,414[3]	3,642
Net income per share[1]	$ 0.44[2]	$ 0.91	$ 1.33	$ 0.89[3]	$ 1.27
Net yield on interest-earning assets	3.21%	3.94%	3.63%	3.47%	3.38%
Return on average assets	.84%	1.29%	1.31%	.76%[3]	.98%
Return on average equity	7.10%	7.89%	9.86%	6.18%[3]	8.41%

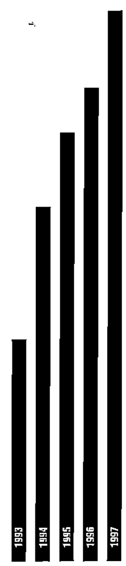


Total Assets

Net Income



Total Deposits



Net Interest Income

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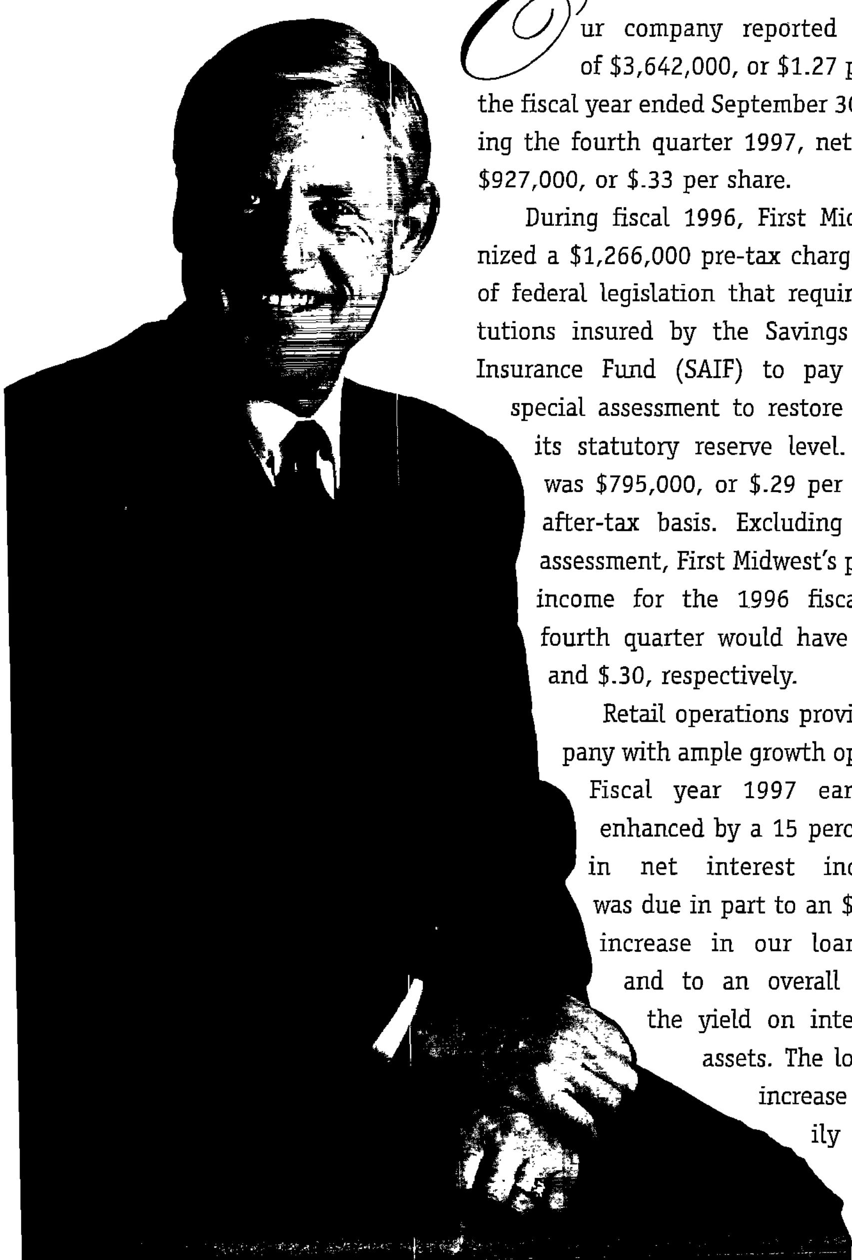
[1] Amounts reported have been adjusted for the three for two stock split paid January 2, 1997 in the form of a 50 percent stock dividend.
[2] Net income per share is based on the assumption that the weighted average shares outstanding at September 30, 1993, were outstanding the entire year.
[3] Reflects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

Chairman's Letter — To Our Stockholders

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



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

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

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

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

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

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

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

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

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

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

CUSTOMER SERVICE

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

We strive to:

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

CONTINUOUS IMPROVEMENT

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

We strive to:

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

GREAT WORK ENVIRONMENT

Team work is instrumental to our success.

We strive to:

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

RESULTS

We are results and goal-oriented.

We strive to:

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

LOOKING AHEAD

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

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

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

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

Sincerely,

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

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

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

Fred A. Stevens
President and Trust Officer
Storm Lake Division of
First Federal Savings
Bank of the Midwest

ECONOMIC DATA

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

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

Taxable Retail Sales 1996
Storm Lake — $111,123,460

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

First Federal's dedication to the company values has given employees a renewed focus on "doing the right things right" in their everyday work. Accountability has increased as employees utilize development plans focused on goals and performance relating to the company values. The First Federal team is committed to profitable growth and improved efficiency.

The Main Bank Office houses many companywide administrative functions. Centralized account services, marketing, purchasing, computer systems, and other functions are improving internal and external customer service, enhancing communication, and reducing expenses.

First Federal offers all types of loans, with an increased emphasis on consumer and agricultural lending. Financing for start-up and existing operations of any size is available. Home lending for purchase, new construction, refinancing, and home improvements provide a valuable cross-selling link to other bank products and services.

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

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

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

DIRECTORS OF FIRST FEDERAL SAVINGS BANK OF THE MIDWEST

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

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

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

E. Thurman Gaskill
Owner, Grain Farming Operation
Corwith, Iowa

G. Mark Mickelson
Vice President of Acquisitions, Northwestern Growth Corporation, Sioux Falls, South Dakota

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

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

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

ECONOMIC DATA

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

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

Taxable Retail Sales 1996
Brookings — $144,939,780

Unemployment Rate as of June, 1997
Brookings — 1.7%

Agricultural lending significantly impacted the division's overall loan portfolio growth in 1997. A focused marketing approach, competitive loan structuring, and an experienced team of lending professionals provide the groundwork for agricultural growth.

Consumer and mortgage lending also prove to be expanding areas for Brookings Federal. With loan discounts tied to Timeless Checking accounts, cross-selling is a successful component of relationship banking. Various types of mortgage loans are available to customers, including construction loans, Federal National Mortgage Association fixed-rate mortgages, and adjustable-rate mortgages. Brookings Federal is involved with special assistance lending and can provide first-time home buyers and low-income borrowers with a low-interest South Dakota Housing Development Authority loan.

Since its introduction in 1993, Timeless Checking has significantly increased Brookings Federal's checking deposits. Because of this growth and the accounts' ability to provide packaged value and brand recognition to customers, all divisions under First Midwest Financial, Inc. introduced Timeless Checking this fall. The *QUICKcard* Cash & Check is a complementary product of Timeless Checking.

Brookings Federal is finalizing plans to remodel its main office and expand branch hours to provide better service to its customers. In addition to updated facilities, customers will appreciate a new automated teller machine

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

and future product introductions. "This is an exciting time for us," states President Jim Winterboer. "We continue to embrace change and search for opportunities to better serve our customers."

As well as offering traditional banking services, Brookings Service Corporation provides customers with a wide range of alternative investing opportunities. PrimeVest Investment Center, operating through Brookings Service Corporation (a subsidiary of First Services Financial Limited), teams with Brookings Federal Bank to support customers' expanding financial needs. These products are not FDIC insured nor guaranteed by First Federal or any affiliates.

BROOKINGS FEDERAL BANK ADVISORY BOARD

O. Dale Larson
Chairman of the Advisory Board
Owner, Larson Manufacturing

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

Virgil G. Ellerbruch
Assistant Dean of Engineering,
South Dakota State University

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

Earl R. Rue
Consulting Manager, Running Fleet and Farm

James C. Winterboer
President, Brookings Federal Bank

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

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

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

Jeanne Partlow
President
Iowa Savings Bank Division of First Federal Savings Bank of the Midwest

ECONOMIC DATA

Average Land Value as of September, 1997
High-quality farmland in central Iowa: $2,724 per acre

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

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

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

The original Iowa Savings Bank office, located in the historic Highland Park area of Des Moines since 1925, continues as an established, growing branch. Loyal Des Moines and West Des Moines customers are pleased to have the convenience two locations provide.

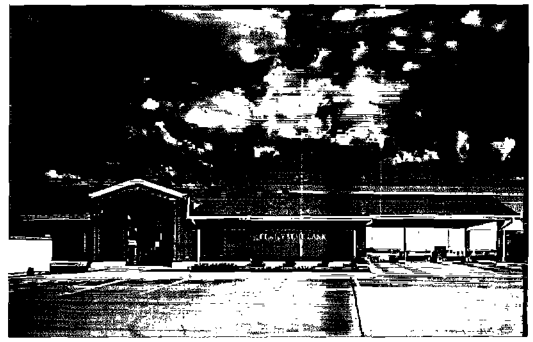
Iowa Savings Bank made a significant contribution to First Midwest's deposit growth this past year. During the first companywide certificate of deposit "Summer CD Celebration" promotion, Iowa Savings Bank produced several million dollars in new money toward deposit growth. This gain in deposits allowed for an increase in First Midwest's loan portfolio.

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

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

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

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



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

ECONOMIC DATA

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

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

Taxable Retail Sales 1996
Stuart — $7,736,939

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

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

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

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

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

DIRECTORS OF SECURITY STATE BANK

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

Jeffrey N. Bump
Partner, Bump and Bump Law Offices
Stuart and Panora, Iowa

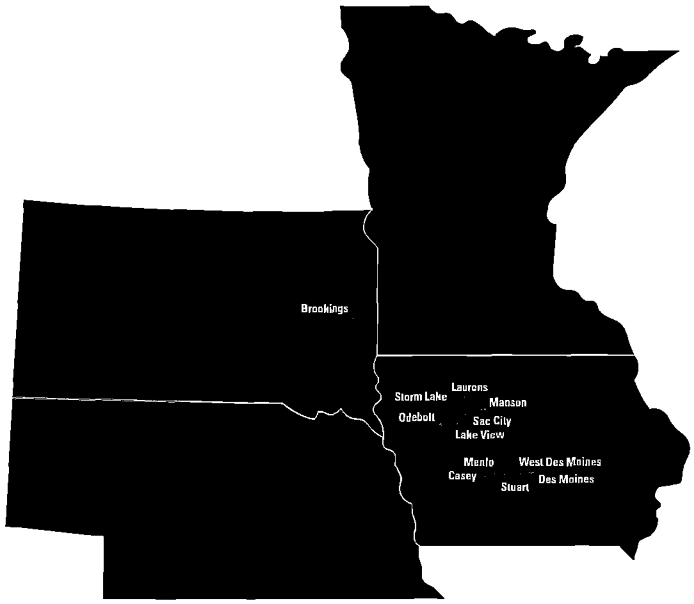
E. Wayne Cooley
Executive Secretary, Iowa Girls' High School Athletic Union, Des Moines, Iowa

E. Thurman Gaskill
Owner, Grain Farming Operation
Corwith, Iowa

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

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

Bank Locations



First Federal Savings Bank of the Midwest

Office Locations

STORM LAKE DIVISION

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

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

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

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

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

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

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

BROOKINGS FEDERAL BANK DIVISION

Main Office
600 Main Avenue
Brookings, South Dakota 57006
605-692-2314
800-842-7452

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

IOWA SAVINGS BANK DIVISION

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

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

Security State Bank

Office Locations

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

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

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

Financial Contents

First Midwest Financial, Inc. and Subsidiaries

SELECTED CONSOLIDATED FINANCIAL INFORMATION

September 30, (In Thousands)	1997	1996	1995	1994	1993
Selected Financial Condition Data:					
Total assets	$ 404,589	$ 388,008	$ 264,213	$ 274,115	$ 160,827
Loans receivable, net	254,641	243,534	178,552	155,497	80,224
Securities available for sale	115,985	109,492	70,232	37,180	20
Securities held to maturity	—	—	—	65,917	56,085
Excess of cost over net assets acquired, net	4,863	5,091	1,690	1,815	—
Deposits	246,116	233,406	171,793	176,167	122,813
Total borrowings	112,126	106,478	52,248	61,218	3,115
Shareholders' equity	43,477	43,210	38,013	34,683	33,438

Year Ended September 30, (In Thousands, Except Per Share Data)	1997	1996	1995	1994	1993
Selected Operations Data:					
Total interest income	$ 29,005	$ 24,337	$ 21,054	$ 15,153	$ 11,586
Total interest expense	17,059	13,978	11,649	7,283	6,509
Net interest income	11,946	10,359	9,405	7,870	5,077
Provision for loan losses	120	100	250	105	225
Net interest income after provision for loan losses	11,826	10,259	9,155	7,765	4,852
Total noninterest income	1,700	1,419	2,286	1,078	1,555
Total noninterest expense	7,382	7,568[3]	5,576	4,938	3,725
Income before income taxes, extraordinary items and cumulative effect of changes in accounting principles	6,144	4,110	5,865	3,905	2,682
Income tax expense	2,502	1,696	2,321	1,433	1,045
Extraordinary items — net of taxes	—	—	—	—	(285)
Cumulative effect of changes in accounting principles	—	—	—	257	—
Net income	$ 3,642	$ 2,414[3]	$ 3,544	$ 2,729	$ 1,352
Earnings per share (fully diluted):					
Income before extraordinary items and cumulative effect of changes in accounting principles[1]	$ 1.27	$ 0.89[3]	$ 1.33	$ 0.83	$ 0.53
Net income[1]	$ 1.27	$ 0.89[3]	$ 1.33	$ 0.91	$ 0.44

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

[1] Amounts reported have been adjusted for the three for two stock split paid January 2, 1997 in the form of a 50% stock dividend.
[2] Return on assets and return on equity for fiscal year 1994 is 1.17% and 7.54%, respectively, excluding the cumulative effects of changes in accounting principles.
[3] Reflects the one-time industry-wide special assessment to recapitalize the Savings Association Insurance Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General

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

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

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

Acquisitions Completed

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

On December 29, 1995, First Midwest completed the acquisition of Iowa Bancorp, Inc. ("Iowa Bancorp"), and its wholly-owned subsidiary, Iowa Savings Bank, a federal savings bank, ("Iowa Savings") located in Des Moines, Iowa. Upon acquisition, Iowa Bancorp was merged into the Company and Iowa Savings was merged into First Federal. The two Iowa Savings offices operate as the Iowa Savings Bank Division of First Federal Savings Bank of the Midwest. At the date of acquisition, Iowa Bancorp had assets of approximately $25 million and equity of $7.2 million. The Company purchased all of Iowa Bancorp's 379,980 outstanding shares and 36,537 shares subject to option for a cash payment of $20.39 per share less the exercise price of shares subject to option, for a total net purchase price of $8.0 million. The acquisition was accounted for as a purchase, and the accompanying consolidated financial statements reflect the combined results since the date of acquisition. The excess of cost over the estimated fair value of the assets acquired and liabilities assumed, totaling approximately $760,000, is being amortized over a fifteen year period (see Notes 1 and 2 to the Consolidated Financial Statements).

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

Financial Condition

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

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

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

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

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

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

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

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

Results of Operations

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

The Company's results of operations are primarily dependent on net interest income, noninterest income and the Company's ability to manage operating expenses. Net interest income is a function of the difference, or spread, between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. The Company, like other financial institutions, is subject to interest rate risk to the extent that its interest-earning assets mature or reprice at different times, or on a different basis, than its interest-bearing liabilities.

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

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

The following table sets forth the weighted average effective interest rate on interest-earning assets and interest-bearing liabilities at the end of each of the years presented.

At September 30,	1997	1996	1995
Weighted Average Yield On:			
Loans receivable	8.84%	8.74%	8.58%
Mortgage-backed securities	7.34	7.06	7.97
Securities available for sale	6.63	5.99	6.79
Other interest-earning assets	5.57	5.04	5.44
Combined weighted average yield on interest-earning assets	8.12	7.87	8.13
Weighted Average Rate Paid On:			
Demand, NOW deposits and Money Market	2.11	2.35	2.55
Savings deposits	3.65	3.22	3.00
Time deposits	5.87	5.78	5.80
FHLB advances	5.86	5.81	6.14
Other borrowed money	5.64	5.48	5.75
Combined weighted average rate paid on interest-bearing liabilities	5.37	5.03	5.28
Spread	2.75%	2.84%	2.85%

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase related to higher outstanding balances and that due to the levels and volatility of interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by old rate) and (ii) changes in rate (i.e., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

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

First Midwest Financial, Inc. and Subsidiaries

Average Balances, Interest Rates and Yields

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

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

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

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

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

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

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

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

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

Provision for Loan Losses The provision for loan losses for the year ended September 30, 1997 was $120,000 compared to $100,000 for the same period in 1996. Management believes, based on review of historic loan losses, current economic conditions, and other factors, that the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate reserve against potential losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company's determination of the allowance for loan losses is subject to review by the regulatory agencies, which can require the establishment of additional general or specific allowances.

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

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

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

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

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

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

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

Interest Income Interest income for the year ended September 30, 1996 increased $3.28 million, or 15.6%, to $24.34 million from $21.05 million for the same period in 1995. The increase is primarily due to a $4.80 million increase in interest earned on the loan portfolio, to $18.57 million for the year ended September 30, 1996, from $13.77 million in 1995. The increase in loan interest income resulted from higher average loan portfolio balances due to internal growth of the loan portfolio and the acquisition of Iowa Bancorp and, to a lesser extent, to a higher average yield on the loan portfolio during the period. Interest income from mortgage-backed securities declined $1.38 million for the year ended September 30, 1996 to $2.52 million from $3.90 million in 1995 due primarily to the reduction in the average portfolio balance during the period.

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

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

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

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

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

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

Asset/Liability Management

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

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

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

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

The Company emphasizes and promotes its savings, money market, demand and NOW accounts and, subject to market conditions, certificates of deposit with maturities of six months through five years, principally from its primary market area. The savings and NOW accounts tend to be less susceptible to rapid changes in interest rates.

In managing its asset/liability mix, the Company, at times, depending on the relationship between long- and short-term interest rates, market conditions and consumer preference, may place somewhat greater emphasis on maximizing its net interest margin than on strictly matching the interest rate sensitivity of its assets and liabilities. Management believes that the increased net income which may result from an acceptable mismatch in the actual maturity or repricing of its asset and liability portfolios can, during periods of declining or stable interest rates, provide sufficient returns to justify the increased exposure to sudden and unexpected increases in interest rates which may result from such a mismatch. The Company has established limits, which may change from time to time, on the level of acceptable interest rate risk. There can be no assurance, however, that in the event of an adverse change in interest rates the Company's efforts to limit interest rate risk will be successful.

Asset/Liability Management (continued)

Net Portfolio Value The Office of Thrift Supervision ("OTS") provides a Net Portfolio Value ("NPV") approach to the quantification of interest rate risk for thrift institutions such as First Federal. This approach calculates the difference between the present value of expected cash flows from assets and the present value of expected cash flows from liabilities, as well as cash flows from off-balance-sheet contracts. Management of First Federal's assets and liabilities is performed within the context of the marketplace, but also within limits established by the Board of Directors on the amount of change in NPV which is acceptable given certain interest rate changes.

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

Presented below, as of September 30, 1997, is an analysis of First Federal's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 400 basis points, in accordance with OTS regulations. As illustrated in the table, First Federal's NPV is more sensitive to rising rate changes than declining rates. This occurs primarily because, as rates rise, the market value of fixed-rate loans declines due to both the rate increase and slowing prepayments. When rates decline, First Federal does not experience a significant rise in market value for these loans because borrowers prepay at relatively higher rates. The value of First Federal's deposits and borrowings change in approximately the same proportion in rising and falling rate scenarios.

At September 30, 1997

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

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

Certain shortcomings are inherent in the method of analysis presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets such as adjustable-rate mortgage loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayments and early withdrawal levels would likely deviate from those assumed in calculating the tables. Finally, the ability of some borrowers to service their debt may decrease in the event of an interest rate increase. First Federal considers all of these factors in monitoring its exposure to interest rate risk.

Asset/Liability Management (continued)

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

At September 30, 1997 (Dollars in thousands)

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

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

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

Federal regulations require First Federal to maintain minimum levels of liquid assets. Currently, First Federal is required to maintain liquid assets of at least 5% of the average daily balance of net withdrawable savings deposits and borrowings payable on demand in one year or less during the preceding calendar month, of which short-term liquid assets must comprise not less than 1%. Liquid assets for purposes of this ratio include cash, certain time deposits, U.S. Government, governmental agency and corporate securities and obligations generally having remaining terms to maturity of less than five years, unless otherwise pledged. First Federal has historically maintained its liquidity ratio at levels in excess of those required. First Federal's regulatory liquidity ratios were 9.8%, 5.4% and 12.2% at September 30, 1997, 1996 and 1995, respectively.

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

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

Liquidity and Sources of Funds (continued)
1995, respectively. During the years ended September 30, 1997, 1996 and 1995, the Company purchased mortgage-backed securities and other securities in the amount of $67.6 million, $121.0 million and $43.5 million, respectively.

At September 30, 1997, the Company had outstanding commitments to originate and purchase loans of $15.8 million. Certificates of deposit scheduled to mature in one year or less from September 30, 1997 total $118.1 million. Based on its historical experience, management believes that a significant portion of such deposits will remain with the Company, however, there can be no assurance that the Company can retain all such deposits. Management believes, however, that loan repayment and other sources of funds will be adequate to meet the Company's foreseeable short- and long-term liquidity needs.

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

On September 20, 1993, the Bank converted from a federally chartered mutual savings and loan association to a federally chartered stock savings bank. At that time, a liquidation account was established for the benefit of eligible account holders who continue to maintain their account with the Bank after the conversion. The liquidation account is reduced annually to the extent that eligible account holders have reduced their qualifying deposits. At September 30, 1997, the liquidation account approximated $3.2 million.

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

Impact of Inflation and Changing Prices The Consolidated Financial Statements and Notes thereto presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, virtually all the assets and liabilities of the Company are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction, or to the same extent, as the prices of goods and services.

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

SFAS No. 128, *"Earnings Per Share,"* revises the accounting requirements for calculating earnings per share. Basic earnings per share for the quarter ended December 31, 1997 and later will be calculated solely on average common shares outstanding. Diluted earnings per share will reflect the potential dilution effect of stock options and other common stock equivalents. All prior calculations will be restated to be comparable to the new methods. As the Company has dilution from stock options, the new calculation methods will increase basic earnings per share over what otherwise would have been reported as primary earnings per share, while there will be little effect on fully diluted earnings per share.

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

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

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of First Midwest Financial, Inc. and Subsidiaries (the "Company") as of September 30, 1997 and 1996 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of the Company for the year ended September 30, 1995 were audited by other auditors whose report dated November 17, 1995 expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 1997 and 1996 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

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

First Midwest Financial, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

September 30, 1997 and 1996

Assets	1997	1996
Cash and due from banks	$ 875,169	$ 736,979
Interest-bearing deposits in other financial institutions - short-term	10,709,907	4,743,636
Federal funds sold	1,267,350	8,848,037
Total cash and cash equivalents	12,852,426	14,328,652
Interest-bearing deposits in other financial institutions (cost approximates market value)	200,000	300,000
Securities available for sale	115,985,045	109,491,558
Loans receivable, net of allowance for loan losses of $2,379,091 in 1997 and $2,356,113 in 1996	254,640,971	243,533,519
Federal Home Loan Bank (FHLB) stock, at cost	5,629,300	5,524,700
Accrued interest receivable	5,366,109	5,029,047
Premises and equipment, net	4,176,311	3,680,332
Foreclosed real estate, net of allowances of $-0- in 1997 and $5,000 in 1996	156,300	86,818
Other assets	5,582,116	6,033,672
Total assets	$404,588,578	$388,008,298
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing demand deposits	$ 5,572,296	$ 5,452,911
Savings, NOW and money market demand deposits	49,838,735	49,358,478
Other time certificates of deposit	190,704,667	178,594,337
Total deposits	246,115,698	233,405,726
Advances from FHLB	107,426,225	102,287,803
Securities sold under agreements to repurchase	1,800,000	2,789,918
Other borrowings	2,900,000	1,400,000
Advances from borrowers for taxes and insurance	449,487	490,243
Accrued interest payable	1,065,746	1,271,465
Accrued expenses and other liabilities	1,354,418	3,153,441
Total liabilities	361,111,574	344,798,596
Shareholders' Equity		
Preferred stock, 800,000 shares authorized; none issued	-	-
Common stock, $.01 par value; 5,200,000 shares authorized; 2,957,999 shares issued and 2,698,904 shares outstanding at September 30, 1997; 1,990,495 shares issued and 1,945,735 shares outstanding at September 30, 1996	29,580	19,905
Additional paid-in capital	20,984,754	20,862,551
Retained earnings - substantially restricted	26,427,657	23,748,383
Net unrealized appreciation on securities available for sale, net of tax of $568,013 in 1997 and $18,324 in 1996	960,371	28,698
Unearned Employee Stock Ownership Plan shares	(567,200)	(767,200)
Treasury stock, 259,095 and 44,760 common shares, at cost, at September 30, 1997 and 1996, respectively	(4,358,158)	(682,635)
Total shareholders' equity	43,477,004	43,209,702
Total liabilities and shareholders' equity	$404,588,578	$388,008,298

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

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

Years ended September 30, 1997, 1996 and 1995

	1997	1996	1995
Interest and dividend income			
Loans receivable, including fees	$ 22,432,828	$ 18,567,097	$ 13,768,064
Securities available for sale	6,185,385	5,437,734	7,015,145
Dividends on FHLB stock	386,462	332,634	270,261
	29,004,675	24,337,465	21,053,470
Interest expense			
Deposits	11,982,913	9,766,586	8,245,227
FHLB advances and other borrowings	5,076,144	4,212,024	3,403,497
	17,059,057	13,978,610	11,648,724
Net interest income	11,945,618	10,358,855	9,404,746
Provision for loan losses	120,000	100,000	250,000
Net interest income after provision for loan losses	11,825,618	10,258,855	9,154,746
Noninterest income			
Loan fees and service charges	1,108,233	830,256	712,345
Gain on sales of securities available for sale, net	216,614	79,317	1,070,247
Gain (loss) on sales of foreclosed real estate, net	(6,722)	(8,630)	-
Brokerage commissions	69,379	292,189	297,777
Other income	313,168	226,163	206,101
	1,700,672	1,419,295	2,286,470
Noninterest expense			
Employee compensation and benefits	4,341,038	3,732,839	3,400,190
Occupancy and equipment expense	1,006,190	668,784	432,571
SAIF deposit insurance special assessment	-	1,265,996	-
SAIF deposit insurance premium	220,849	433,367	404,306
Data processing expense	321,369	289,390	291,961
Other expense	1,492,819	1,177,886	1,047,149
	7,382,265	7,568,262	5,576,177
Income before income taxes	6,144,025	4,109,888	5,865,039
Income tax expense	2,502,069	1,696,323	2,320,687
Net income	$ 3,641,956	$ 2,413,565	$ 3,544,352
Earnings per common and common equivalent share			
Primary and fully diluted:			
Net income	$ 1.27	$ .89	$ 1.33

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

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

Years ended September 30, 1997, 1996 and 1995

	Common Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized Appreciation (Depreciation) on Securities Available For Sale, Net of Tax	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance at October 1, 1994	$ 19,915	$18,955,192	$19,051,322	$ (86,964)	$(1,186,000)	$(2,070,177)	$34,683,288
Purchase of 61,712 common shares of treasury stock	-	-	-	-	-	(932,030)	(932,030)
32,820 common shares committed to be released under the ESOP	-	87,789	-	-	218,800	-	306,589
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under plan	-	267,064	-	-	-	-	267,064
Cash dividends declared on common stock ($.20 per share)	-	-	(515,095)	-	-	-	(515,095)
Net change in unrealized appreciation (depreciation) on securities available for sale, net of tax of $383,758	-	-	-	658,528	-	-	658,528
Net income for the year ended September 30, 1995	-	-	3,544,352	-	-	-	3,544,352
Balance at September 30, 1995	19,915	19,310,045	22,080,579	571,564	(967,200)	(3,002,207)	38,012,696
Purchase of 41,910 common shares of treasury stock	-	-	-	-	-	(630,710)	(630,710)
Retirement of 958 common shares	(10)	10	-	-	-	-	-
30,000 common shares committed to be released under the ESOP	-	303,524	-	-	200,000	-	503,524
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under the plan	-	168,120	-	-	-	-	168,120
Cash dividends declared on common stock ($.29 per share)	-	-	(745,761)	-	-	-	(745,761)
Issuance of 171,158 common shares from treasury stock in connection with acquisition of Central West Bancorporation	-	1,192,990	-	-	-	2,743,644	3,936,634
Issuance of 9,450 common shares from treasury stock due to exercise of stock options	-	(112,138)	-	-	-	206,638	94,500
Net change in unrealized appreciation (depreciation) on securities available for sale, net of tax of ($321,866)	-	-	-	(542,866)	-	-	(542,866)
Net income for the year ended September 30, 1996	-	-	2,413,565	-	-	-	2,413,565
Balance at September 30, 1996	19,905	20,862,551	23,748,383	28,698	(767,200)	(682,635)	43,209,702

FIRST MIDWEST FINANCIAL, INC.

December 15, 1997

Dear Fellow Stockholders:

On behalf of the Board of Directors and management of First Midwest Financial, Inc. ("First Midwest" or the "Company"), we cordially invite you to attend the Annual Meeting of Stockholders of the Company. The meeting will be held at 1:00 P.M. local time, on January 26, 1998 at the main office of the Company located at Fifth at Erie, Storm Lake, Iowa.

The attached Notice of Annual Meeting of Stockholders and Proxy Statement discusses the business to be conducted at the Meeting. We have also enclosed a copy of the Company's Annual Report to Stockholders. At the meeting we will report on the Company's operation and outlook for the year ahead.

We encourage you to attend the meeting in person. Whether or not you plan to attend, however, **please read the enclosed Proxy Statement and then complete, sign and date the enclosed proxy card and return it in the accompanying postpaid return envelope as promptly as possible**. This will save First Midwest the additional expense of soliciting proxies and will ensure that your shares are represented at the meeting.

Your Board of Directors and management are committed to the continued success of First Midwest Financial, Inc., and the enhancement of your investment. As Chairman of the Board, President and Chief Executive Officer, I want to express my appreciation for your confidence and support.

Very truly yours,

JAMES S. HAAHR
Chairman of the Board,
President and Chief Executive Officer

Fifth at Erie • P.O. Box 1307 • Storm Lake, Iowa 50588 • (712) 732-4117

FIRST MIDWEST FINANCIAL, INC.

Fifth at Erie
Storm Lake, Iowa 50588
(712) 732-4117

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be Held on January 26, 1998

Notice is hereby given that the Annual Meeting of Stockholders (the "Meeting") of First Midwest Financial, Inc. ("First Midwest" or the "Company") will be held at the main office of the Company located at Fifth at Erie, Storm Lake, Iowa on January 26, 1998 at 1:00 P.M. local time.

A Proxy Card and a Proxy Statement for the Meeting are enclosed.

The Meeting is for the purpose of considering and acting upon the election of two directors of the Company and such other matters as may properly come before the Meeting or any adjournments thereof. The Board of Directors is not aware of any other business to come before the Meeting.

Any action may be taken on the foregoing proposal at the Meeting on the date specified above, or on any date or dates to which the Meeting may be adjourned. Stockholders of record at the close of business on December 1, 1997 are the stockholders entitled to vote at the Meeting, and any adjournments thereof.

You are requested to complete and sign the enclosed Proxy Card which is solicited on behalf of the Board of Directors, and to mail it promptly in the enclosed envelope. The Proxy will not be used if you attend and vote at the Meeting in person.

By Order of the Board of Directors

JAMES S. HAAHR
Chairman of the Board, President and
Chief Executive Officer

Storm Lake, Iowa
December 15, 1997

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE THE COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES TO ENSURE A QUORUM AT THE MEETING. A PRE-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.

PROXY STATEMENT

FIRST MIDWEST FINANCIAL, INC.

Fifth at Erie
Storm Lake, Iowa 50588
(712) 732-4117

ANNUAL MEETING OF STOCKHOLDERS

January 26, 1998

This Proxy Statement is furnished in connection with the solicitation on behalf of the Board of Directors of First Midwest Financial, Inc. ("First Midwest," and with its subsidiaries, the "Company") of proxies to be used at the Annual Meeting of Stockholders of First Midwest (the "Meeting") which will be held at the main office of First Midwest located at Fifth at Erie, Storm Lake, Iowa on January 26, 1998 at 1:00 P.M. local time, and all adjournments of the Meeting. The accompanying Notice of Meeting, proxy and this Proxy Statement are first being mailed to stockholders on or about December 15, 1997. Certain information provided herein relates to First Federal Savings Bank of the Midwest ("First Federal") and Security State Bank ("Security", and when referred to with First Federal, the "Banks"), both of which are wholly owned subsidiaries of First Midwest.

At the Meeting, stockholders of the First Midwest are being asked to consider and vote upon the election of two directors.

Proxies and Proxy Solicitation

If a stockholder properly executes the enclosed proxy distributed by First Midwest, the proxies named will vote the shares represented by that proxy at the Meeting. Where a stockholder specifies a choice, the proxy will be voted in accordance with the stockholder's instructions. Where no specific direction is given, the proxies will vote the shares "FOR" the election of management's nominees for directors of First Midwest. As to any other matters presented at the Meeting, the shares for which proxies have been received will be voted in accordance with the discretion of the proxies.

Any proxy given pursuant to this solicitation or otherwise may be revoked by the stockholder giving it at any time before it is voted by delivering to the Secretary of First Midwest at the above address, on or before the taking of the vote at the Meeting, a written notice of revocation bearing a later date than the proxy or a later dated proxy relating to the same shares of common stock, par value $.01 per share, of First Midwest (the "Common Stock"), or by attending the Meeting and voting in person. Attendance at the Meeting will not in itself constitute the revocation of a proxy.

The cost of solicitation of proxies will be borne by First Midwest. First Midwest will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of Common Stock. In addition to solicitation by mail, directors, officers and employees of First Midwest and the Banks may solicit proxies personally or by facsimile, telegraph or telephone, without additional compensation.

Voting Rights; Vote Required

Stockholders of record as of the close of business on December 1, 1997 (the "Voting Record Date"), will be entitled to one vote on each matter presented for a vote at the Meeting for each share of Common Stock then held. Such vote may be exercised in person or by a properly executed proxy as discussed above. Directors shall be elected by a plurality of the shares present in person or represented by proxy at the Meeting and entitled to vote on the election of directors.

With regard to the election of directors, votes may be cast in favor of or withheld from each nominee; votes that are withheld will be excluded entirely from the vote and will have no effect. Abstentions may be specified on any other proposal except the election of directors and will be counted as present for purposes of the item on which the abstention is noted. A broker non-vote (*i.e.*, proxies from brokers or nominees indicating that such persons have not received instructions from the beneficial owners or other persons as to certain proposals on which such beneficial owners or persons are entitled to vote their shares but with respect to which the brokers or nominees have no discretionary power to vote without such instructions) will have no effect on the outcome of the election of directors. Brokers who do not receive instructions are entitled to vote on the election of directors.

Voting Securities and Principal Holders Thereof

As of the Voting Record Date, First Midwest had 2,696,889 shares of Common Stock outstanding. The following table sets forth information regarding share ownership of: (i) those persons or entities known by management to beneficially own more than five percent of First Midwest's Common Stock and (ii) all directors and officers as a group. See "Proposal I - Election of Directors" for information regarding share ownership of First Midwest's Chief Executive Officer and its Directors.

Beneficial Owners	Shares Beneficially Owned[1]	Percent of Class
First Midwest Financial, Inc.[2] Employee Stock Ownership Plan Fifth at Erie Storm Lake, Iowa 50588	220,825	8.19%
Mr. and Mrs. James S. Haahr[3] Fifth At Erie Storm Lake, Iowa 50588	276,045	9.77%
Directors and executive officers of First Midwest and the Bank as a group (9 persons)[4]	838,421	28.33%

(1) All amounts reported hereunder have been adjusted for the three for two stock split paid by First Midwest on January 2, 1997 in the form of a 50% stock dividend.

(2) The amount reported represents shares held by First Midwest Financial, Inc. Employee Stock Ownership Plan ("ESOP"), 135,745 shares of which were allocated to accounts of participants. West Des Moines State Bank, West Des Moines, Iowa, the trustee of the ESOP, may be deemed to beneficially own the shares held by the ESOP which have not been allocated to the accounts of participants.

(3) Mr. Haahr is the Chairman of the Board, President and Chief Executive Officer of First Midwest and the Banks. Mr. Haahr reported sole voting and investment power with respect to all 276,045 shares of Common Stock reported as beneficially owned by him. Included in the shares reported as beneficially owned by Mr. Haahr are options to purchase 129,532 shares of Common Stock.

(4) Includes shares held directly, as well as, jointly with family members or held by trusts, with respect to which shares the listed individuals or group members may be deemed to have sole or shared voting and investment power. Included in the shares reported as beneficially owned by all directors and executive officers are options to purchase 262,347 shares of Common Stock.

ELECTION OF DIRECTORS

General

The Board of Directors of First Midwest is currently composed of seven members and is divided into approximately three equal classes. Directors of First Midwest are generally elected to serve for a three-year term or until their respective successors are elected and qualified.

The following table sets forth certain information, as of the Voting Record Date, regarding the composition of First Midwest's Board of Directors, including each director's term of office. The Board of Directors acting as the nominating committee has recommended and approved the nominees identified in the following table. It is intended that the proxies solicited on behalf of the Board of Directors (other than proxies in which the vote is withheld as to a nominee) will be voted at the Meeting **FOR** the election of the nominees. If a nominee is unable to serve, the shares represented by all valid proxies will be voted for the election of such substitute nominee as the Board of Directors may recommend. At this time, the Board of Directors knows of no reason why any nominee may be unable to serve if elected. Except as disclosed herein, there are no arrangements or understandings between the nominee and any other person pursuant to which the nominee was selected.

Name	Age	Position(s) Held in First Midwest	Director Since(1)	Term to Expire	Shares of Common Stock Owned(2)	Percent of Class
		Nominees				
E. Wayne Cooley	75	Director	1985	2001	93,117	3.42%
J. Tyler Haahr(3)	34	Director, Senior Vice President, Secretary and Chief Operating Officer	1992	2001	44,421(4)	1.64%
		Directors Remaining in Office				
James S. Haahr(3)	58	Chairman of the Board, President and Chief Executive Officer	1962	2000	276,045	9.77%
G. Mark Mickelson	31	Director	1997	2000	1,000	0.04%
Jeanne Partlow	64	Director	1996	2000	4,485(5)	0.17%
E. Thurman Gaskill	62	Director	1982	1999	53,914(6)	1.98%
Rodney G. Muilenburg	53	Director	1989	1999	123,249	4.52%

(1) Includes service as a director of First Federal.

(2) The nature of beneficial ownership for shares reported in this column is sole voting and investment power, except as otherwise noted in these footnotes. All amounts reported hereunder have been adjusted for the three for two stock split paid by First Midwest on January 2, 1997 in the form of a 50% stock dividend. Included in the shares beneficially owned by the named individuals are options to purchase shares of Common Stock as follows: Mr. Cooley - 28,764 shares; Mr. J. Tyler Haahr - 9,291 shares; Mr. James S. Haahr - 129,532 shares; Mr. Gaskill - 26,264 shares; and Mr. Muilenburg - 28,764 shares.

(3) Director J. Tyler Haahr is the son of Chairman James S. Haahr.

(4) Includes 31,708 shares as to which Mr. J. Tyler Haahr has reported shared ownership.

(5) Includes 4,485 shares as to which Ms. Partlow has reported shared ownership.

(6) Includes 26,750 shares as to which Mr. Gaskill has reported shared ownership.

The principal occupation of each director of First Midwest and each of the nominees for director is set forth below. All directors and nominees have held their present position for at least five years unless otherwise indicated.

E. Wayne Cooley - Dr. Cooley has served as Executive Secretary of the Iowa Girls' High School Athletic Union in Des Moines, Iowa since 1954. In addition, Dr. Cooley serves as Executive Vice President of the Iowa High School Speech Association. He is also a member of the Drake Relays Executive Committee, and on the Board of Directors of the Women's College Basketball Association Hall of Fame. Dr. Cooley is a member of the Buena Vista University (formerly Buena Vista College) Board of Trustees. He has served as Chairman of the Iowa Heart Association and as Vice Chairman of the Iowa Games. Dr. Cooley is a 1943 graduate of Buena Vista College in Storm Lake, Iowa, and holds honorary doctorate degrees from Buena Vista University in Storm Lake, Iowa and Morningside College in Sioux City, Iowa.

J. Tyler Haahr - Mr. Haahr is Senior Vice President, Secretary and Chief Operating Officer of First Midwest Financial, Inc.; Executive Vice President, Secretary and Chief Operating Officer of First Federal Savings Bank of the Midwest; Vice President and Secretary of First Services Financial Limited and Brookings Service Corporation; and Secretary of Security State Bank. Mr. Haahr has been employed by First Midwest and its affiliates since March 1997. He was previously a partner with the law firm of Lewis and Roca LLP, Phoenix, Arizona, and had been with the firm since 1989. He is a member of the Arizona Bar Association, the Maricopa County Bar Association and the Arizona Association of Health Care Lawyers. Mr. Haahr is the Co-chair for Buena Vista University's 1997-98 Community Campaign Fund-raising. He is a member of the Fiesta Bowl Committee and was one of the founders of the Grand Canyon State Games. Mr. Haahr received his B.S. degree with honors in 1986 at the University of South Dakota in Vermillion, South Dakota. He graduated with honors from the Georgetown University Law Center, Washington, D.C., in May 1989. J. Tyler Haahr is the son of James S. Haahr, Chairman of the Board.

James S. Haahr - Mr. Haahr is the Chairman of the Board, President and Chief Executive Officer of First Midwest Financial Inc., a position he has held since June 1993. Mr. Haahr is also Chairman of the Board of First Federal Savings Bank of the Midwest since 1990 and President and Chief Executive Officer since 1974. Mr. Haahr serves as Chairman of the Board and Chief Executive Officer of Security State Bank. He is a member of the Board of Trustees of Buena Vista University. Mr. Haahr has served in various capacities since beginning his career with the Bank in 1961. He is a member of the Board of Directors of America's Community Bankers and a member of the Savings Association Insurance Fund Industry Advisory Committee. Mr. Haahr is a former Vice Chairman of the Board of Directors of the Federal Home Loan Bank of Des Moines, former Chairman of the Iowa League of Savings Institutions, and a former director of the U.S. League of Savings Institutions. Mr. Haahr received his B.S. degree in 1962 from Buena Vista College in Storm Lake, Iowa. James S. Haahr is the father of J. Tyler Haahr, a director and executive officer of the Company.

G. Mark Mickelson - G. Mark Mickelson has served as a Vice President (Acquisitions) for Northwestern Growth Corporation in Sioux Falls, South Dakota since November 1996. Northwestern Growth Corporation is the unregulated investment subsidiary of Northwestern Public Service (NYSE: NPS). Previously, Mr. Mickelson was employed as an executive officer of Hegg Companies in Sioux Falls, South Dakota. Mr. Mickelson received his undergraduate degree in Business Administration from the University of South Dakota in Vermillion, South Dakota in 1988. He graduated with high honors from Harvard Law School in 1993 and is also a Certified Public Accountant. Mr. Mickelson is involved in a number of local charities, including serving on the board of the Sioux Falls Y.M.C.A.

Jeanne Partlow - Mrs. Partlow is President of the Iowa Savings Bank Division of First Federal, located in Des Moines Iowa. She was President, Chief Executive Officer and Chairman of the Board of Iowa Savings Bank, F.S.B. from 1987 until it was acquired by and became a division of First Federal in December 1995. Mrs. Partlow is a past member of the Board of Directors of the Federal Home Loan Bank of Des Moines. She has over 30 years of bank management experience.

E. Thurman Gaskill - Since 1958, Mr. Gaskill has owned and operated a grain farming operation located near Corwith, Iowa. Mr. Gaskill has served as a commissioner with the Iowa Department of Economic Development and also as a commissioner with the Iowa Department of Natural Resources. He has served as President of the National Corn Growers Association, Chairman of the United States Feed Grains Council and in numerous other agricultural positions. Recognized for his outstanding contributions to the industry, he has been named to the Agricultural Hall of Fame at Iowa State University in Ames, Iowa.

Rodney G. Muilenburg - Mr. Muilenburg is employed as a dairy specialist with Purina Mills, Inc., and supervises the sale of agricultural products in a region which encompasses northwest Iowa, northeast Nebraska, eastern South Dakota and southwest Minnesota. Mr. Muilenburg has been a member of Purina Mills' General Sales Advisory Board since 1986. In 1991 he was certified by Purina Mills in Agri-business management. Mr. Muilenburg received a B.A. degree in Biological Science from Northwestern College, Orange City, Iowa in 1966; an M.A. degree in secondary school education from Mankato State University, Mankato, Minnesota in 1973; and a specialist degree in secondary school administration from Mankato State University, Mankato, Minnesota in 1975.

Meetings and Committees of the Boards of Directors

Meetings and Committees of First Midwest. Meetings of the Board of Directors are generally held on a monthly basis. The Board of Directors met 12 times during fiscal 1997. During fiscal 1997, no incumbent director of First Midwest attended fewer than 75% of the aggregate of the total number of Board meetings and the total number of meetings held by the committees of the Board of Directors on which they served.

The Board of Directors of First Midwest has standing Audit-Compensation/Personnel ("ACP") and Stock Option Committees. First Midwest does not have a standing executive committee.

The ACP Committee recommends the selection of independent auditors to the Board, reviews the results of the auditors' services, reviews with management and the internal auditors the systems of internal control and internal audit reports and assures that the books and records of the Company are kept in accordance with applicable accounting principles and standards. In addition, the committee meets annually to make salary recommendations and administer the Recognition and Retention Plan. The members of the ACP Committee are Directors Cooley, Gaskill and Muilenburg. This Committee met three times during fiscal 1997.

The Stock Option Committee is composed of Directors Cooley, Mickelson and Muilenburg. This committee is responsible for administering First Midwest's 1993 and 1995 Stock Option and Incentive Plans (collectively, the "Stock Option Plans"). This committee met twice during fiscal 1997.

The entire Board of Directors acts as a nominating committee for selecting nominees for election as directors. Nominations of persons for election to the Board of Directors may be made only by or at the direction of the Board of Directors or by any stockholder entitled to vote for the election of directors who complies with the notice procedures set forth in the Bylaws of First Midwest. Pursuant to the Bylaws, nominations by stockholders must be delivered in writing to the Secretary of First Midwest at least 30 days prior to the date of the annual meeting.

Directors Fees

During fiscal 1997 all directors of First Midwest received a retainer fee of $3,000 per year. The directors of First Midwest (except for Director Partlow) also serve as directors of either one or both of the Banks. Non-employee directors of First Federal were paid a fee of $6,000 per year plus $500 for each regular meeting attended, and $200 for each committee meeting attended, with the exception of the Nominating Committee members, who receive no fee for service on such committee. Non-employee directors of Security were paid a fee of $300 for each regular meeting attended and $100 for each committee meeting attended, with the exception of the Nominating Committee members, who receive no fee for service on such committee. Board members who are employees of the Banks received no fee for their service on the Banks' Boards, or their respective committees.

Executive Compensation

The following table sets forth information regarding the compensation of First Midwest's Chief Executive Officer and each other executive officer of the Company whose aggregate salary and bonus exceeded $100,000 during fiscal 1997 (collectively, the "Named Officers").

SUMMARY COMPENSATION TABLE

	Annual Compensation				Long Term Compensation Awards		
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Award(s) ($)	Options/ SARs (#)	All Other Compensation ($)
James S. Haahr	1997	$180,000[1]	$56,000	---	---	5,250	$ 33,011[2]
Chairman of the Board, President and Chief Executive Officer	1996	180,000[1]	45,500	---	---	23,250	24,883
	1995	155,000[1]	30,000	---	---	1,575	40,328
J. Tyler Haahr[3]	1997	80,662[4]	22,400	$35,587[5]	---	39,600	887[6]
Senior Vice President, Chief Operating Officer and Secretary							
Fred A. Stevens	1997	105,000	33,600	---	---	3,150	21,277[7]
President of Storm Lake Division of First Federal	1996	105,000	27,300	---	---	5,025	15,519
	1995	97,000	19,400	---	---	1,018	25,379
Donald J. Winchell	1997	103,000	32,960	---	---	3,090	20,754[8]
Vice President, Chief Financial Officer and Treasurer	1996	103,000	26,780	---	---	10,215	14,949
	1995	90,000	18,000	---	---	945	23,503

(Footnotes begin on next page.)

(1) Includes $2,000 of compensation deferred in fiscal 1995 ,1996 and 1997 pursuant to the deferred compensation agreement entered into in 1980 between Mr. Haahr and First Federal and $3,000 paid to Mr. Haahr in fiscal 1995, 1996 and 1997 for service as a director of the Company.

(2) Includes contributions by First Federal on behalf of Mr. Haahr for fiscal 1997 of $23,096 under the ESOP and $9,159 under First Federal's Benefit Equalization Plan. This amount also includes $756 of life insurance premiums paid on behalf of Mr. Haahr by First Federal for fiscal 1997.

(3) Mr. Haahr joined the Company as an employee in March 1997.

(4) Includes $3,000 paid to Mr. Haahr for service as a director of the Company and $8,200 paid to Mr. Haahr for service as a director of the Banks during fiscal 1997.

(5) Includes $10,634 in reimbursed relocation expenses and $24,688 in real estate fees paid on the sale of Mr. Haahr's residence in connection with his employment with the Company. No other amounts required to be reported hereunder individually exceeds 25% of the value of the total amount reported.

(6) Includes $252 of life insurance premiums paid on behalf of Mr. Haahr by First Federal and $635 of sales commissions earned by Mr. Haahr.

(7) Includes contributions by First Federal on behalf of Mr. Stevens for fiscal 1997 of $20,823 under the ESOP and $454 of life insurance premiums.

(8) Includes contributions by First Federal on behalf of Mr. Winchell for fiscal 1997 of $20,309 under the ESOP and $445 of life insurance premiums.

The following table sets forth certain information concerning stock options granted during fiscal 1997 to the Named Officers.

OPTION GRANTS IN LAST FISCAL YEAR

Individual Grants[1]					Potential Realizable Value at Assumed Annual Rates of Stock Appreciation for Option Terms[2]	
Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	5% ($)	10% ($)
James S. Haahr	5,250	7.5%	$20.125	09-30-07	$ 66,439	$ 168,394
J. Tyler Haahr	37,500	53.6	17.375	03-25-07	409,688	1,038,563
	2,100	3.0	20.125	09-30-07	26,576	67,358
Fred A. Stevens	3,150	4.5	20.125	09-30-07	39,863	101,036
Donald J. Winchell	3,090	4.4	20.125	09-30-07	39,104	99,112

(1) All the options set forth in this table vested as of the date of the grant, except for the options to purchase 37,500 shares of Common Stock granted to J. Tyler Haahr which vest in four equal annual installments commencing March 25, 1998.

(2) Represents the potential realizable value of the option grant assuming that the market price of the underlying security appreciates in value from the date of the grant to the end of the option term (10 years) at the annualized rates as set forth in the table above.

The following table provides information as to the value of the options held by the Named Officers on September 30, 1997. To date, no stock appreciation rights have been granted by First Midwest.

AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Unexercised Options at FY-End (#) Exercisable (#)	Unexercisable (#)	Value of Unexercised In-the-Money Options at FY-End ($)[1] Exercisable ($)	Unexercisable ($)
James S. Haahr	3,000	$28,250	131,632	---	$1,485,950	---
J. Tyler Haahr	21,573	203,145	9,291	37,500	96,779	$103,125
Fred A. Stevens	3,300	31,625	18,400	---	153,653	---
Donald J. Winchell	2,100	19,775	24,732	---	194,710	---

(1) Represents the aggregate market value (market price of the Common Stock less the exercise price) of the option granted based upon the average of the closing bid and the asked price of $20.125 per share of the Common Stock as reported on The Nasdaq Stock Market on September 30, 1997.

Employment Agreements

First Federal has employment agreements with the Named Officers. The employment agreements are designed to assist the Company in maintaining a stable and competent management team. The continued success of the Company depends, to a significant degree, on the skills and competence of their officers. Each employment agreement provides for annual base salary in an amount not less than the employee's current salary and a term of three years. Each agreement provides for extensions of one year, in addition to the then-remaining term under the agreement, on each anniversary of the effective date of the agreement, subject to a formal performance evaluation performed by disinterested members of the Board of Directors of First Federal. The agreements terminate upon such Named Officer's death, for cause, in certain events specified by OTS regulations, or by such Named Officer upon 90 days notice to First Federal. For the year ended September 30, 1997, the disinterested members of First Federal's Board of Directors authorized one year extensions of the Named Officers' employment agreements.

Each employment agreement provides for payment to the employee of the greater of his salary for the remainder of the term of the agreement, or 299% of the employee's base compensation, in the event there is a "change in control" of First Federal where employment terminates involuntarily in connection with such change in control or within 12 months thereafter. This termination payment is subject to reduction by the amount of all other compensation to the employee deemed for purposes of the Internal Revenue Code of 1986, as amended (the "Code"), to be contingent on a "change in control", and may not exceed three times the employee's average annual compensation over the most recent five year period or be non-deductible by the Company for federal income tax purposes. For the purposes of the employment agreements, a change in control is defined as any event which would require the filing of an application for acquisition of control or notice of change in control pursuant to 12 C.F.R. § 574.3 or § 574.4, respectively. Such events are generally triggered prior to the acquisition or control of 10% of First

Midwest's Common Stock. Each agreement also guarantees participation in an equitable manner in employee benefits applicable to executive personnel.

Based on their current salaries, if employment of Messrs. J. Haahr, T. Haahr, Stevens and Winchell had been terminated as of September 30, 1997, under circumstances entitling them to benefits pay as described above, they would have been entitled to receive lump sum cash payments of approximately $903,000, $663,000, $655,000 and $621,000, respectively.

Compensation Committee Interlocks and Insider Participation

Compensation of the executive officers of the Company is currently determined by the ACP Committee of First Federal and the Stock Option Committee of the Company. Directors Cooley, Mickelson and Muilenburg are the current members of these two committees. All decisions by the ACP Committee relating to the cash compensation of executive officers are reviewed by the full Board, except that Board members who are also executive officers do not participate in deliberations regarding their respective compensation. See "Compensation Committee Report on Executive Compensation" below.

Compensation Committee Report on Executive Compensation

First Midwest has not paid any cash compensation to its executive officers since its formation. All executive officers of First Midwest also currently hold positions with First Federal and receive cash compensation from First Federal. The function of administering the executive compensation policies of First Federal is currently performed by the ACP Committee of the Board of Directors of First Federal, consisting of Directors Cooley, Mickelson and Muilenburg. All decisions by the ACP Committee relating to the cash compensation of First Federal's executive officers are reviewed by the full Board of First Federal, except that Board members who are also executive officers do not participate in deliberations regarding their respective compensation.

Awards granted under First Midwest's Stock Option Plans are made solely by the Stock Option Committee.

Overview and Philosophy

The ACP Committee has developed and implemented an executive compensation program that is based on guiding principles designed to align executive compensation with the values and objectives, business strategy, management initiatives, and the business and financial performance of the Company. In applying these principals, the ACP Committee has established a program to:

- Support a performance-oriented environment that rewards performance not only with respect to the Company's goals, but also the Company's performance as compared to that of industry performance levels;
- Attract and retain key executives critical to the long-term success of the Company;
- Integrate compensation programs with both the Company's annual and long-term strategic planning and measuring processes; and
- Reward executives for long-term strategic management and the enhancement of shareholder value.

Furthermore, in making compensation decisions, the ACP Committee focuses on the individual contributions of executive officers to the Company. The ACP Committee uses its discretion to set executive compensation where, in its judgement, external, internal or an individual's circumstances warrant it. The ACP Committee also periodically reviews the compensation policies of other similarly situated companies, as set forth in various industry publications, to determine whether the Company's compensation decisions are competitive within its industry.

Executive Officer Compensation Program

The executive officer compensation program is comprised of base salary, annual incentive bonuses, long-term incentive compensation in the form of stock options and restricted stock awards, and various benefits, including medical and retirement plans generally available to employees of the Banks.

Base Salary. Base salary levels for executive officers are competitively set relative to other publicly traded banking and thrift companies. In determining base salaries, the ACP Committee also takes into account individual experience and performance and specific issues particular to the Company.

Annual Incentive Bonuses. Executive officers are paid an annual incentive bonus, which is determined as a percentage of such executive officers' base salary, if the Company's targeted goals (including its targeted goals for return on assets, return on equity, asset quality and interest rate risk exposure) established at the beginning of the year are met and certain safety and soundness standards at the Bank level are maintained.

Stock Benefit Plans. The Stock Option Plans are the Company's long-term incentive plans for directors, officers and employees. The objective of the program is to align executive and shareholder long-term interests by creating a strong and direct link between executive pay and the Company's performance, and to enable executives to develop and maintain a significant, long-term stock ownership position in the Company's Common Stock. Awards are made at a level calculated to be competitive with other publicly traded banking and thrift companies.

Chief Executive Officer Compensation

Mr. James S. Haahr was appointed to the position of President and Chief Executive Officer of First Federal in 1974 and Chairman in 1990, and has also served in such capacities with the Company since its inception in 1993. Mr. Haahr's fiscal 1998 base salary is approximately $175,000 per year, subject to such adjustments in future years as shall be determined by the ACP Committee. Mr. Haahr's base salary for fiscal 1997 was approximately $175,000. The ACP Committee determined to maintain Mr. Haahr's current year base salary at the same level as last year due to the Company's continued focus on incentive-based compensation, with the use of long-term incentive awards as an integral part of the overall compensation program.

Mr. Haahr was awarded a cash bonus in September 1997 of approximately $56,000 and was granted a long-term incentive award consisting of options to purchase 5,250 shares of the Company's Common Stock. These awards were determined by the ACP Committee after consideration of Mr. Haahr's contribution to the Company's fiscal 1997 performance relative to predetermined targeted goals for return on equity, return on assets, asset quality and interest rate risk exposure, and in recognition of Mr. Haahr's anticipated future performance.

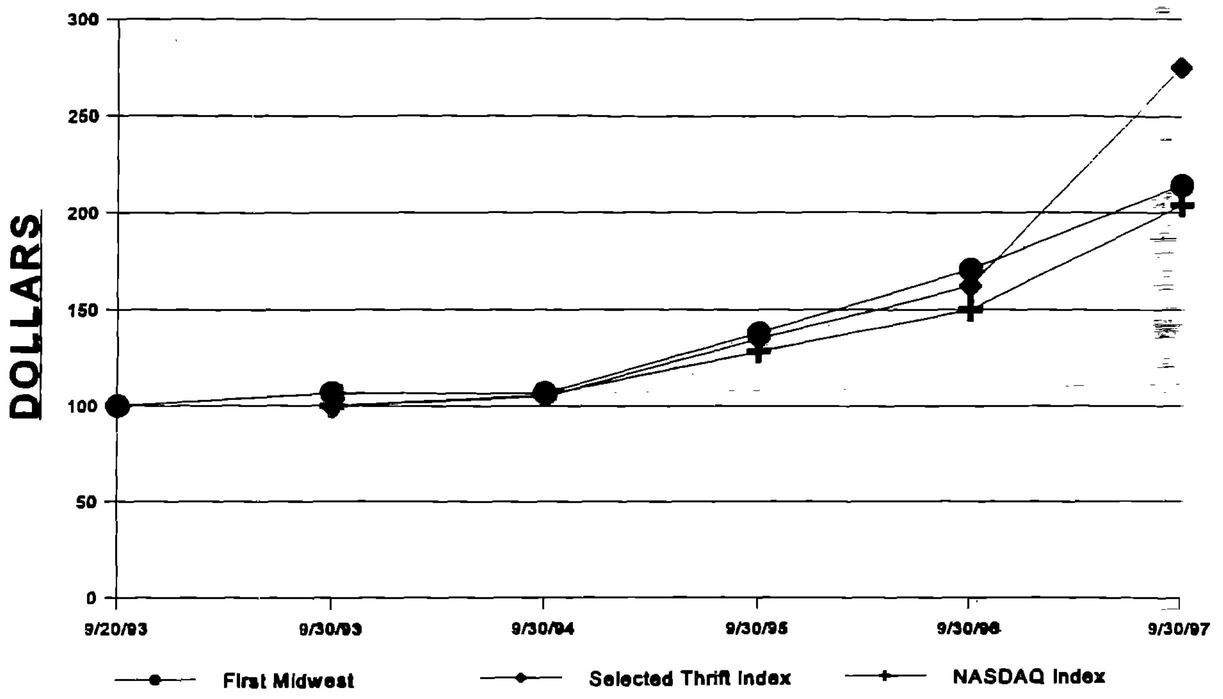
In 1993, Section 162(m) was added to the Internal Revenue Code, the effect of which is to eliminate the deductibility of compensation over $1 million, with certain exclusions, paid to each of certain highly compensated executive officers of publicly held corporations, such as the Company. Section 162(m) applies to all remuneration (both cash and non-cash) that would otherwise be deductible for tax years beginning on or after January 1, 1994, unless expressly excluded. Because the current compensation of each of the Company's and the Bank's executive officers is well below the $1 million threshold, the Company has not yet considered its policy regarding the new provision.

The foregoing report is furnished by the members of the Audit-Compensation\Personnel Committee and Stock Option Committee of the Board of Directors of the Company.

E Wayne Cooley *G. Mark Mickelson* *Rodney G. Muilenberg*

Shareholder Return Performance Presentation

The line graph below compares the cumulative total shareholder return on the Company's Common Stock to the cumulative total return of a broad index of the Nasdaq Market and a savings and loan industry index for the period commencing on September 20, 1993 (the date the Company became a public company) through September 30, 1997.



	09/20/93	09/30/93	09/30/94	09/30/95	09/30/96	09/30/97
First Midwest Financial, Inc..	$100.00	$106.78	$106.78	$138.04	$170.65	$214.18
Selected Thrift Index	100.00	100.00	105.04	135.01	162.16	275.17
Nasdaq Market Index	100.00	100.00	105.82	128.48	150.00	203.88

Certain Transactions

The Banks have followed a policy of granting loans to eligible directors, officers, employees and members of their immediate families for the financing of their personal residences and for consumer purposes. As of September 30, 1997, all loans or extensions of credit to executive officers and directors were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public and do not involve more than the normal risk of repayment or present other unfavorable features.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") requires First Midwest's directors and executive officers, and persons who own more than 10% of a registered class of First Midwest's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of First Midwest common stock and other equity securities of First Midwest by the tenth of the month following a change. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish First Midwest with copies of all Section 16(a) forms they file.

To First Midwest's knowledge, based solely on a review of the copies of such reports furnished to First Midwest and written representations that no other reports were required during the fiscal year ended September 30, 1997, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owners were complied with.

INDEPENDENT AUDITORS

The Company's independent auditors are Crowe, Chizek and Company LLP. Representatives of Crowe, Chizek and Company LLP are expected to attend First Midwest's Annual Meeting to respond to appropriate questions and to make a statement if they so desire.

STOCKHOLDER PROPOSALS

In order to be eligible for inclusion in the First Midwest's proxy materials for the next Annual Meeting of Stockholders, any stockholder proposal to take action at such meeting must be received at First Midwest's main office, Fifth at Erie, Storm Lake, Iowa no later than August 17, 1998. Any such proposal shall be subject to the requirements of the proxy rules adopted under the Exchange Act.

OTHER MATTERS

The Board of Directors is not aware of any business to come before the Meeting other than those matters described above in this Proxy Statement. However, if any other matter should properly come before the Meeting, it is intended that holders of the proxies will act in accordance with their best judgment.

First Midwest Financial, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

Years ended September 30, 1997, 1996 and 1995

	Common Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized Appreciation (Depreciation) on Securities Available For Sale, Net of Tax	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 1996	$ 19,905	$20,862,551	$23,748,383	$ 28,698	$ (767,200)	$ (682,635)	$43,209,702
Purchase of 248,419 common shares of treasury stock	-	-	-	-	-	(4,268,777)	(4,268,777)
Retirement of 3,474 common shares	(35)	35	-	-	-	-	-
30,000 common shares committed to be released under the ESOP	-	295,740	-	-	200,000	-	495,740
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under the plan	-	93,401	-	-	-	-	93,401
Cash dividends declared on common stock ($.36 per share)	-	-	(961,849)	-	-	-	(961,849)
Issuance of 970,978 common shares for stock dividend declared on common stock, net of cash paid in lieu of fractional shares	9,710	(9,710)	(833)	-	-	-	(833)
Exchange of 7,263 common shares upon exercise of stock options	-	-	-	-	-	(175,445)	(175,445)
Issuance of 41,347 common shares from treasury stock due to exercise of stock options	-	(257,263)	-	-	-	768,699	511,436
Net change in unrealized appreciation on securities available for sale, net of tax of $549,689	-	-	-	931,673	-	-	931,673
Net income for the year ended September 30, 1997	-	-	3,641,956	-	-	-	3,641,956
Balance at September 30, 1997	$ 29,580	$20,984,754	$26,427,657	$ 960,371	$ (567,200)	$ (4,358,158)	$43,477,004

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

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

Years ended September 30, 1997, 1996 and 1995

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

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

Years ended September 30, 1997, 1996 and 1995

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Business, Concentration of Credit Risk and Industry Segment Information: The primary source of income for the Company is the purchase or origination of commercial, commercial real estate, and residential real estate loans. See Note 4 for a discussion of concentrations of credit risk. The Company accepts deposits from customers in the normal course of business primarily in northwest and central Iowa and eastern South Dakota. The Company operates primarily in the banking industry which accounts for more than 90% of its revenues, operating income and assets.

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

Use of Estimates in Preparing Financial Statements: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

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

Gains and losses on the sale of securities are determined using the specific identification method based on amortized cost and are reflected in results of operations at the time of sale. Interest and dividend income, adjusted by amortization of purchase premium or discount over the estimated life of the security using the level yield method, is included in earnings.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized in a valuation allowance by charges to income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

SFAS No. 114, *"Accounting by Creditors for Impairment of a Loan,"* as amended by SFAS No. 118, was adopted effective October 1, 1995 and requires recognition of loan impairment. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual loan terms. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as a component of the provision for loan losses. The effect of adopting these standards was not material to the consolidated financial statements.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Financial Instruments with Off-Balance-Sheet Risk: The Company, in the normal course of business, makes commitments to make loans which are not reflected in the financial statements. A summary of these commitments is disclosed in Note 15.

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NOTE 2 – ACQUISITIONS

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

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

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

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

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

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

NOTE 3 – SECURITIES

Year end securities available for sale were as follows:

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

NOTE 3 – SECURITIES (continued)

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

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

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

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

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

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

NOTE 4 – LOANS RECEIVABLE, NET

Year end loans receivable were as follows:

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

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

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

Virtually all of the Company's originated loans are to Iowa and South Dakota-based individuals and organizations. The Company's purchased loans totalled approximately $75,851,000 at September 30, 1997 and were secured by properties located, as a percentage of total loans, as follows: 6% in Wisconsin, 5% in Washington, 3% in Minnesota, 2% in Iowa, 2% in North Dakota, and the remaining 10% in seventeen other states. The Company's purchased loans totalled approximately $76,444,000 at September 30, 1996 and were secured by properties located, as a percentage of total loans, as follows: 8% in Wisconsin, 5% in Minnesota, 4% in Iowa, 2% in South Dakota, 2% in New York, 2% in Nebraska, 2% in North Dakota and the remaining 7% in thirteen other states.

The Company originates and purchases commercial real estate loans. These loans are considered by management to be of somewhat greater risk of uncollectibility due to the dependency on income production. The Company's commercial real estate loans include approximately $10,776,000 and $8,766,000 of loans secured by nursing homes at September 30, 1997 and 1996, respectively. The remainder of the commercial real estate portfolio is diversified by industry. The Company's policy for requiring collateral and guarantees varies with the creditworthiness of each borrower.

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

Impaired loans were as follows:

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

NOTE 5 – FORECLOSED REAL ESTATE

Year end foreclosed real estate was as follows:

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

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

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

NOTE 6 – LOAN SERVICING

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

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

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

NOTE 7 – PREMISES AND EQUIPMENT, NET

Year end premises and equipment were as follows:

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

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

NOTE 8 – DEPOSITS

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

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

1998	$ 118,117,383
1999	51,100,428
2000	19,125,371
2001	1,871,026
2002 and thereafter	490,459
	$ 190,704,667

NOTE 9 – ADVANCES FROM FEDERAL HOME LOAN BANK

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

1998	$57,550,000
1999	12,200,000
2000	14,600,000
2001	7,200,000
2002 and thereafter	15,876,225
	$107,426,225

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

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

NOTE 10 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

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

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

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

NOTE 11 – OTHER BORROWINGS

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

NOTE 12 – EMPLOYEE BENEFITS

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

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

NOTE 12 – EMPLOYEE BENEFITS (continued)

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

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

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

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

Year end ESOP shares are as follows:

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

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

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

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

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

NOTE 12 – EMPLOYEE BENEFITS (continued)

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

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

Stock option plans are used to reward employees and provide them with an additional equity interest. Options are issued for 10 year periods, with 100% vesting generally occurring 48 months after grant date. At year end 1997, 164,535 shares were authorized for future grants. Information about option grants follows:

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

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

Options exercisable at year end are as follows:

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

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

NOTE 13 - INCOME TAXES

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

NOTE 13 – INCOME TAXES (continued)

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

The provision for income taxes consists of:

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

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

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

Year end deferred tax assets and liabilities consist of:

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

Federal income tax laws provide savings banks with additional bad debt deductions through September 30, 1987, totaling $6,744,000 for the Bank. Accounting standards do not require a deferred tax liability to be recorded on this amount, which liability otherwise would total $2,300,000 at September 30, 1997 and 1996. If the Bank were liquidated or otherwise ceases to be a bank or if tax laws were to change, the $2,300,000 would be recorded as expense.

NOTE 14 – CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

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

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

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

	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of September 30, 1997						
Total Capital (to risk weighted assets)	$ 31,239	14.06%	$ 17,780	8.00%	$ 22,225	10.00%
Tier I (Core) Capital (to risk weighted assets)	$ 29,465	13.26%	$ 8,890	4.00%	$ 13,335	6.00%
Tier I (Core) Capital (to adjusted total assets)	$ 29,465	8.19%	$ 10,791	3.00%	N/A	N/A
Tangible Capital (to adjusted total assets)	$ 29,465	8.19%	$ 5,396	1.50%	N/A	N/A
Tier I (Core) Capital (to average assets)	$ 29,465	8.81%	$ 13,383	4.00%	$ 16,728	5.00%
As of September 30, 1996						
Total Capital (to risk weighted assets)	$ 33,084	16.36%	$ 16,176	8.00%	$ 20,220	10.00%
Tier I (Core) Capital (to risk weighted assets)	$ 31,343	15.50%	$ 8,088	4.00%	$ 12,132	6.00%
Tier I (Core) Capital (to adjusted total assets)	$ 31,343	9.04%	$ 10,396	3.00%	N/A	N/A
Tangible Capital (to adjusted total assets)	$ 31,343	9.04%	$ 5,198	1.50%	N/A	N/A
Tier I (Core) Capital (to average assets)	$ 31,343	10.05%	$ 12,478	4.00%	$ 15,598	5.00%

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

Quantitative measures established by regulation to ensure capital adequacy require Security to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 1997, that Security meets all capital adequacy requirements to which it is subject.

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

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

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

	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of September 30, 1997						
Total Capital (to risk weighted assets)	$ 3,744	13.9%	$ 2,148	8.0%	$ 2,685	10.0%
Tier I Capital (to risk weighted assets)	$ 3,406	12.7%	$ 1,074	4.0%	$ 1,611	6.0%
Tier I Capital (to average assets)	$ 3,406	9.9%	$ 1,379	4.0%	$ 1,724	5.0%
As of September 30, 1996						
Total Capital (to risk weighted assets)	$ 3,323	15.4%	$ 1,729	8.0%	$ 2,161	10.0%
Tier I Capital (to risk weighted assets)	$ 3,049	14.1%	$ 865	4.0%	$ 1,297	6.0%
Tier I Capital (to average assets)	$ 3,049	10.0%	$ 1,220	4.0%	$ 1,525	5.0%

NOTE 15 – COMMITMENTS AND CONTINGENCIES

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

At September 30, 1997 and 1996, loan commitments approximated $15,782,000 and $20,671,000, respectively, excluding undisbursed portions of loans in process. Loan commitments at September 30, 1997 included commitments to originate fixed-rate loans with interest rates ranging from 7.37% to 11.50% totaling $4,876,000 and adjustable-rate loan commitments with interest rates ranging from 7.9% to 12.0% totaling $5,523,000. The company also had commitments to purchase adjustable rate loans of $5,343,000 with interest rates ranging from 8.395% to 10.00%, and commitments to purchase $40,000 in fixed rate loans at 9.0% as of year end 1997. Loan commitments at September 30, 1996 included commitments to originate fixed-rate loans with interest rates ranging from 8.5% to 9.25% totaling $314,000, adjustable-rate loan commitments with interest rates ranging from 8.13% to 11.00% totaling $14,723,000 and adjustable-rate purchase loan commitments of $5,634,000 with interest rates ranging from 9.25% to 9.50%. Commitments, which are disbursed subject to certain limitations, extend over various periods of time. Generally, unused commitments are canceled upon expiration of the commitment term as outlined in each individual contract.

The exposure to credit loss in the event of non-performance by other parties to financial instruments for commitments to extend credit is represented by the contractual amount of those instruments. The same credit policies and collateral requirements are used in making commitments and conditional obligations as are used for on-balance-sheet instruments.

Since certain commitments to make loans and to fund lines of credit and loans in process expire without being used, the amount does not necessarily represent future cash commitments. In addition, commitments used to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract.

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

NOTE 15 – COMMITMENTS AND CONTINGENCIES (continued)

Securities with amortized costs of approximately $2,076,777 and $2,404,000 and fair values of approximately $2,149,000 and $2,456,000 at September 30, 1997 and 1996, respectively, were pledged as collateral for individual, trust, and estate deposits.

Under employment agreements with certain executive officers, certain events leading to separation from the Company could result in cash payments totaling approximately $2,843,000 as of September 30, 1997.

The Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial position or results of operations of the Company.

NOTE 16 – PARENT COMPANY FINANCIAL STATEMENTS

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

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

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

(continued)

NOTE 16 – PARENT COMPANY FINANCIAL STATEMENTS (continued)

Condensed Statements of Income (continued) Years ended September 30, 1997, 1996 and 1995	1997	1996	1995
Income before equity in undistributed net income of subsidiaries	5,936,777	9,535,040	1,846,976
(Distributions in excess of) equity in undistributed net income of subsidiary banks	(2,294,821)	(7,121,475)	1,697,376
Net income	$ 3,641,956	$ 2,413,565	$ 3,544,352

Condensed Statements of Cash Flows Years ended September 30, 1997, 1996 and 1995	1997	1996	1995
Cash flows from operating activities			
Net income	$ 3,641,956	$ 2,413,565	$ 3,544,352
Adjustments to reconcile net income to net cash from operating activities			
Distribution in excess of (equity in undistributed) net income of subsidiary banks	2,294,821	7,121,475	(1,697,376)
Amortization of recognition and retention plan	41,947	117,064	208,159
Gain on sales of securities available for sale, net	(216,614)	(51,237)	(51,250)
Change in other assets	(245,225)	110,759	291,107
Change in accrued expenses and other liabilities	(611,711)	721,109	54,984
Net cash from operating activities	4,905,174	10,432,735	2,349,976
Cash flows from investing activities			
Purchase of securities available for sale	(231,000)	(1,014,438)	(617,562)
Proceeds from sales of securities available for sale	804,067	338,750	241,875
Purchase of Iowa Bancorporation, Inc.	-	(6,529,615)	-
Purchase of Central West Bancorporation	-	(1,923,519)	-
Repayments on loan receivable from ESOP	200,000	200,000	218,800
Net cash from investment activities	773,067	(8,928,822)	(156,887)
Cash flows from financing activities			
Cash dividends paid	(962,682)	(745,761)	(515,095)
Proceeds from exercise of stock options	335,991	94,500	-
Purchase of treasury stock	(4,268,777)	(630,710)	(932,030)
Net cash from financing activities	(4,895,468)	(1,281,971)	(1,447,125)
Net change in cash and cash equivalents	782,773	221,942	745,964
Cash and cash equivalents at beginning of year	1,383,318	1,161,376	415,412
Cash and cash equivalents at end of year	$ 2,166,091	$ 1,383,318	$ 1,161,376
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	$ 132,014	$ -	$ -
Supplemental schedule of noncash investing and financing activities:			
Issuance of common stock for purchase of Central West Bancorporation	$ -	$ 3,936,634	$ -

NOTE 16 – PARENT COMPANY FINANCIAL STATEMENTS (continued)

The extent to which the Company may pay cash dividends to shareholders will depend on the cash currently available at the Company, as well as the ability of the subsidiary banks to pay dividends to the Company (see Note 14).

NOTE 17 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

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

NOTE 18 - FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, *"Disclosures About Fair Value of Financial Instruments,"* requires that the Company disclose estimated fair value amounts of its financial instruments. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of September 30, 1997 and 1996, as more fully described below. It should be noted that the operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the subsidiary banks' capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

NOTE 18 - FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

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

Loans Receivable, Net: The fair value of loans receivable, net was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for similar remaining maturities. When using the discounting method to determine fair value, loans were gathered by homogeneous groups with similar terms and conditions and discounted at a target rate at which similar loans would be made to borrowers as of September 30, 1997 and 1996. In addition, when computing the estimated fair value for all loans, allowances for loan losses have been subtracted from the calculated fair value for consideration of credit issues.

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

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

NOTE 18 - FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Deposits: The fair value of deposits were determined as follows: (i) for noninterest bearing demand deposits, savings, NOW and money market demand deposits, since such deposits are immediately withdrawable, fair value is determined to approximate the carrying value (the amount payable on demand); (ii) for other time certificates of deposit, the fair value has been estimated by discounting expected future cash flows by the current rates offered as of September 30, 1997 and 1996 on certificates of deposit with similar remaining maturities. In accordance with SFAS No. 107, no value has been assigned to the Bank's long-term relationships with its deposit customers (core value of deposits intangible) since such intangible is not a financial instrument as defined under SFAS No. 107.

Advances from FHLB: The fair value of such advances was estimated by discounting the expected future cash flows using current interest rates as of September 30, 1997 and 1996, for advances with similar terms and remaining maturities.

Securities Sold Under Agreements to Repurchase and Other Borrowings: The fair value of securities sold under agreements to repurchase and other borrowings was estimated by discounting the expected future cash flows using derived interest rates approximating market as of September 30, 1997 and 1996 over the contractual maturity of such borrowings.

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

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

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

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

NOTE 19 – SUPPLEMENTAL CASH FLOW DISCLOSURES

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

Fair value of assets acquired	$ 25,429,434
Cash paid	(8,000,000)
Liabilities assumed	$ 17,429,434

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

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

NOTE 20 – FEDERAL DEPOSIT INSURANCE PREMIUM

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

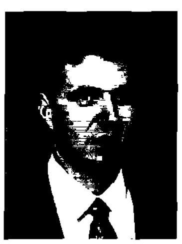
Directors of First Midwest Financial, Inc.

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

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

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

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

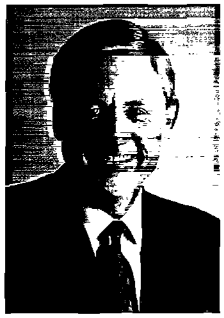


G. Mark Mickelson — Member of the Board of Directors for First Midwest Financial, Inc. and First Federal Savings Bank of the Midwest. Mr. Mickelson is Vice President of Acquisitions for Northwestern Growth Corporation in Sioux Falls, South Dakota. Northwestern Growth Corporation is the unregulated investment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

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

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

Executive Officers



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

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

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

Ellen E. H. Moore
Senior Vice President Marketing and Sales for First Federal Savings Bank of the Midwest

Fred A. Stevens
President and Trust Officer for Storm Lake Division of First Federal Savings Bank of the Midwest

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

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

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

Corporate Information

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

ANNUAL MEETING OF STOCKHOLDERS
The Annual Meeting of Stockholders will convene at 1 p.m. on Monday, January 26, 1998. The meeting will be held in the Board Room of First Federal Savings Bank of the Midwest, Fifth at Erie, Storm Lake, Iowa. Further information with regard to this meeting can be found in the proxy statement.

GENERAL COUNSEL
Mack, Hansen, Gadd, Armstrong & Brown, P.C.
316 East Sixth Street
Storm Lake, Iowa 50588

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

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

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

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

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

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

Stock Market Information

First Midwest Financial, Inc.'s common stock trades on the Nasdaq National Market under the symbol "CASH." The *Wall Street Journal* publishes daily trading information for the stock under the abbreviation, "FstMidwFnl," in the National Market Listing. The price range of the common stock as reported on the Nasdaq System for each quarter of fiscal 1996 and 1997, after giving retroactive effect for the three for two stock split paid by the company in the form of a fifty percent stock dividend, was as follows:

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

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

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

As of September 30, 1997, there were 2,698,904 shares of common stock outstanding, which were held by 332 stockholders of record, and 325,298 shares subject to outstanding options. The stockholders of record number does not reflect approximately 590 persons or entities who hold their stock in nominee or "street" name.

The following securities firms indicated they were acting as market makers for First Midwest Financial, Inc. stock as of September 30, 1997: Everen Securities, Inc.; Herzog, Heine, Geduld, Inc.; Howe Barnes Investments, Inc.; Piper Jaffray Companies, Inc.; Sandler O'Neill Partners; Trident Securities, Inc.; Tucker Anthony Incorporated.

First Midwest Financial, Inc.