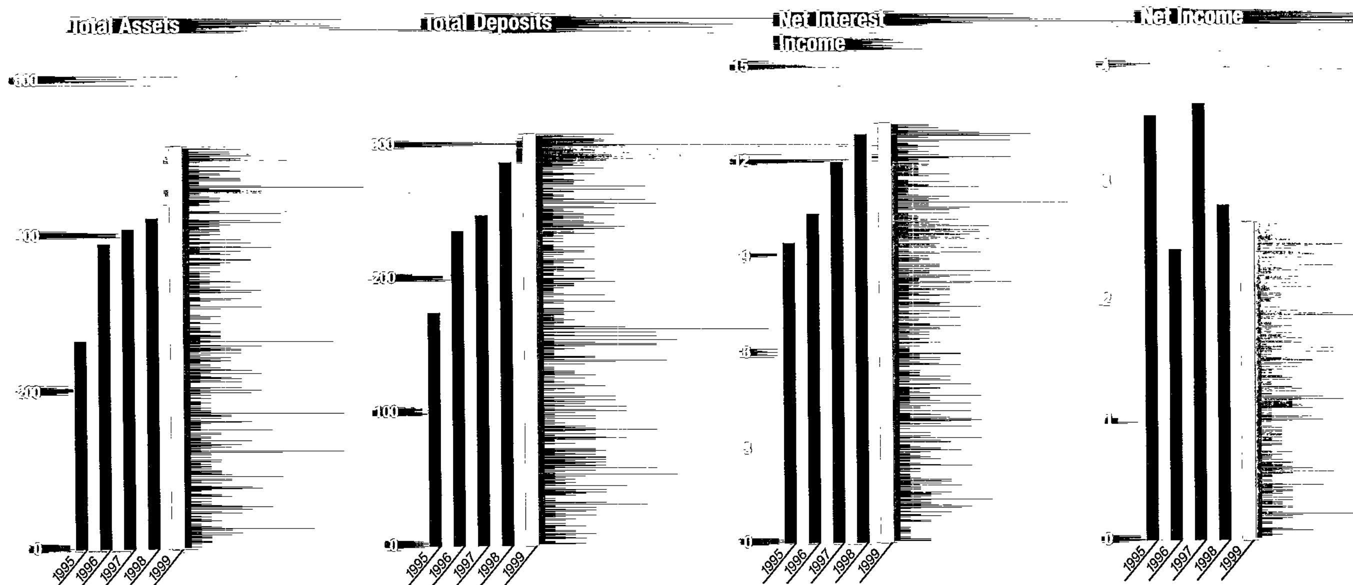
First Midwest Financial, Inc. | Annual Report 1999

Advancing *into the next* millennium

Financial Highlights

(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)	1999	1998	1997	1996	1995
AT SEPTEMBER 30					
Total assets	$511,213	$418,380	$404,589	$388,008	$264,213
Total loans	303,079	270,286	254,641	243,534	178,552
Total deposits	304,780	283,858	246,116	233,406	171,793
Shareholders' equity	39,771	42,286	43,477	43,210	38,013
Book value per common share[1]	$ 15.86	$ 16.56	$ 16.11	$ 14.81	$ 14.13
Total equity to assets	7.78%	10.11%	10.75%	11.14%	14.39%
FOR THE FISCAL YEAR					
Net interest income	$ 13,197	$ 12,829	$ 11,946	$ 10,359	$ 9,405
Net income	2,641	2,785	3,642	2,414[2]	3,544
Diluted earnings per share[1]	$ 1.04	$ 1.03	$ 1.28	$ 0.90[2]	$ 1.33
Return on average assets	.54%	.68%	.98%	.77%[2]	1.31%
Return on average equity	6.35%	6.43%	8.41%	6.22%[2]	9.86%
Net yield on interest-earning assets	2.83%	3.26%	3.38%	3.47%	3.63%
Cash earnings[3]	$ 3,006	$ 3,150	$ 4,006	$ 2,584[2]	$ 3,670
Cash earnings per share diluted[1][3]	$ 1.18	$ 1.17	$ 1.40	$ 0.96[2]	$ 1.39
Cash return on average assets[3]	.61%	.77%	1.08%	.82%[2]	1.36%
Cash return on average equity[3]	7.23%	7.27%	9.25%	6.66%[2]	10.21%

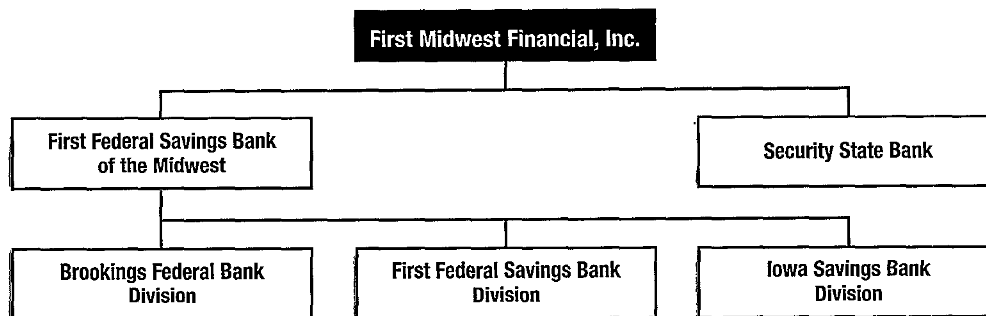


(1) Amounts reported have been adjusted for the three for two stock split paid January 2, 1997 in the form of a 50 percent stock dividend.

(2) Reflects the one-time, industry-wide special assessment to recapitalize the Savings Association Insurance Fund. Excluding the special assessment, Net income, Diluted earnings per share, Return on average assets, and Return on average equity would have been $3,209,000, $1.19, 1.01%, and 8.22%, respectively.

(3) Cash earnings exclude the amortization of goodwill from net income, net of related income taxes.

The company and its subsidiaries exceed their regulatory capital requirements.



Company Profile

First Midwest Financial, Inc., with assets of $511 million, is the holding company for First Federal Savings Bank of the Midwest and Security State Bank. Headquartered in Storm Lake, Iowa, the Company converted from mutual ownership to stock ownership in 1993. Its primary business is marketing financial deposit and loan products to meet the needs of retail bank customers.

First Midwest operates under a super-community banking philosophy that allows the Company to acquire commercial and savings banks while preserving its close community interaction. Administrative functions, transparent to the customer, are centralized to enhance the banks' operational efficiencies and to improve customer service capabilities.

First Federal Savings Bank of the Midwest operates as a thrift with three divisions: Brookings Federal Bank, First Federal Savings Bank, and Iowa Savings Bank. Eleven offices support customers in Brookings, South Dakota, and throughout central and northwest Iowa. Plans are underway to begin construction of two additional offices in the cities of Urbandale, Iowa and Sioux Falls, South Dakota.

Security State Bank operates as a state-chartered commercial bank. It is headquartered in Stuart, Iowa, with two branch offices located in central Iowa.

First Services Financial Limited, a subsidiary of First Federal Savings Bank, offers discount brokerage services and noninsured investment products through contracts with LaSalle St. Securities, Inc., Ameritas Investment Corp., and Central Financial Group. Brookings Service Corporation, a First Services subsidiary, is a full-service brokerage operation offering a wide range of noninsured investment products through PrimeVest Investment Center.

First Midwest Financial, Inc.'s common stock is listed under the trading symbol "CASH" on the Nasdaq National Market.

Banks are members FDIC and Equal Housing Lenders.

Company Vision and Mission

Vision of First Midwest Financial, Inc.

Build the best super-community bank system in the Midwest.

Vision of First Midwest Financial Banks

Be the bank of choice for financial services in our market area.

Mission

Have a professional, knowledgeable team that cost effectively provides value-added financial products and services that benefit our customers.

Company Values

Customer Service

Outstanding internal and external customer service are the foundation of our success. Meeting customer financial needs and exceeding expectations contribute to customer satisfaction and long-term relationships.

Continuous Improvement

We embrace change to improve the quality and productivity of our product offerings, business operations, and customer service.

Great Work Environment

We embrace an atmosphere of open communication and mutual respect where people are treated fairly, have fulfilling career opportunities and challenges, and are able to make a difference in the communities we serve.

Results

We are results oriented. Meeting goals allows the company to earn a fair profit while servicing our customers in an efficient and professional manner.

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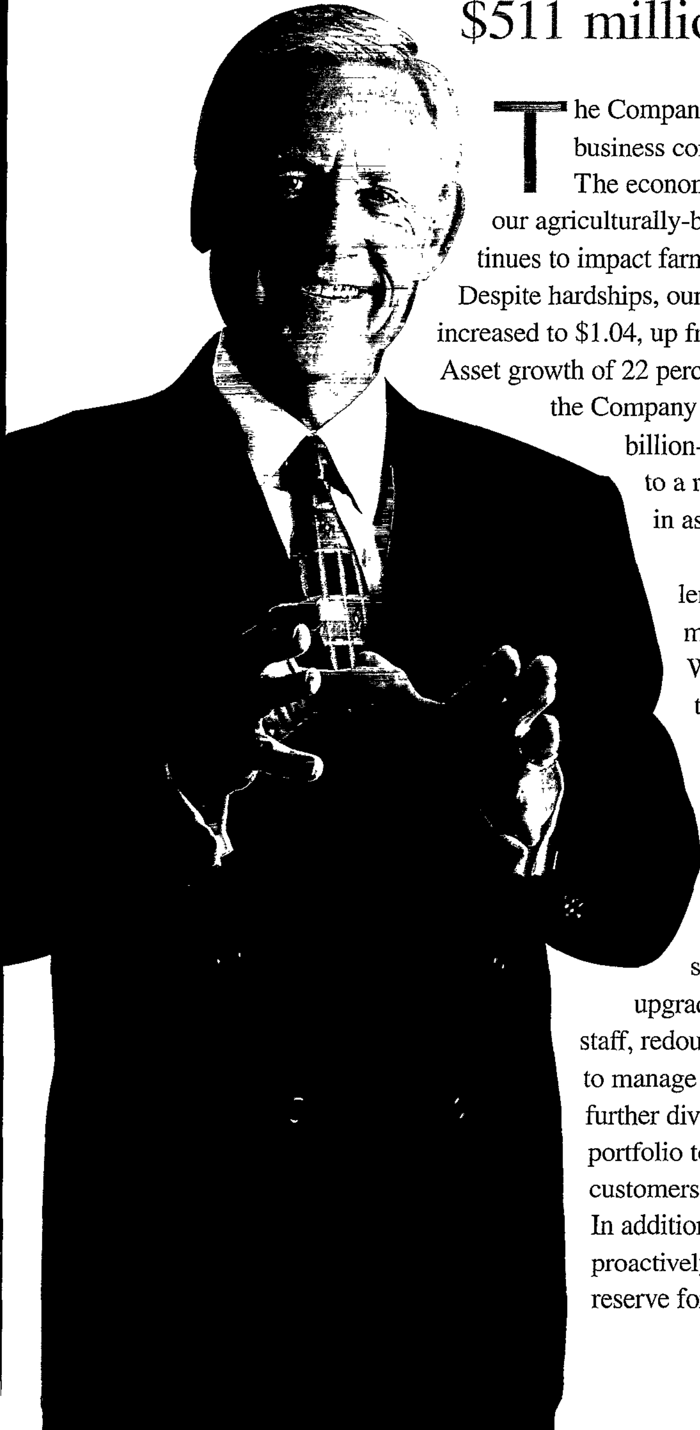
To *our* Shareholders

Asset growth of 22 percent boosted the Company past the half billion-dollar milestone, to a record $511 million in assets.



The Company faced challenging business conditions in 1999. The economic environment in our agriculturally-based markets continues to impact farmers and main street. Despite hardships, our earnings per share increased to $1.04, up from $1.03 in 1998. Asset growth of 22 percent boosted the Company past the half billion-dollar milestone, to a record $511 million in assets.

Continued turbulence in agricultural markets is evident. We remain committed to serving the ag credit needs of our communities. However, current and projected conditions demand that we be selective. We have upgraded our lending staff, redoubled our efforts to manage credit quality, and further diversified our loan portfolio to benefit both customers and shareholders. In addition, the Company proactively increased the reserve for loan loss to protect future earnings.

Deposit growth is a highlight for the Company. Core deposits rose over 7 percent amidst heightened competition in the financial services industry. Our strategy to lower the Company's cost of money by increasing demand deposit balances is working as intended. Demand deposits increased 44 percent this past year.

On the lending side, the Company benefited from both increased loan volume and improved credit quality. Loan growth totaled nearly 11 percent for the year. The percentage of loans greater than 30 days past due dropped from 6.36 percent in 1998 to 1.59 percent in 1999, while the percentage of nonperforming loans dropped from 2.59 percent to .73 percent. These positive results are a reflection of our upgraded lending team and our focus on credit quality.

> "We are poised to expand operations, pursue profitable growth, and increase the Company's value in 2000 and beyond."

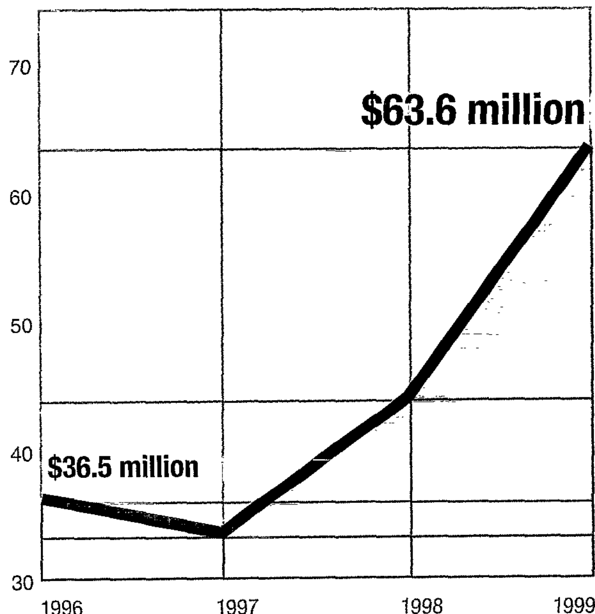
The Company's branding program is taking shape as we make adjustments to our product mix and introduce new or revamped products to meet

our customers' needs. Timeless Checking, a nationally recognized packaged account that promotes cross-selling and relationship banking, and the *QUICKcard Cash & Check* help differentiate us from our competitors. *QUICKbank*, a 24-hour telephone banking service, is slated for introduction during the first half of 2000. This additional delivery channel offers our customers another convenient option to conduct account transactions 24 hours a day, seven days a week.

We recognize that our competitors are not just the banks across the street. Regulatory changes, advances in technology, and consolidation in the financial services industry have produced fewer differences among financial service providers. Customers have a choice where to conduct their financial business. We are actively implementing operational and marketing strategies designed to enhance our competitive position.

First Midwest is committed to profitable growth. We continue to seek opportunities to expand our branch network and to acquire savings banks, commercial banks, and other related-service companies in our geographical area. In addition, we consider dividend and stock repurchase possibilities. The Company analyzes each capital leverage and capital management strategy carefully before taking action. We are dedicated to increasing return on equity that will provide increased shareholder value for you.

Demand Deposit Balance Growth



In the spring of 2000, we break ground on the construction of two new locations: Iowa Savings Bank's new headquarters in Urbandale, Iowa and a new office building in Sioux Falls, South Dakota. Both are prime locations and we anticipate a timely return on our investment in these expanding markets.

> "First Midwest Financial, Inc. is a stronger company today than it was two years ago, and we believe our stock remains an attractive investment."

For the past three years, we have worked closely with regulators to ensure our banks are Y2K ready. Donna Tanoue, Chairperson of the Federal Deposit Insurance Corporation, stated earlier this year that nearly all federally insured financial institutions are prepared for the Year 2000. Only about one quarter of one percent of the federally insured institutions have a Y2K supervisory rating of less than satisfactory. I am confident January 1, 2000 will be business as usual for the Company.

On behalf of the Board of Directors and employees, thank you for your confidence and support. First Midwest Financial, Inc. is a stronger company today than it was two years ago, and we believe our stock remains an attractive investment. You will find, as you read this report, many signs that you are investing in the right company. We are poised to expand operations, pursue profitable growth, and increase the Company's value in 2000 and beyond. The First Midwest team is proudly advancing into the next millennium, dedicated to increasing shareholder value and enhancing your investment.

Sincerely,

JAMES S. HAAHR
Chairman of the Board,
President & CEO
December 22, 1999

Tradition

Ready. Set. Grow.

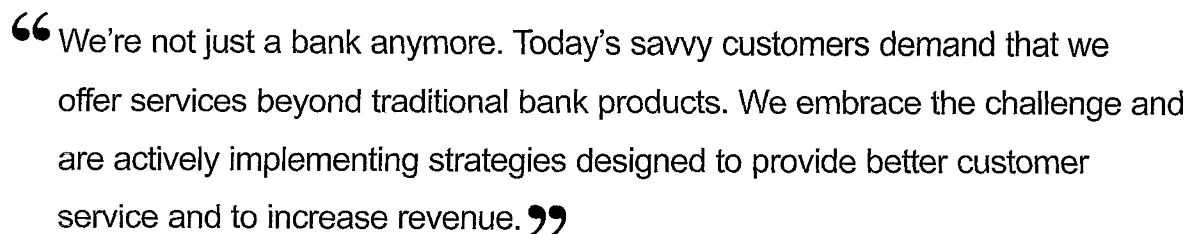
First Midwest's banks rely on a strong history of trust, customer loyalty, community, and financial strength. The Company's founding bank, First Federal, was established in 1954 to help local families buy homes and earn a fair return on their savings. Today, we still uphold the ideals of yesterday as we position ourselves for profitable growth into the next millennium. Our bank structure and mission have expanded to better meet the changing needs of our customers.

The 1993 conversion to stock ownership was our first step in creating a super-community bank system. Capital raised during the conversion allows the Company to acquire additional banks and broaden our branch network. The new structure offers improved service to our customers, streamlined operating efficiencies for each bank, and greater market potential for the Company.

In 1994, Brookings Federal Bank merged with First Federal to become part of First Midwest. Iowa Savings Bank joined the Company in 1995, with Security State Bank following in 1996. Together, we are driven toward one vision: Be the bank of choice for financial services in our market areas. Employees support this by executing our company values each day: Customer Service, Continuous Improvement, Great Work Environment, and Results.

"The Company began 45 years ago with a small group of friends, $10,000, and a vision. Our goal was to provide competitive mortgage lending and savings products to meet the needs of our local customers. Today, the banks provide a wide range of financial services that help over 25,000 customers throughout the Midwest. I am proud of the progress, and I am still a loyal customer and investor."

Stanley H. Haahr, Founder and Past Chairman of the Board



"We're not just a bank anymore. Today's savvy customers demand that we offer services beyond traditional bank products. We embrace the challenge and are actively implementing strategies designed to provide better customer service and to increase revenue."

Ellen Moore, Senior Vice President of Marketing and Sales

Innovation

Exceeding customer expectations

requires an on-going commitment to excellence. The only way to move ahead of the competition is to embrace change and strive toward continuous improvement in everything we do.

Our employees are empowered to make changes that benefit the Company. Employee ideas saved the Company thousands of dollars in expense and added thousands of dollars to revenue this past year. The implementation of innovative ideas fosters healthy growth.

We look at technology as an opportunity to improve our operating efficiencies and to provide 24-hour service options for our customers. Our product mix continues to be updated and united across the company to offer unique solutions for customers.

Better than Free Timeless Checking | Commercial Checking | Photo ID *QUICKcard Cash & Check* | Money Market Accounts | Certificates of Deposit | Savings Accounts | Mortgage Lending | Commercial Lending | Agricultural Lending | Consumer Lending | Credit Life Insurance | Crop Insurance | Credit Cards | Retirement and Trust Services | Ready Reserve | Overdraft Protection | Automated Clearing House Origination | Direct Deposit | Automatic Payment | Investments[1]

[1] Non-traditional bank products offered through LaSalle St. Securities, Inc.; Ameritas Investment Corp.; Central Financial Group; and Primevest Investment Center are not FDIC insured, nor are they guaranteed by the banks of First Midwest or any affiliate.

“Our customer satisfaction surveys show that a high percentage of current and past customers would recommend our bank to a friend. We are using that feedback to improve our service and to continually increase customer satisfaction.”

TIM HARVEY, PRESIDENT OF BROOKINGS FEDERAL BANK DIVISION

Customer Service and Teamwork

The driving force behind First Midwest is our people. The talents, dedication, and experience they offer establish a competitive advantage for the Company. We combine individual efforts with teamwork to pass major milestones on the road of success.

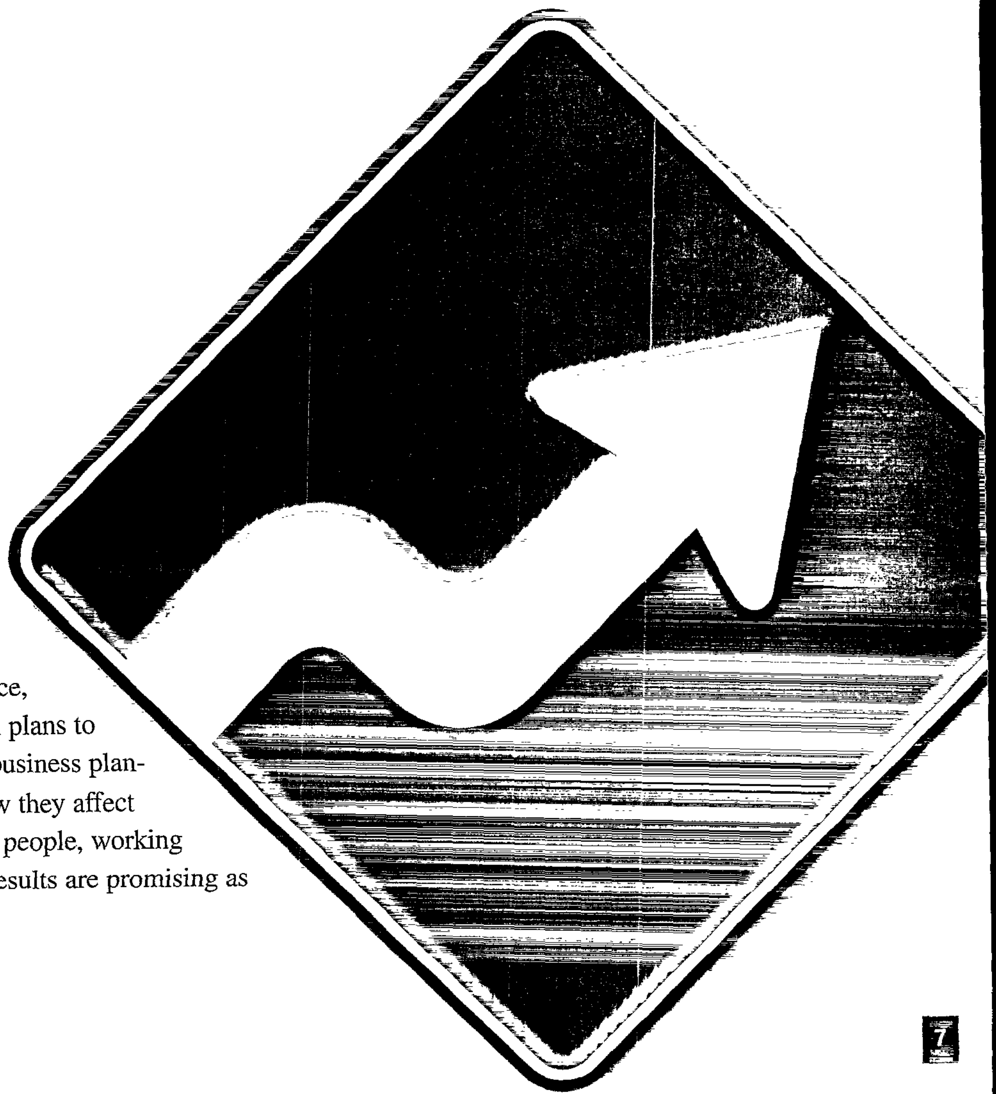
Employees are encouraged to expand their professional skills through individual development plans. The plans are tied to the company values and business plan goals. We believe that training our employees to be their best will encourage them to go the extra mile for customers.

We strive to develop mutually beneficial partnerships between our banks, customers, and the communities we serve. Employees' financial knowledge and needs-based approach add genuine value to customer relationships. Our customer service goal is simple. We want every customer to have a positive experience with our banks. We think customer loyalty is a true measure of our success.

Results

Our team

follows the motto "Do the Right Things Right." That is why each year we review past performance, update our strategies, and develop specific action plans to achieve our goals. Employees participate in the business planning process so that all personnel understand how they affect results. The Company believes that hardworking people, working together toward common goals, drives results. Results are promising as we proudly advance into the next millennium.



1999 Bank Highlights

First Federal Savings Bank

- Demand deposit balances increase 28 percent.
- Home and commercial loan volumes grow 44 percent and 25 percent respectively.
- Enhanced lending staff provides additional expertise and improved loan quality.

Security State Bank

- Earnings increase 7 percent, a record high.
- Demand deposit balances grow over 17 percent.
- Gene Richardson joins the Security State Bank team as President.

Iowa Savings Bank

- Demand deposit balances grow 187 percent.
- Loan volume rises 27 percent.
- Announcement that a new division headquarters will be built next year in Urbandale, Iowa.

Brookings Federal Bank

- Enhanced lending staff provides additional expertise and improved loan quality.
- Renovated facilities streamline operations and improve customer service.
- Deposit balances increase 12 percent.

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September 30,	1999	1998	1997	1996	1995
Selected Financial Condition Data (In Thousands)					
Total assets	$ 511,213	$ 418,380	$ 404,589	$ 388,008	$ 264,213
Loans receivable, net	303,079	270,286	254,641	243,534	178,552
Securities available for sale	178,489	120,610	115,985	109,492	70,232
Excess of cost over net assets acquired, net	4,133	4,498	4,863	5,091	1,690
Deposits	304,780	283,858	246,116	233,406	171,793
Total borrowings	164,369	89,888	112,126	106,478	52,248
Shareholders' equity	39,771	42,286	43,477	43,210	38,013

Year Ended September 30,	1999	1998	1997	1996	1995
Selected Operations Data (In Thousands, Except Per Share Data)					
Total interest income	$ 35,373	$ 32,059	$ 29,005	$ 24,337	$ 21,054
Total interest expense	22,176	19,230	17,059	13,978	11,649
Net interest income	13,197	12,829	11,946	10,359	9,405
Provision for loan losses	1,992	1,663	120	100	250
Net interest income after provision for loan losses	11,205	11,166	11,826	10,259	9,155
Total noninterest income	1,918	1,875	1,700	1,419	2,286
Total noninterest expense	8,645	8,253	7,382	7,568[2]	5,576
Income before income taxes	4,478	4,788	6,144	4,110	5,865
Income tax expense	1,837	2,003	2,502	1,696	2,321
Net income	$ 2,641	$ 2,785	$ 3,642	$ 2,414[2]	$ 3,544
Earnings per common and common equivalent share:					
Net income[1]					
Basic earnings per share	$ 1.07	$ 1.08	$ 1.34	$ 0.95[2]	$ 1.39
Diluted earnings per share	$ 1.04	$ 1.03	$ 1.28	$ 0.90[2]	$ 1.34

Year Ended September 30,	1999	1998	1997	1996	1995
Selected Financial Ratios and Other Data					
Performance Ratios					
Return on average assets	0.54%	0.68%	0.98%	0.77%[2]	1.31%
Return on average shareholders' equity	6.35	6.43	8.41	6.22[2]	9.86
Interest rate spread information:					
Average during year	2.55	2.76	2.80	2.83	3.13
End of year	2.40	2.74	2.78	2.84	2.85
Net yield on average interest-earning assets	2.83	3.26	3.38	3.47	3.63
Ratio of operating expense to average total assets	1.80	2.00	2.00	2.40[2]	2.06
Quality Ratios					
Non-performing assets to total assets	.47	1.94	.82	.75	.29
Allowance for loan losses to non-performing loans	137.16	41.15	75.36	83.49	227.27
Capital Ratios					
Shareholders' equity to total assets	7.78	10.11	10.75	11.14	14.39
Average shareholders' equity to average assets	8.65	10.51	11.62	12.44	13.28
Ratio of average interest-earning assets to average interest-bearing liabilities	108.39	110.22	112.00	113.72	111.35
Other Data					
Cash earnings (in thousands)[3]	$ 3,006	$ 3,150	$ 4,006	$ 2,584[2]	$ 3,670
Cash earnings per share - diluted[1][3]	$ 1.18	$ 1.17	$ 1.40	$ 0.96[2]	$ 1.39
Cash return on average assets[3]	.61%	.77%	1.08%	.82%[2]	1.36%
Cash return on average equity[3]	7.23%	7.27%	9.25%	6.66%[2]	10.21%
Book value per common share outstanding[1]	$ 15.86	$ 16.56	$ 16.11	$ 14.81	$ 14.13
Dividends declared per share[1]	$ 0.52	$ 0.48	$ 0.36	$ 0.29	$ 0.20
Dividend payout ratio	48.24%	44.05%	26.41%	30.90%	14.53%
Number of full-service offices	13	13	13	12	8

(1) Amounts reported have been adjusted for the three-for-two stock split paid January 2, 1997 in the form of a 50% stock dividend.
(2) Reflects the one-time industry-wide special assessment to recapitalize the Savings Association Insurance Fund.
(3) Cash earnings excludes from net income the amortization of goodwill, net of related income taxes.

GENERAL

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

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

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

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, 1999 were $511.2 million, an increase of $92.8 million, or 22.2%, from $418.4 million at September 30, 1998. The increase in assets was due to the purchase of securities available for sale and the increased origination and purchase of loans during the period. The increase in assets was funded by an increase in retail deposits and an increase in advances from the Federal Home Loan Bank of Des Moines (the "FHLB").

The Company's portfolio of securities available for sale, excluding mortgage-backed securities, decreased $13.1 million, or 22.5%, to $45.1 million at September 30, 1999 from $58.2 million at September 30, 1998. The decrease in securities available for sale was the result of securities that matured, were called or were sold during the period in an amount greater than new security purchases. During fiscal 1999, the Company sold securities available for sale totaling $24.8 million, consisting primarily of government agency issued securities that had appreciated over purchase cost.

The balance in mortgage-backed securities available for sale increased by $70.9 million, or 113.4%, from $62.5 million at September 30, 1998, to $133.4 million at September 30, 1999. The increase resulted from the purchase of fixed-rate mortgage-backed securities in conjunction with an investment strategy designed to enhance net interest income through leverage of the balance sheet at an acceptable spread to funding cost. The purchase of mortgage-backed securities was generally funded by proceeds from the maturity, call, or sale of other securities available for sale, advances from the FHLB and increases in customer deposits.

The Company's portfolio of net loans receivable increased by $32.8 million, or 12.1%, to $303.1 million at September 30, 1999 from $270.3 million at September 30, 1998. The increase in net loans receivable is due to the increased origination and purchase of residential mortgage loans, the increased purchase of commercial and multi-

family real estate loans, and the increased origination of commercial business loans. Construction, consumer and agricultural-related loan balances declined as a result of repayments in excess of new originations during the period.

The balance of customer deposits increased by $20.9 million, or 7.4%, from $283.9 million at September 30, 1998 to $304.8 million at September 30, 1999. The increase in deposits resulted from management's continued efforts to enhance deposit product design and marketing programs. Deposit balances increased for noninterest-bearing demand accounts, interest-bearing transaction accounts and other time certificates of deposit in the amounts of $709,000, $17.2 million and $3.0 million, respectively.

The Company's borrowings from the FHLB increased by $76.0 million, or 89.1%, from $85.3 million at September 30, 1998 to $161.3 million at September 30, 1999. The increased borrowings were used in the purchase of fixed-rate mortgage-backed securities, as noted above, and to fund growth of the Company's loan portfolio.

Shareholders' equity decreased $2.5 million, or 5.9%, to $39.8 million at September 30, 1999 from $42.3 million at September 30, 1998. The decrease in shareholders' equity is the result of stock repurchases during the year, the payment of cash dividends on common stock, and an increase in net unrealized losses on securities available for sale.

Results of Operations

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

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

The Company's noninterest income consists primarily of fees charged on transaction accounts and for the origination of loans, both of which help offset the costs associated with establishing and maintaining deposit and loan accounts. In addition, noninterest income is derived from the activities of First Federal's wholly-owned subsidiaries, First Services Financial Limited and Brookings Service Corporation. Both engage in the sale of various non-insured investment products. Historically, the Company has not derived significant income as a result of gains on the sale of securities and other assets. However, during the years ended September 30, 1999, 1998, and 1997, gains were recorded in the amounts of $332,000, $399,000, and $217,000, respectively, as a result of the sale of securities available for sale.

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,	1999	1998	1997
Weighted Average Yield On			
Loans receivable	8.09%	8.80%	8.84%
Mortgage-backed securities	6.38	7.15	7.34
Securities available for sale	6.14	6.40	6.41
FHLB stock	6.25	6.75	7.00
Combined weighted average yield on interest-earning assets	7.39	8.13	8.11
Weighted Average Rate Paid On			
Demand, NOW deposits and Money Market	3.24	3.00	2.61
Savings deposits	2.50	2.48	2.49
Time deposits	5.32	5.80	5.79
FHLB advances	5.38	5.91	5.86
Other borrowed money	5.28	5.68	5.64
Combined weighted average rate paid on interest-bearing liabilities	4.99	5.39	5.33
Spread	2.40%	2.74%	2.78%

Rate/Volume Analysis

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

Year Ended September 30,	1999 vs. 1998			1998 vs. 1997		
(In thousands)	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)
Interest-Earning Assets						
Loans receivable	$ 2,399	$ (1,658)	$ 741	$ 665	$ (43)	$ 622
Mortgage-backed securities	4,088	(262)	3,826	1,402	(65)	1,337
Securities available for sale	(1,276)	(72)	(1,348)	814	293	1,107
FHLB stock	114	(19)	95	(2)	(10)	(12)
Total interest-earning assets	$ 5,325	$ (2,011)	$ 3,314	$ 2,879	$ 175	$ 3,054
Interest-Bearing Liabilities						
Demand, NOW deposits and Money Market	$ 587	$ 210	$ 797	$ 101	$ 17	$ 118
Savings deposits	(65)	10	(55)	(12)	8	(4)
Time deposits	997	(665)	332	1,403	(67)	1,336
FHLB advances	2,233	(343)	1,890	860	(153)	707
Other borrowed money	(7)	(11)	(18)	(18)	32	14
Total interest-bearing liabilities	$ 3,745	$ (799)	$ 2,946	$ 2,334	$ (163)	$ 2,171
Net effect on net interest income	$ 1,580	$ (1,212)	$ 368	$ 545	$ 338	$ 883

Average Balances, Interest Rates and Yields

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

Year Ended September 30,	1999			1998			1997		
(Dollars in Thousands)	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate
Interest-Earning Assets									
Loans receivable(1)	$ 285,232	$ 23,796	8.34%	$ 256,482	$ 23,055	8.99%	$ 249,076	$ 22,433	9.01%
Mortgage-backed securities	115,784	7,504	6.48	52,722	3,678	6.98	32,618	2,341	7.18
Securities available for sale	58,190	3,604	6.19	78,789	4,952	6.29	65,843	3,845	5.84
FHLB stock	7,278	469	6.44	5,514	374	6.78	5,546	386	6.96
Total interest-earning assets	466,484	$ 35,373	7.58%	393,507	$ 32,059	8.15%	353,083	$ 29,005	8.21%
Noninterest-earning assets	14,719			18,415			19,408		
Total assets	$ 481,203			$ 411,922			$ 372,491		
Interest-Bearing Liabilities									
Demand, NOW deposits and Money Market	$ 51,778	$ 1,730	3.34%	$ 34,202	$ 933	2.73%	$ 30,398	$ 815	2.68%
Savings deposits	17,528	447	2.55	20,090	502	2.50	20,538	506	2.46
Time deposits	221,873	12,330	5.56	203,932	11,998	5.88	180,088	10,662	5.92
FHLB advances	135,846	7,483	5.51	95,328	5,593	5.87	80,685	4,886	6.06
Other borrowed money	3,348	186	5.56	3,473	204	5.87	3,543	190	5.36
Total interest-bearing liabilities	430,373	$ 22,176	5.15%	357,025	$ 19,230	5.39%	315,252	$ 17,059	5.41%
Noninterest-bearing:									
Deposits	5,749			5,646			5,619		
Liabilities	3,451			5,956			8,320		
Total liabilities	439,573			368,627			329,191		
Shareholders' equity	41,630			43,295			43,300		
Total liabilities and shareholders' equity	$ 481,203			$ 411,922			$ 372,491		
Net interest-earning assets	$ 36,111			$ 36,482			$ 37,831		
Net interest income		$ 13,197			$ 12,829			$ 11,946	
Net interest rate spread			2.43%			2.76%			2.80%
Net yield on average interest-earning assets			2.83%			3.26%			3.38%
Average interest-earning assets to average interest-bearing liabilities	108.39%			110.22%			112.00%		

(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, 1999 and September 30, 1998

General Net income for the year ended September 30, 1999 decreased $144,000, or 5.2%, to $2,641,000, from $2,785,000 for the same period ended September 30, 1998. The decrease in net income reflects increases in the provision for loan losses and noninterest expense, which were partially offset by increases in net interest income and noninterest income.

Net Interest Income Net interest income for the year ended September 30, 1999 increased by $368,000, or 2.9%, to $13,197,000 compared to $12,829,000 for the same period ended September 30, 1998. The increase in net interest income reflects an overall increase in the balance of average interest-earning assets during the period. The net yield on average earning assets decreased to 2.83% for the period ended September 30, 1999 from 3.26% for the same period in 1998. The decrease in net yield is primarily due to interest rates remaining generally at historically low levels throughout the period, which resulted in the continued refinance and repayment of relatively higher yielding loans and mortgage-backed securities. These earning assets were replaced through the origination and purchase of loans and mortgage-backed securities at comparatively lower yields. The reduction in yield on earning assets was partially offset by a reduction in the cost of interest-bearing liabilities.

During recent years, the Company has increased its origination and purchase of multi-family and commercial real estate loans and has increased its origination of commercial business loans. The Company anticipates activity in this type of lending to continue in future years. 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, 1999 increased $3,314,000, or 10.3%, to $35,373,000 from $32,059,000 for the same period in 1998. The increase reflects a $2,478,000 increase in interest earned on the portfolio of securities available for sale, which increased to $11,108,000 for the year ended September 30, 1999 from $8,630,000 in 1998. The increase in interest income from securities resulted from a higher average securities portfolio balance which was partially offset by a lower average yield on the securities portfolio during fiscal 1999 compared to 1998. In addition, interest income was higher due to a $741,000 increase in interest earned on the loan portfolio as a result of a higher average loan portfolio balance which was partially offset by a lower average yield during fiscal 1999 compared to 1998.

Interest Expense Interest expense increased $2,946,000, or 15.3%, to $22,176,000 for the year ended September 30, 1999 from $19,230,000 for the same period in 1998. The increase in interest expense is due to increases in the average outstanding balance of demand deposits, time deposits, and FHLB advances during the year ended September 30, 1999 as compared to the same period in 1998. The increase in the average balance of demand and time deposits resulted from internal growth of the deposit portfolio. The average balance of FHLB advances increased due to borrowing activity throughout the period used to fund growth of the loan portfolio and the purchase of securities available for sale. The increase in interest expense was partially offset by lower interest rates paid on time deposits and FHLB borrowings during the year ended September 30, 1999 as compared to the previous year, as market interest rates have generally trended downward.

Provision for Loan Losses The provision for loan losses for the year ended September 30, 1999 was $1,992,000 compared to $1,663,000 for the same period in 1998. Management believes that, based on a detail review of the loan portfolio, historic loan losses, current economic conditions, and other factors, the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate reserve against potential losses from the loan portfolio.

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

During recent years, the Company has increased its origination and purchase of multi-family and commercial real estate loans and has increased its origination of commercial business loans. The Company anticipates activity in this type of lending to continue in future years. 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.

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

Noninterest Income Noninterest income for the year ended September 30, 1999 increased $43,000, or 2.3%, to $1,918,000 from $1,875,000 for the same period in 1998. The increase in noninterest income reflects an increase in loan fees and deposit service charges of $83,000 for fiscal 1999 compared to the same period in 1998 as a result of increased lending activity and increased activity on transaction accounts subject to service charges. Noninterest income also increased due to an increase in brokerage commissions from sales of non-insured investment products through First Federal's subsidiaries and increased as a result of a net gain on sales of foreclosed real estate compared to a net loss on sales in 1998. Noninterest income reflects lower net gain on the sales of securities available for sale for fiscal 1999 compared to 1998.

Noninterest Expense Noninterest expense increased by $392,000, or 4.7%, to $8,645,000 for the year ended September 30, 1999 compared to $8,253,000 for the same period in 1998. The increase in noninterest expense for fiscal 1999 reflects a $491,000 increase in employee compensation and benefits expense primarily due to the addition of personnel and the upgrade of expertise in existing positions to support current and anticipated growth of the Company. In addition, other noninterest expense increased for fiscal 1999 by $123,000 compared to 1998 due primarily to expenses related to the recruitment of new personnel. Noninterest expense for fiscal 1998 included a $300,000 charge to provision for losses on foreclosed real estate for which there was no comparable charge in fiscal 1999.

Income Tax Expense Income tax expense decreased by $167,000, or 8.3%, to $1,837,000 for the year ended September 30, 1999 from $2,004,000 for the same period in 1998. The decrease in income tax expense reflects the decrease in the level of taxable income for the period ended September 30, 1999 compared to the same period in 1998.

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

General Net income for the year ended September 30, 1998 decreased $857,000, or 23.5%, to $2,785,000, from $3,642,000 for the same period ended September 30, 1997. The decrease in net income reflects an increase in charges to the provision for loan and foreclosed real estate losses and an increase in noninterest expense for fiscal 1998 compared to 1997.

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

Interest Income Interest income for the year ended September 30, 1998 increased $3,054,000, or 10.5%, to $32,059,000 from $29,005,000 for the same period in 1997. The increase reflects a $2,444,000 increase in interest earned on the portfolio of securities available for sale, which increased to $8,630,000 for the year ended

September 30, 1998, from $6,185,000 in 1997. The increase in interest income from securities resulted from a higher average securities portfolio balance and, to a lesser extent, to a higher average yield on the securities portfolio during fiscal 1998 compared to 1997. In addition, interest income increased due to a $622,000 increase in interest earned on the loan portfolio as a result of a higher average loan portfolio balance during fiscal 1998 compared to 1997.

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

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

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

Noninterest Expense Noninterest expense increased by $871,000, or 11.8%, to $8,253,000 for the year ended September 30, 1998 compared to $7,382,000 for the same period in 1997. Noninterest expense for employee compensation and benefits, and occupancy and equipment expense increased during fiscal 1998, compared to the same period in 1997, as a result of the full year operation of a new branch office in West Des Moines, Iowa. In addition, noninterest expense reflects a $300,000 charge to provision for losses on foreclosed real estate primarily related to a 104 unit apartment complex located in Madison, Wisconsin, which was acquired through foreclosure during fiscal 1998.

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

Asset/Liability Management And Market Risk

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

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

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

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

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

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

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

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

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

Presented below, as of September 30, 1999 and 1998, is an analysis of the Company's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points. As illustrated in the table, the Company's NPV is more sensitive to rising rate changes than declining rates. This occurs primarily because, as rates rise, the market value of fixed-rate

loans and mortgage-backed securities declines due to both the rate increase and the related slowing of prepayments on loans. When rates decline, the Company does not experience a significant rise in market value for these loans and mortgage-backed securities because borrowers prepay at relatively higher rates. The value of the Company's deposits and borrowings change in approximately the same proportion in rising and falling rate scenarios. The Company experienced an increase in interest rate sensitivity at September 30, 1999 as compared to the end of the previous year due primarily to the purchase of fixed-rate mortgage-backed securities in conjunction with a leveraged growth strategy.

(DOLLARS IN THOUSANDS)

Change in Interest Rate (BASIS POINTS)	Board Limit % CHANGE	At September 30, 1999 $ CHANGE	At September 30, 1999 % CHANGE	At September 30, 1998 $ CHANGE	At September 30, 1998 % CHANGE
+200 bp	(40)%	$(10,919)	(25)%	$(2,957)	(7)%
+100 bp	(25)	(5,200)	(12)	(1,477)	(3)
0	-	—	—	—	—
- 100 bp	(10)	4,441	10	1,115	3
- 200 bp	(15)	5,095	12	1,877	4

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

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

Asset Quality It is management's belief, based on information available, that the Company's current asset quality is satisfactory. At September 30, 1999, non-performing assets, consisting of non-accruing loans, accruing loans delinquent 90 days or more, real estate owned, and repossessed consumer property, totaled $2,381,000, or 0.47% of total assets, compared to $8,132,000, or 1.94% of total assets, for the fiscal year ended 1998. The decrease in non-performing assets during fiscal 1999 reflects management's effort to strengthen the quality of its loan portfolio through adherence to written underwriting guidelines, an on-going credit review program, and diligent collection practices.

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

Federal regulations require First Federal to maintain minimum levels of liquid assets. Currently, First Federal is required to maintain liquid assets of at least 4% of the average daily balance of net withdrawable savings deposits and borrowings payable on demand in one year or less during the preceding calendar quarter. Liquid assets for purposes of this ratio include cash, certain time deposits, U.S. Government, governmental agency, and corporate securities and obligations, unless otherwise pledged. First Federal has historically maintained its liquidity ratio at levels in excess of those required. First Federal's regulatory liquidity ratios were 9.1%, 15.4% and 9.8% at September 30, 1999, 1998 and 1997, 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, (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, 1999, 1998 and 1997, the Company originated loans totaling $143.3 million, $147.2 million and $135.7 million, respectively. Purchases of loans totaled $77.3 million, $36.9 million and $29.8 million during the years ended September 30, 1999, 1998 and 1997, respectively. During the years ended September 30, 1999, 1998 and 1997, the Company purchased mortgage-backed securities and other securities available for sale in the amount of $125.4 million, $89.9 million and $67.6 million, respectively.

At September 30, 1999, the Company had outstanding commitments to originate and purchase loans of $33.2 million. (See Note 15 of Notes to Consolidated Financial Statements.) Certificates of deposit scheduled to mature in one year or less from September 30, 1999 total $168.9 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 that loan repayment and other sources of funds will be adequate to meet the Company's foreseeable short- and long-term liquidity needs.

The Company has initiated plans to construct two new offices to be located in Urbandale, Iowa and Sioux Falls, South Dakota. The construction of these offices is anticipated to be completed during the first quarter of the 2001 fiscal year. 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, 1999, the liquidation account approximated $2.7 million.

First Federal and Security are in full compliance with their capital requirements. See Note 14 of Notes to Consolidated Financial Statements for additional information.

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 SFAS No. 133 on derivatives will, beginning with the quarter ended December 31, 2000, require all derivatives to be recorded at fair value in the balance sheet, with changes in fair value run through income. If derivatives are documented and effective as hedges, the change in the derivative fair value will be offset by an equal change in the fair value of the hedged item. The adoption of SFAS No. 133 is not expected to have a material impact on the results of operations or financial condition of the Company.

YEAR 2000 ISSUES

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

The Company's primary data processing is provided by a major third party vendor. This provider has advised the Company that it has completed the renovation of its system to be Year 2000 ready, and has provided users of the system the opportunity to test the system for readiness. The Company has completed testing of its primary data processing system for Year 2000 readiness with satisfactory results.

The Company has performed an assessment of its internal computer hardware and software and, where needed, has upgraded those systems to be Year 2000 ready. In addition, the Company has reviewed other external third party vendors that provide services to the Company (i.e. utility companies, electronic funds transfer providers, alarm companies, insurance providers, loan participation companies, and mortgage loan secondary market agencies), and has received certification letters from these vendors that their systems will be Year 2000 ready on a timely basis. Testing has been performed with these service providers, where possible, to determine their Year 2000 readiness.

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

Based on the Company's review of its computer systems, management believes the direct cost of the remediation effort to make its systems Year 2000 ready will be approximately $60,000, of which approximately $40,000 has been incurred. Such costs will be charged to expense as they are incurred.

The Company, as with all financial institutions, has reviewed the possibility of some level of reduction in its deposits during December 1999. Based on its review, the Company has determined that alternate sources of funds should be available to maintain adequate funding throughout this period.

The Company has developed a Year 2000 contingency plan that addresses, among other issues, critical operations and potential failures thereof, and strategies for business continuation. Virtually all of the Company's mission critical systems are dependent upon third party vendors or service providers, therefore, contingency plans include the selection of a new vendor or service provider and the conversion to a new system. For some systems, contingency plans consist of using internal spreadsheet software or reverting to manual systems until system problems can be corrected.

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

FORWARD-LOOKING STATEMENTS

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

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

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

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 1999 AND 1998

	1999	1998
ASSETS		
Cash and due from banks	$ 1,165,895	$ 908,984
Interest-bearing deposits in other financial institutions - short-term	4,208,016	5,818,460
Total cash and cash equivalents	5,373,911	6,727,444
Securities available for sale	178,489,030	120,609,531
Loans receivable, net of allowance for loan losses of $3,092,628 in 1999 and $2,908,902 in 1998	303,078,500	270,286,189
Federal Home Loan Bank (FHLB) stock, at cost	8,125,800	5,505,800
Accrued interest receivable	5,046,234	4,968,607
Premises and equipment, net	4,770,056	4,048,945
Foreclosed real estate, net of allowances of $-0- in 1999 and $299,532 in 1998	142,901	1,063,317
Other assets	6,186,320	5,170,562
Total assets	$ 511,212,752	$ 418,380,395
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Noninterest-bearing demand deposits	$ 5,680,923	$ 4,971,562
Savings, NOW and money market demand deposits	75,003,028	57,755,615
Other time certificates of deposit	224,095,970	221,130,975
Total deposits	304,779,921	283,858,152
Advances from FHLB	161,348,071	85,263,562
Securities sold under agreements to repurchase	3,020,951	4,074,567
Other borrowings	-	550,000
Advances from borrowers for taxes and insurance	422,593	405,218
Accrued interest payable	875,365	834,741
Accrued expenses and other liabilities	995,103	1,108,592
Total liabilities	471,442,004	376,094,832
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 2,507,073 shares outstanding at September 30, 1999; 2,957,999 shares issued and 2,553,245 shares outstanding at September 30, 1998	29,580	29,580
Additional paid-in capital	21,305,937	21,330,075
Retained earnings - substantially restricted	29,352,943	27,985,814
Accumulated other comprehensive income, net of tax of $(1,494,005) in 1999 and $474,346 in 1998	(2,520,633)	798,820
Unearned Employee Stock Ownership Plan shares	(167,200)	(367,200)
Treasury stock, 450,926 and 404,754 common shares, at cost, at September 30, 1999 and 1998, respectively	(8,229,879)	(7,491,526)
Total shareholders' equity	39,770,748	42,285,563
Total liabilities and shareholders' equity	$ 511,212,752	$ 418,380,395

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

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

	1999	1998	1997
Interest and dividend income			
Loans receivable, including fees	$ 23,795,796	$ 23,054,813	$ 22,432,828
Securities available for sale	11,108,170	8,629,761	6,185,385
Dividends on FHLB stock	468,765	374,220	386,462
	35,372,731	32,058,794	29,004,675
Interest expense			
Deposits	14,506,472	13,432,454	11,982,913
FHLB advances and other borrowings	7,669,408	5,797,499	5,076,144
	22,175,880	19,229,953	17,059,057
Net interest income	13,196,851	12,828,841	11,945,618
Provision for loan losses	1,992,000	1,662,472	120,000
Net interest income after provision for loan losses	11,204,851	11,166,369	11,825,618
Noninterest income			
Loan fees and deposit service charges	1,346,117	1,263,367	1,108,233
Gain on sales of securities available for sale, net	331,611	398,903	216,614
Gain (loss) on sales of foreclosed real estate, net	16,513	(33,034)	(6,722)
Brokerage commissions	79,159	52,479	69,379
Other income	144,625	193,158	313,168
	1,918,025	1,874,873	1,700,672
Noninterest expense			
Employee compensation and benefits	5,135,672	4,644,809	4,341,038
Occupancy and equipment expense	1,158,946	1,133,187	1,006,190
SAIF deposit insurance premium	155,901	143,199	220,849
Data processing expense	378,709	339,385	321,369
Provision for losses on foreclosed real estate	-	299,532	-
Other expense	1,815,730	1,692,728	1,492,819
	8,644,958	8,252,840	7,382,265
Income before income taxes	4,477,918	4,788,402	6,144,025
Income tax expense	1,836,786	2,003,520	2,502,069
Net income	$ 2,641,132	$ 2,784,882	$ 3,641,956
Earnings per common and common equivalent share			
Basic earnings per common share	$ 1.07	$ 1.08	$ 1.34
Diluted earnings per common share	$ 1.04	$ 1.03	$ 1.28

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, 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
Comprehensive Income:							
Net income for the year ended September 30, 1997	-	-	3,641,956	-	-	-	3,641,956
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	-	-	-	931,673	-	-	931,673
Total comprehensive income							4,573,629
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 management recognition and retention plan common shares and tax benefit of restricted stock under the plans	-	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)
Purchase of 7,263 common shares upon exercise of stock options	-	-	-	-	-	(175,445)	(175,445)
Issuance of 41,347 common shares from treasury stock due to exercise of stock options	-	(257,263)	-	-	-	768,699	511,436
Balance at September 30, 1997	$ 29,580	$ 20,984,754	$ 26,427,657	$ 960,371	$ (567,200)	$(4,358,158)	$ 43,477,004
Balance at September 30, 1997	$ 29,580	$ 20,984,754	$ 26,427,657	$ 960,371	$ (567,200)	$(4,358,158)	$ 43,477,004
Comprehensive income:							
Net income for the year ended September 30, 1998	-	-	2,784,882	-	-	-	2,784,882
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	-	-	-	(161,551)	-	-	(161,551)
Total comprehensive income							2,623,331
Purchase of 152,226 common shares of treasury stock	-	-	-	-	-	(3,271,203)	(3,271,203)
30,000 common shares committed to be released under the ESOP	-	454,460	-	-	200,000	-	654,460
Cash dividends declared on common stock ($.48 per share)	-	-	(1,226,725)	-	-	-	(1,226,725)
Purchase of 1,033 common shares upon exercise of stock options	-	-	-	-	-	(21,972)	(21,972)
Issuance of 7,600 common shares from treasury stock due to exercise of stock options	-	(109,139)	-	-	-	159,807	50,668
Balance at September 30, 1998	$ 29,580	$ 21,330,075	$ 27,985,814	$ 798,820	$ (367,200)	$(7,491,526)	$ 42,285,563

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 1998	$ 29,580	$ 21,330,075	$ 27,985,814	$ 798,820	$ (367,200)	$ (7,491,526)	$ 42,285,563
Comprehensive income (loss):							
Net income for the year ended September 30, 1999	-	-	2,641,132	-	-	-	2,641,132
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	-	-	-	(3,319,453)	-	-	(3,319,453)
Total comprehensive income (loss)							(678,321)
Purchase of 79,647 common shares of treasury stock	-	-	-	-	-	(1,289,186)	(1,289,186)
30,000 common shares committed to be released under the ESOP	-	255,220	-	-	200,000	-	455,220
Amortization of management recognition and retention plan common shares and tax benefits of restricted stock under the plans	-	101,634	-	-	-	-	101,634
Cash dividends declared on common stock ($.52 per share)	-	-	(1,274,003)	-	-	-	(1,274,003)
Issuance of 23,051 common shares from treasury stock due to exercise of stock options	-	(222,026)	-	-	-	391,867	169,841
Issuance of 10,424 common shares from treasury stock for award of stock under management recognition and retention plans	-	(158,966)	-	-	-	158,966	-
Balance at September 30, 1999	$ 29,580	$ 21,305,937	$ 29,352,943	$(2,520,633)	$ (167,200)	$ (8,229,879)	$ 39,770,748

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

	1999	1998	1997
Cash flows from operating activities			
Net income	$ 2,641,132	$ 2,784,882	$ 3,641,956
Adjustments to reconcile net income to net cash from operating activities			
Depreciation, amortization and accretion, net	1,757,207	973,454	1,092,782
Provision for loan losses	1,992,000	1,662,472	120,000
Provision for losses on foreclosed real estate	-	299,532	-
Gain on sales of securities available for sale, net	(331,611)	(398,903)	(216,614)
Proceeds from the sales of loans held for sale	7,403,780	5,613,115	3,592,055
Originations of loans held for sale	(7,403,780)	(5,613,115)	(3,592,055)
(Gain) loss on sales of foreclosed real estate, net	(16,513)	33,034	6,722
Net change in			
Accrued interest receivable	(77,627)	397,502	(337,062)
Other assets	113,315	46,622	223,344
Accrued interest payable	40,624	(231,005)	(205,719)
Accrued expenses and other liabilities	360,857	(152,159)	(2,348,712)
Net cash from operating activities	6,479,384	5,415,431	1,976,697
Cash flows from investing activities			
Net change in interest-bearing deposits in other financial institutions	-	200,000	100,000
Purchase of securities available for sale	(125,354,705)	(89,877,636)	(67,569,576)
Proceeds from sales of securities available for sale	24,791,295	18,280,412	804,067
Proceeds from maturities and principal repayment of securities available for sale	37,255,192	67,062,074	61,943,630
Loans purchased	(77,329,717)	(36,947,582)	(29,819,316)
Net change in loans	42,151,758	18,415,456	18,519,590
Proceeds from sales of foreclosed real estate	1,357,430	440,401	93,453
Purchase of FHLB stock	(2,620,000)	(447,700)	(104,600)
Proceeds from redemption of FHLB stock	-	571,200	-
Purchase of premises and equipment, net	(1,110,859)	(227,895)	(842,423)
Net cash from investing activities	(100,859,606)	(22,531,270)	(16,875,175)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

	1999	1998	1997
Cash flows from financing activities			
Net change in noninterest-bearing demand, savings, NOW, and money market demand deposits	$ 17,956,774	$ 7,316,146	$ 599,642
Net change in other time deposits	2,964,995	30,426,308	12,110,330
Proceeds from advances from FHLB	278,950,000	198,850,000	143,000,000
Repayments of advances from FHLB	(202,865,491)	(221,012,663)	(137,861,578)
Net change in securities sold under agreements to repurchase	(1,053,616)	2,274,567	(989,918)
Net change in other borrowings	(550,000)	(2,350,000)	1,500,000
Net change in advances from borrowers for taxes and insurance	17,375	(44,269)	(40,756)
Cash dividends paid	(1,274,003)	(1,226,725)	(962,682)
Proceeds from exercise of stock options	169,841	28,696	335,991
Purchase of treasury stock	(1,289,186)	(3,271,203)	(4,268,777)
Net cash from financing activities	93,026,689	10,990,857	13,422,252
Net change in cash and cash equivalents	(1,353,533)	(6,124,982)	(1,476,226)
Cash and cash equivalents at beginning of year	6,727,444	12,852,426	14,328,652
Cash and cash equivalents at end of year	$ 5,373,911	$ 6,727,444	$ 12,852,426
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	$ 22,135,256	$ 19,460,958	$ 17,264,776
Income taxes	1,919,389	1,795,805	2,415,042
Supplemental schedule of non-cash investing and financing activities			
Loans transferred to foreclosed real estate	$ 420,501	$ 1,679,984	$ 169,657

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 consumer, commercial, agricultural commercial real estate, and residential real estate loans. See Note 4 for a discussion of concentrations of credit risk and, additionally, see "Provision for Loan Losses" discussion in management's discussion and analysis of financial condition and results of operations for discussion of risks related to agricultural loans. 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. While the Company's chief decision makers monitor the revenue streams of the various Company products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment.

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, 1999 and 1998, trust assets totaled approximately $14,405,000 and $14,165,000, respectively.

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

Certain Significant Estimates: The allowance for loan losses, fair values of securities and other financial instruments, and stock-based compensation expense, involve certain significant estimates made by management. These estimates are reviewed by management routinely and it is reasonably possible that circumstances that exist at September 30, 1999 may change in the near-term future and that the effect could be material to the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments with Off-Balance-Sheet Risk: The Company, in the normal course of business, makes commitments to make loans which are not reflected in the consolidated financial statements. A summary of these commitments is disclosed in Note 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, 1999 and 1998, unamortized goodwill totaled approximately $4,132,883 and $4,497,815, respectively. Amortization expense was $364,932, $364,932 and $363,923 for the years ended September 30, 1999, 1998 and 1997.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Common Share: Basic earnings per common share is based on the net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for earnings per common share calculations as they are committed to be released; unearned ESOP shares are not considered outstanding. Management recognition and retention plan ("MRRP") shares are considered outstanding for basic earnings per common share calculations as they become vested. Diluted earnings per common share shows the dilutive effect of additional potential common shares issuable under stock options and nonvested shares issued under management recognition and retention plans.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes the net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects, and is also recognized as a separate component of shareholders' equity. The accounting standard that requires reporting comprehensive income first applies for 1999, with prior information restated to be comparable.

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

New Accounting Pronouncements: SFAS No. 133 on derivatives will, beginning with the quarter ended December 31, 2000, require all derivatives to be recorded at fair value in the balance sheet, with changes in fair value run through income. If derivatives are documented and effective as hedges, the change in the derivative fair value will be offset by an equal change in the fair value of the hedged item. The adoption of SFAS No. 133 is not expected to have a material impact on the results of operations or financial condition of the Company.

NOTE 2. EARNINGS PER COMMON SHARE

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

YEAR ENDED SEPTEMBER 30,	1999	1998	1997
Basic Earnings Per Common Share:			
Numerator			
Net income	$ 2,641,132	$ 2,784,882	$ 3,641,956
Denominator			
Weighted average common shares outstanding	2,510,494	2,646,105	2,822,021
Less: Weighted average unallocated ESOP shares	(41,327)	(71,327)	(101,375)
Weighted average common shares outstanding for basic earnings per common share	2,469,167	2,574,778	2,720,646
Basic earnings per common share	$ 1.07	$ 1.08	$ 1.34

NOTE 2. EARNINGS PER COMMON SHARE (CONTINUED)

YEAR ENDED SEPTEMBER 30,	1999	1998	1997
Diluted Earnings Per Common Share			
Numerator			
Net income	$ 2,641,132	$ 2,784,882	$ 3,641,956
Denominator			
Weighted average common shares outstanding for basic earnings per common share	2,469,167	2,574,778	2,720,646
Add: Dilutive effects of assumed exercises of stock options and average nonvested MRRP shares, net of tax benefits	79,681	127,862	130,638
Weighted average common and dilutive potential common shares outstanding	2,548,848	2,702,640	2,851,284
Diluted earnings per common share	$ 1.04	$ 1.03	$ 1.28

Stock options totaling 100,448 shares and 55,500 shares were not considered in computing diluted earnings per common share for the years ended September 30, 1999 and 1997, respectively, because they were antidilutive.

During the year ended September 30, 1999, the Company redeemed approximately 3.1% (79,647 shares) of its beginning of year outstanding common shares under its common stock repurchase program. This repurchase will affect the Company's future earnings per common share computations by reducing amounts available for investment and weighted average shares outstanding.

NOTE 3. SECURITIES

Year end securities available for sale were as follows:

1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
Trust preferred	$ 27,629,975	$ 34,696	$ (667,073)	$ 26,997,598
Obligations of states and political subdivisions	1,360,307	37,368	(10,830)	1,386,845
U.S. Government and federal agencies	15,922,716	-	(430,409)	15,492,307
Mortgage-backed securities	136,600,215	425,464	(3,596,526)	133,429,153
	181,513,213	497,528	(4,704,838)	177,305,903
Marketable equity securities	990,455	302,168	(109,496)	1,183,127
	$182,503,668	$ 799,696	$ (4,814,334)	$178,489,030

NOTE 3. SECURITIES (CONTINUED)

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

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, 1999	
	Amortized Cost	Fair Value
Due in one year or less	$ 105,000	$ 105,231
Due after one year through five years	5,923,132	5,898,459
Due after five years through ten years	11,254,891	10,875,462
Due after ten years	27,629,975	26,997,598
	44,912,998	43,876,750
Mortgage-backed securities	136,600,215	133,429,153
	$181,513,213	$177,305,903

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

Years Ended September 30,	1999	1998	1997
Proceeds from sales	$24,791,295	$18,280,412	$ 804,067
Gross gains on sales	331,611	398,903	216,614

NOTE 4. LOANS RECEIVABLE, NET

Year end loans receivable were as follows:

	1999	1998
One to four family residential mortgage loans:		
Insured by FHA or guaranteed by VA	$ 107,610	$ 299,454
Conventional	110,209,779	85,499,468
Construction	28,379,330	32,989,982
Commercial and multi-family real estate loans	85,793,177	66,845,149
Agricultural real estate loans	9,873,850	10,536,857
Commercial business loans	29,941,661	21,587,249
Agricultural business loans	29,284,440	37,233,902
Consumer loans	23,425,672	26,238,825
	317,015,519	281,230,886
Less: Allowance for loan losses	(3,092,628)	(2,908,902)
Undistributed portion of loans in process	(10,494,446)	(7,738,379)
Net deferred loan origination fees	(349,945)	(297,416)
	$ 303,078,500	$ 270,286,189

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

	1999	1998	1997
Beginning balance	$ 2,908,902	$ 2,379,091	$ 2,356,113
Provision for loan losses	1,992,000	1,662,472	120,000
Recoveries	58,240	33,635	25,638
Charge-offs	(1,866,514)	(1,166,296)	(122,660)
Ending balance	$ 3,092,628	$ 2,908,902	$ 2,379,091

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 $125,475,000 at September 30, 1999 and were secured by properties located, as a percentage of total loans, as follows: 12% in Washington, 6% in North Carolina, 5% in Minnesota, 3% in Iowa, 2% in Wisconsin, 2% in New Mexico, 2% in South Dakota, 2% in Nebraska and the remaining 6% in twenty other states. The Company's purchased loans totalled approximately $93,482,000 at September 30, 1998 and were secured by properties located, as a percentage of total loans, as follows: 10% in Washington, 5% in Wisconsin, 4% in Minnesota, 2% in New Mexico, 2% in North Dakota, 2% in South Dakota, and the remaining 8% in sixteen other states.

The Company 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 $13,022,252 and $8,100,000 of loans secured by nursing homes at September 30, 1999 and 1998, 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 credit-worthiness of each borrower.

The amount of restructured and related party loans as of September 30, 1999 and 1998 were not significant. The amount of non-accruing loans as of September 30, 1999 and 1998 were $2,238,536 and $3,164,000, respectively.

NOTE 4. LOANS RECEIVABLE, NET (CONTINUED)

Impaired loans were as follows:

	1999	1998
Year end loans with no allowance for loan losses allocated	$ 109,461	$ -
Year end loans with allowance for loan losses allocated	4,019,156	912,629
Amount of the allowance allocated	438,452	240,300
Average of impaired loans during the year	3,188,310	677,696
Interest income recognized during impairment	206,778	-
Cash-basis interest income recognized	-	-

NOTE 5. FORECLOSED REAL ESTATE

Year end foreclosed real estate was as follows:

	1999	1998
Foreclosed real estate	$ 142,901	$ 1,362,849
Less: Allowance for foreclosed real estate losses	-	(299,532)
	$ 142,901	$ 1,063,317

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

	1999	1998	1997
Balance, beginning of period	$ 299,532	$ -	$ 5,000
Provision for losses on foreclosed real estate	-	299,532	-
Less: Losses charged against allowance	(299,532)	-	(5,000)
Balance, end of period	$ -	$ 299,532	$ -

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:

	1999	1998
Mortgage loan portfolios serviced for FNMA	$ 4,941,000	$ 6,766,000
Other	11,040,000	4,198,000
Total	$ 15,981,000	$ 10,964,000

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $97,074 and $111,000 at September 30, 1999 and 1998, respectively.

NOTE 7. PREMISES AND EQUIPMENT, NET

Year end premises and equipment were as follows:

	1999	1998
Land	$ 935,289	$ 535,233
Buildings	4,858,210	4,674,969
Furniture, fixtures and equipment	2,969,748	2,450,526
	8,763,247	7,660,728
Less accumulated depreciation	(3,993,191)	(3,611,783)
	$ 4,770,056	$ 4,048,945

Depreciation of premises and equipment included in occupancy and equipment expense was $389,748, $355,261 and $346,444 for the years ended September 30, 1999, 1998 and 1997.

NOTE 8. DEPOSITS

Jumbo certificates of deposit in denominations of $100,000 or more was approximately $20,533,000 and $14,183,000 at year end 1999 and 1998.

At September 30, 1999, the scheduled maturities of certificates of deposit were as follows for the years ended September 30:

2000	$ 168,871,050
2001	37,302,497
2002	11,320,082
2003	4,882,051
2004	1,554,015
Thereafter	166,275
	$ 224,095,970

NOTE 9. ADVANCES FROM FEDERAL HOME LOAN BANK

At September 30, 1999, advances from the FHLB of Des Moines with fixed and variable rates ranging from 4.06% to 7.82% are required to be repaid in the year ending September 30 as follows:

2000	$ 53,794,620
2001	8,301,689
2002	11,961,763
2003	1,205,605
2004	6,270,778
Thereafter	79,813,616
	$ 161,348,071

NOTE 9. ADVANCES FROM FEDERAL HOME LOAN BANK (CONTINUED)

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

At year end 1999 and 1998, the Bank and Security pledged securities with amortized costs of approximately $88,067,000 and $41,980,000 and fair values of approximately $86,741,000 and $42,636,000 against specific FHLB advances. In addition, qualifying mortgage loans of approximately $107,712,000 and $82,165,000 were pledged as collateral at year end 1999 and 1998.

NOTE 10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Year end securities sold under agreements to repurchase totaled $3,020,951 and $4,074,567 for 1999 and 1998.

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

YEARS ENDED	1999	1998
Highest month-end balance	$ 4,321,674	$ 4,074,567
Average balance	3,299,584	2,915,614
Weighted average interest rate during the period	5.38%	5.80%
Weighted average interest rate at end of period	5.28%	5.71%

At year end 1999, securities sold under agreements to repurchase had maturities ranging from 1 to 19 months with a weighted average maturity of 6 months.

The Company pledged securities with amortized costs of approximately $6,105,000 and $4,285,000 and fair values of approximately $6,079,000 and $4,439,000, respectively, at year end 1999 and 1998 as collateral for securities sold under agreements to repurchase.

NOTE 11. OTHER BORROWINGS

Other borrowings at year end 1999 and 1998 consisted of $-0- and $550,000 of advances from the Federal Reserve Bank of Chicago. The advances outstanding at year end 1998 had a 5.45% interest rate and were due October 2, 1998. The Company pledged securities with amortized costs of approximately $1,499,000 and fair values of approximately $1,512,000 at year end 1998 as collateral for other borrowings.

NOTE 12. EMPLOYEE BENEFITS

Employee Stock Ownership Plan (ESOP): The Company maintains an ESOP for eligible employees who have 1,000 hours of employment with the Bank and who have attained age 21. The ESOP borrowed $1,534,100 from the Company to purchase 230,115 shares of the Company's common stock. Collateral for the loan is the unearned shares of common stock purchased with the loan proceeds by the ESOP. The loan will be repaid principally from the Bank's discretionary contributions to the ESOP over a period of 8 years. The interest rate for the loan is 8%. Shares purchased by the ESOP are held in suspense for allocation among participants as the loan is repaid. ESOP expense of $455,220, $654,460 and $495,740 was recorded for the years ended September 30, 1999, 1998 and 1997. Contributions of $200,000, $200,000 and $200,000 were made to the ESOP during the years ended September 30, 1999, 1998 and 1997.

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, 1999, 1998 and 1997, 30,000, 30,000 and 30,000 shares with an average fair value of $15.17, $21.82 and $16.52 per share, respectively, were committed to be released. Also, for the years ended September 30, 1999, 1998 and 1997, allocated shares and total ESOP shares reflects 18,540, 8,617 and 4,517 shares withdrawn from the ESOP by participants who are no longer with the Company, net of shares purchased for dividend reinvestment.

Year end ESOP shares are as follows:

	1999	1998	1997
Allocated shares	168,588	157,128	135,745
Unearned shares	25,080	55,080	85,080
Total ESOP shares	193,668	212,208	220,825
Fair value of unearned shares	$ 319,770	$ 950,130	$ 1,690,965

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

SFAS No. 123, which became effective for stock-based compensation during fiscal years beginning after December 15, 1995, requires proforma disclosures for companies that do not adopt its fair value accounting method for stock-based employee compensation for awards granted in the first fiscal year beginning after December 15, 1994. Accordingly, the following proforma information presents net income and earnings per share had the fair value method been used to measure compensation cost for stock option plans. The exercise price of options granted is equivalent to the market value of underlying stock at the grant date. Accordingly, compensation cost actually recognized for stock options was $-0- for 1999, 1998 and 1997.

Note 12. Employee Benefits (continued)

The fair value of options granted during 1999, 1998 and 1997 is estimated using the following weighted-average information: risk-free interest rate of 6.17%, 4.49% and 6.44%, expected life of 7.0 years, expected dividends of 4.00%, 2.69% and 2.02% per year and expected stock price volatility of 22%, 20% and 18% per year.

	1999	1998	1997
Net income as reported	$ 2,641,132	$ 2,784,882	$ 3,641,956
Proforma net income	$ 2,569,635	$ 2,689,596	$ 3,531,215
Reported earnings per common and common equivalent share			
Basic	$1.07	$1.08	$1.34
Diluted	$1.04	$1.03	$1.28
Proforma earnings per common and common equivalent share			
Basic	$1.04	$1.04	$1.30
Diluted	$1.01	$1.00	$1.24

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 directors, officers and employees and provide them with an additional equity interest. Options are issued for 10 year periods, with 100% vesting generally occurring either at grant date or 48 months after grant date. At fiscal year end 1999, 124,782 shares were authorized for future grants. Information about option grants follows.

	Number of options	Weighted-average exercise price
Outstanding, September 30, 1996	308,706	$ 8.45
Granted	69,930	17.91
Exercised	(51,838)	9.87
Forfeited	(1,500)	14.75
Outstanding, September 30, 1997	325,298	10.23
Granted	13,418	17.88
Exercised	(7,600)	6.67
Forfeited	-	-
Outstanding, September 30, 1998	331,116	10.62
Granted	26,335	13.00
Exercised	(23,051)	7.37
Forfeited	(9,000)	17.59
Outstanding, September 30, 1999	325,400	$10.85

The weighted-average fair value per option for options granted in 1999, 1998 and 1997 was $1.54, $2.01 and $4.15. At year end 1999, options outstanding had a weighted-average remaining life of 5.70 years and a range of exercise price from $6.67 to $20.13.

NOTE 12. EMPLOYEE BENEFITS (CONTINUED)

Options exercisable at year end are as follows.

	Number of options	Weighted-average exercise price
1997	269,798	$ 8.77
1998	285,491	$ 9.54
1999	286,650	$ 10.09

Management Recognition and Retention Plans: The Company granted 10,424, 7,191 and 106,428 (8,986 of which have been forfeited under terms of the Plan due to termination of service) shares of the Company's common stock on September 30, 1999, 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 stock granted in 1999 under the Plan vests as follows: 5,212 shares vested at the date of grant on September 30, 1999 and 5,212 shares vests on September 30, 2000. Previously granted restricted stock vests at a rate of 25% on each anniversary of the grant date. Expense of $101,634, $-0- and $41,947 was recorded for these plans for the years ended 1999, 1998 and 1997. The remaining unamortized unearned compensation value of the plans at September 30, 1999 and 1998 was $57,332 and $-0-.

NOTE 13. INCOME TAXES

The Company, the Bank and its subsidiaries and Security file a consolidated federal income tax return on a fiscal year basis. Prior to fiscal year 1997, if certain conditions were met in determining taxable income as reported on the consolidated federal income tax return, the Bank was allowed a special bad debt deduction based on a percentage of taxable income (8% for 1996) or on specified experience formulas. The Bank used the percentage of taxable income method for the tax year ended September 30, 1996. Tax legislation passed in August 1996 now requires the Bank to deduct a provision for bad debts for tax purposes based on actual loss experience and recapture the excess bad debt reserve accumulated in tax years beginning after September 30, 1987. The related amount of deferred tax liability which must be recaptured is approximately $554,000 and is payable over a six year period beginning with the tax year ending September 30, 1999.

The provision for income taxes consists of:

	1999	1998	1997
Federal			
Current	$ 1,690,170	$ 2,012,841	$ 1,599,255
Deferred	(90,137)	(230,887)	569,133
	1,600,033	1,781,954	2,168,388
State			
Current	250,616	304,679	314,712
Deferred	(13,863)	(83,113)	18,969
	236,753	221,566	333,681
Income tax expense	$ 1,836,786	$ 2,003,520	$ 2,502,069

NOTE 13. INCOME TAXES (CONTINUED)

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

YEARS ENDED SEPTEMBER 30,	1999	1998	1997
Income taxes at 34% Federal tax rate	$ 1,522,000	$ 1,628,000	$ 2,089,000
Increase (decrease) resulting from:			
State income taxes - net of federal benefit	156,000	146,000	220,000
Excess of cost over net assets acquired	124,000	124,000	124,000
Excess of fair value of ESOP shares released over cost	87,000	155,000	101,000
Other - net	(52,214)	(49,480)	(31,931)
Total income tax expense	$ 1,836,786	$ 2,003,520	$ 2,502,069

Year end deferred tax assets and liabilities consist of:

	1999	1998
Deferred tax assets:		
Bad debts	$ 570,000	$ 375,000
Deferred loan fees	65,000	111,000
Net unrealized losses on securities available for sale	1,494,005	-
Allowance for foreclosed real estate losses	-	118,000
Other items	72,000	46,000
	2,201,005	650,000
Deferred tax liabilities:		
Federal Home Loan Bank stock dividend	(452,000)	(452,000)
Accrual to cash basis	(133,000)	(178,000)
Net unrealized gains on securities available for sale	-	(474,346)
Other	(74,000)	(76,000)
	(659,000)	(1,180,346)
Valuation allowance	-	-
Net deferred tax asset (liability)	$ 1,542,005	$ (530,346)

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, 1999 and 1998. 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, 1999, 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, 1999						
Total Capital (to risk weighted assets)	$35,111	12.0%	$23,470	8.0%	$29,338	10.0%
Tier 1 (Core) Capital (to risk weighted assets)	$32,172	11.0%	$11,735	4.0%	$17,603	6.0%
Tier 1 (Core) Capital (to adjusted total assets)	$32,172	7.0%	$18,507	4.0%	$23,134	5.0%
Tier 1 (Core) Capital (to average assets)	$32,172	7.3%	$17,602	4.0%	$22,002	5.0%
As of September 30, 1998						
Total Capital (to risk weighted assets)	$33,520	13.2%	$20,396	8.0%	$25,495	10.0%
Tier 1 (Core) Capital (to risk weighted assets)	$31,113	12.2%	$10,198	4.0%	$15,297	6.0%
Tier 1 (Core) Capital (to adjusted total assets)	$31,113	8.3%	$14,959	4.0%	$18,699	5.0%
Tier 1 (Core) Capital (to average assets)	$31,113	8.8%	$14,108	4.0%	$17,635	5.0%

Regulations of the Office of Thrift Supervision limit the amount of dividends and other capital distributions that may be paid by a savings institution without prior approval of the Office of Thrift Supervision. The regulatory restriction is based on a three-tiered system with the greatest flexibility being afforded to well-capitalized (Tier 1) institutions. First Federal is currently a Tier 1 institution. Accordingly, First Federal can make, without prior regulatory approval, distributions during a calendar year up to 100% of its retained net income for the calendar year-to-date plus retained net income for the previous two calendar years (less any dividends previously paid) as long as First Federal would remain well-capitalized, as defined in the Office of Thrift Supervision prompt corrective action regulations, following the proposed distribution. Accordingly, at September 30, 1999, approximately $1,229,000 of First Federal's retained earnings was potentially available for distribution to the Company.

Note 14. Capital Requirements and Restrictions on Retained Earnings (continued)

Quantitative measures established by regulation to ensure capital adequacy require Security to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of September 30, 1999, that Security meets all capital adequacy requirements to which it is subject.

As of the most recent notification date, the Federal Deposit Insurance Corporation categorized Security as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized Security must maintain minimum, Tier 1 risk-based, Tier 1 leverage and total risk-based capital ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category. At September 30, 1999, approximately $53,000 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, 1999						
Total Capital (to risk weighted assets)	$3,890	14.8%	$2,107	8.0%	$2,634	10.0%
Tier 1 Capital (to risk weighted assets)	$3,670	13.9%	$1,053	4.0%	$1,580	6.0%
Tier 1 Capital (to average assets)	$3,670	9.4%	$1,563	4.0%	$1,954	5.0%
As of September 30, 1998						
Total Capital (to risk weighted assets)	$3,751	16.7%	$1,794	8.0%	$2,242	10.0%
Tier 1 Capital (to risk weighted assets)	$3,469	15.5%	$ 897	4.0%	$1,345	6.0%
Tier 1 Capital (to average assets)	$3,469	8.8%	$1,585	4.0%	$1,981	5.0%

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, 1999 and 1998, loan commitments approximated $33,212,000 and $27,353,000, respectively, excluding undisbursed portions of loans in process. Loan commitments at September 30, 1999 included commitments to originate fixed-rate loans with interest rates ranging from 6.875% to 8.75% totaling $865,000 and adjustable-rate loan commitments with interest rates ranging from 7.75% to 10.25% totaling $18,391,000. The Company also had commitments to purchase adjustable rate loans of $7,056,000 with interest rates ranging from 7.50% to 9.25%, and commitments to purchase $6,900,000 in fixed rate loans with interest rates ranging from 7.375% to 7.50% as of year end 1999. Loan commitments at September 30, 1998 included commitments to originate fixed-rate loans with interest rates ranging from 6.50% to 12.50% totaling $6,142,000 and adjustable-rate loan commitments with interest rates ranging from 8.30% to 10.25% totaling $9,277,000. The Company also had commitments to purchase adjustable-rate loans of $9,934,000 with interest rates ranging from 7.75% to 9.75%, and commitments to purchase $2,000,000 in fixed rate loans at 7.45% as of year end 1998. 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 $11,958,000 and $7,663,000 and fair values of approximately $11,767,000 and $7,859,000 at September 30, 1999 and 1998, respectively, were pledged as collateral for public funds on deposit.

Securities with amortized costs of approximately $5,813,000 and $6,557,000 and fair values of approximately $5,865,000 and $6,827,000 at September 30, 1999 and 1998, 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 $2,392,000 as of September 30, 1999.

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. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) components and related taxes were as follows:

	1999	1998	1997
Net change in net unrealized gains and losses on securities available for sale			
Unrealized gains (losses) arising during the year	$ (4,956,193)	$ 143,685	$ 1,697,976
Reclassification adjustment for gains included in net income	(331,611)	(398,903)	(216,614)
Net change in net unrealized gains and losses on securities available for sale	(5,287,804)	(255,218)	1,481,362
Tax effects	1,968,351	93,667	(549,689)
Total other comprehensive income (loss)	$ (3,319,453)	$ (161,551)	$ 931,673

NOTE 17. PARENT COMPANY FINANCIAL STATEMENTS

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

CONDENSED BALANCE SHEETS
SEPTEMBER 30, 1999 AND 1998

	1999	1998
ASSETS		
Cash and cash equivalents	$ 435,866	$ 104,518
Securities available for sale	3,546,100	4,257,486
Investment in subsidiary banks	38,373,373	40,643,747
Loan receivable from ESOP	167,200	367,200
Other assets	272,713	131,945
Total assets	$ 42,795,252	$ 45,504,896
LIABILITIES		
Loan payable to subsidiary banks	$ 2,750,000	$ 3,050,000
Accrued expenses and other liabilities	274,504	169,333
Total liabilities	3,024,504	3,219,333
SHAREHOLDERS' EQUITY		
Common stock	29,580	29,580
Additional paid-in capital	21,305,937	21,330,075
Retained earnings - substantially restricted	29,352,943	27,985,814
Accumulated other comprehensive income, net of tax of $(1,494,005) in 1999 and $474,346 in 1998	(2,520,633)	798,820
Unearned Employee Stock Ownership Plan shares	(167,200)	(367,200)
Treasury stock, at cost	(8,229,879)	(7,491,526)
Total shareholders' equity	39,770,748	42,285,563
Total liabilities and shareholders' equity	$ 42,795,252	$ 45,504,896

NOTE 17. PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

CONDENSED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

	1999	1998	1997
Dividend income from subsidiary banks	$ 2,350,000	$ 2,000,000	$ 6,000,000
Interest income	297,447	272,260	145,339
Gain on sales of securities available for sale, net	62,466	317,960	216,614
	2,709,913	2,590,220	6,361,953
Interest expense	210,444	72,581	132,014
Operating expenses	405,076	354,945	348,162
	615,520	427,526	480,176
Income before income taxes and equity in undistributed net income of subsidiaries	2,094,393	2,162,694	5,881,777
Income tax expense (benefit)	(106,000)	50,000	(55,000)
Income before equity in undistributed net income of subsidiaries	2,200,393	2,112,694	5,936,777
(Distributions in excess of) equity in undistributed net income of subsidiary banks	440,739	672,188	(2,294,821)
Net income	$2,641,132	$2,784,882	$3,641,956

NOTE 17. PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

	1999	1998	1997
Cash flows from operating activities			
Net income	$ 2,641,132	$ 2,784,882	$ 3,641,956
Adjustments to reconcile net income to net cash from operating activities			
Distribution in excess of (equity in undistributed) net income of subsidiary banks	(440,739)	(672,188)	2,294,821
Amortization of recognition and retention plan	101,634	-	41,947
Gain on sales of securities available for sale, net	(62,466)	(317,960)	(216,614)
Change in other assets	(38,470)	174,711	(245,225)
Change in accrued expenses and other liabilities	94,617	142,705	(611,711)
Net cash from operating activities	2,295,708	2,112,150	4,905,174
Cash flows from investing activities			
Purchase of securities available for sale	(1,626,721)	(5,150,000)	(231,000)
Proceeds from sales of securities available for sale	2,155,709	2,195,509	804,067
Repayments on loan receivable from ESOP	200,000	200,000	200,000
Net cash from investment activities	728,988	(2,754,491)	773,067
Cash flows from financing activities			
Proceeds from loan payable to subsidiary banks	1,150,000	4,550,000	-
Repayments on loan payable to subsidiary banks	(1,450,000)	(1,500,000)	-
Cash dividends paid	(1,274,003)	(1,226,725)	(962,682)
Proceeds from exercise of stock options	169,841	28,696	335,991
Purchase of treasury stock	(1,289,186)	(3,271,203)	(4,268,777)
Net cash from financing activities	(2,693,348)	(1,419,232)	(4,895,468)
Net change in cash and cash equivalents	331,348	(2,061,573)	782,773
Cash and cash equivalents at beginning of year	104,518	2,166,091	1,383,318
Cash and cash equivalents at end of year	$ 435,866	$ 104,518	$ 2,166,091
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	$ 210,444	$ 72,581	$ 132,014

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 18. Selected Quarterly Financial Data (Unaudited)

	Quarter Ended			
	December 31	March 31	June 30	September 30
Fiscal year 1999:				
Total interest income	$ 8,761,124	$ 8,585,259	$ 8,842,903	$ 9,183,445
Total interest expense	5,342,257	5,472,837	5,577,855	5,782,931
Net interest income	3,418,867	3,112,422	3,265,048	3,400,514
Provision for loan losses	243,000	358,000	299,000	1,092,000
Net income	908,517	759,500	756,673	216,442
Earnings per common and common equivalent share				
Basic	$ .37	$ .31	$ .31	$ .09
Diluted	$ .36	$ .30	$ .30	$ .09
Fiscal year 1998:				
Total interest income	$ 7,894,734	$7,839,781	$ 7,996,291	$ 8,327,988
Total interest expense	4,712,639	4,622,771	4,815,319	5,079,224
Net interest income	3,182,095	3,217,010	3,180,972	3,248,764
Provision for loan losses	35,000	1,345,000	55,000	227,472
Net income	989,055	46,316	893,056	856,455
Earnings per common and common equivalent share				
Basic	$ .38	$.02	$ .35	$ .34
Diluted	$ .36	$.02	$ .33	$ .32
Fiscal year 1997:				
Total interest income	$ 7,305,929	$ 6,882,095	$ 7,331,501	$ 7,485,150
Total interest expense	4,288,793	3,973,985	4,356,367	4,439,912
Net interest income	3,017,136	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 common and common equivalent share				
Basic	$ .34	$ .31	$ .34	$ .35
Diluted	$ .33	$ .29	$ .33	$ .33

NOTE 19. FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, *"Disclosures About Fair Value of Financial Instruments,"* requires that the Company disclose estimated fair value amounts of its financial instruments. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of September 30, 1999 and 1998, as more fully described below. It should be noted that the operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the subsidiary banks' capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at September 30, 1999 and 1998. This information is presented solely for compliance with SFAS No. 107 and is subject to change over time based on a variety of factors.

	1999		1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
SELECTED ASSETS:				
Cash and cash equivalents	$ 5,373,911	$ 5,374,000	$ 6,727,444	$ 6,727,000
Securities available for sale	178,489,030	178,489,000	120,609,531	120,610,000
Loans receivable, net	303,078,500	302,980,000	270,286,189	273,096,000
FHLB Stock	8,125,800	8,126,000	5,505,800	5,506,000
Accrued interest receivable	5,046,234	5,046,000	4,968,607	4,969,000
SELECTED LIABILITIES:				
Noninterest bearing demand deposits	(5,680,923)	(5,681,000)	(4,971,562)	(4,972,000)
Savings, NOW and money market demand deposits	(75,003,028)	(75,003,000)	(57,755,615)	(57,756,000)
Other time certificates of deposit	(224,095,970)	(224,027,000)	(221,130,975)	(222,807,000)
Total deposits	(304,779,921)	(304,711,000)	(283,858,152)	(285,535,000)
Advances from FHLB	(161,348,071)	(159,253,000)	(85,263,562)	(87,360,000)
Securities sold under agreements to repurchase	(3,020,951)	(3,026,000)	(4,074,567)	(4,095,000)
Other borrowings	-	-	(550,000)	(550,000)
Advances from borrowers for taxes and insurance	(422,593)	(423,000)	(405,218)	(405,000)
Accrued interest payable	(875,365)	(875,000)	(834,741)	(835,000)
OFF-BALANCE-SHEET INSTRUMENTS:				
Loan commitments	(33,212,000)	-	(27,353,000)	-

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 1999 and 1998.

Cash and Cash Equivalents: The carrying amount of cash and short-term investments 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, 1999 and 1998. In addition, when computing the estimated fair value for all loans, allowances for loan losses have been subtracted from the calculated fair value for consideration of credit issues.

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

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

Deposits: The fair value of deposits were determined as follows: (i) for noninterest bearing demand deposits, savings, NOW and money market demand deposits, since such deposits are immediately withdrawable, fair value is determined to approximate the carrying value (the amount payable on demand); (ii) for other time certificates of deposit, the fair value has been estimated by discounting expected future cash flows by the current rates offered as of September 30, 1999 and 1998 on certificates of deposit with similar remaining maturities. In accordance with SFAS No. 107, no value has been assigned to the Company's long-term relationships with its deposit customers (core value of deposits intangible) since such intangible is not a financial instrument as defined under SFAS No. 107.

Advances from FHLB: The fair value of such advances was estimated by discounting the expected future cash flows using current interest rates as of September 30, 1999 and 1998, 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, 1999 and 1998 over the contractual maturity of such borrowings.

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

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

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

NOTE 19. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

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

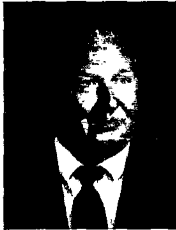
We have audited the accompanying consolidated balance sheets of First Midwest Financial, Inc. and Subsidiaries (the "Company") as of September 30, 1999 and 1998 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years ended September 30, 1999, 1998 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 1999 and 1998 and the results of its operations and its cash flows for the years ended September 30, 1999, 1998 and 1997 in conformity with generally accepted accounting principles.

Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP
South Bend, Indiana
October 15, 1999



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

J. Tyler Haahr — Senior Vice President, Secretary and Chief Operating Officer for First Midwest Financial, Inc.; Executive Vice President, Secretary, Chief Operating Officer, and Division President for First Federal Savings Bank of the Midwest; Chief Executive Officer of Security State Bank; and Vice President and Secretary of First Services Financial Limited. First Midwest and its affiliates have employed Mr. Haahr since March 1997. Previously Mr. Haahr was a partner with the law firm of Lewis and Roca LLP, Phoenix, Arizona. He is active in many local charities and was Co-chair for Buena Vista University's 1998 Community Campaign Fundraising. Board committee: First Federal Trust Committee. J. Tyler Haahr is the son of James S. Haahr.

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

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

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

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

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

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; and Chairman of the Board for Security State Bank

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

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

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

TIM D. HARVEY
President for Brookings Federal Bank Division

TROY MOORE
President for Iowa Savings Bank Division

I. EUGENE RICHARDSON, JR.
President for Security State Bank

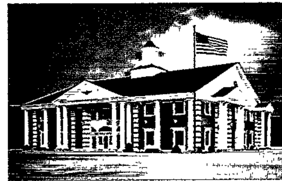
SUSAN C. JESSE
Senior Vice President for First Federal Savings Bank of the Midwest

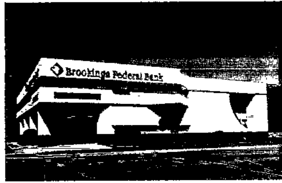
Bank Directors

DIRECTORS OF FIRST FEDERAL SAVINGS BANK OF THE MIDWEST
JAMES S. HAAHR, CHAIRMAN
E. WAYNE COOLEY
E. THURMAN GASKILL
J. TYLER HAAHR
G. MARK MICKELSON
RODNEY G. MUILENBURG

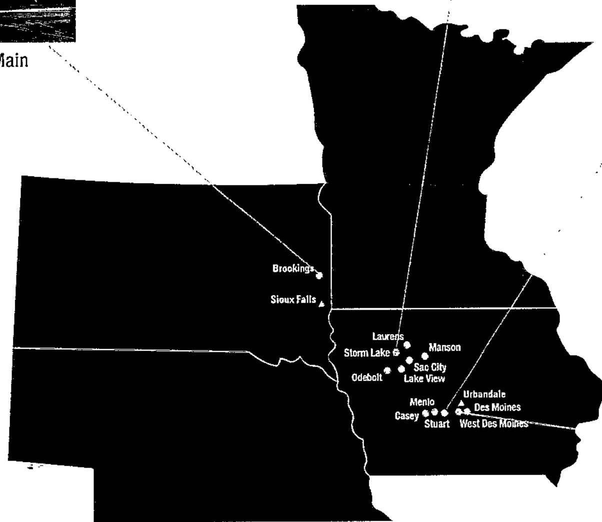
DIRECTORS OF SECURITY STATE BANK
JAMES S. HAAHR, CHAIRMAN
JEFFREY N. BUMP
E. WAYNE COOLEY
E. THURMAN GASKILL
J. TYLER HAAHR
G. MARK MICKELSON
RODNEY G. MUILENBURG
I. EUGENE RICHARDSON, JR.

BROOKINGS FEDERAL BANK ADVISORY BOARD
FRED J. RITTERSHAUS, CHAIRMAN
VIRGIL G. ELLERBRUCH
J. TYLER HAAHR
TIM D. HARVEY
O. DALE LARSON
EARL R. RUE


First Federal Savings Bank of the Midwest, Main Office


Brookings Federal Bank, Main Office

Security State Bank, Main Office



Iowa Savings Bank, Main Office

▲ = New building locations.

Office Locations

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

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

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

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

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

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

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

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

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

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

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

SECURITY STATE BANK
Main Office
615 South Division
P.O. Box 606
Stuart, Iowa 50250
515-523-2203
800-523-8003
515-523-2460 fax

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

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

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

Annual Meeting of Shareholders
The Annual Meeting of Shareholders will convene at 1 p.m. on Monday, January 24, 2000. The meeting will be held in the Board Room of First Federal Savings Bank of the Midwest, Fifth at Erie, Storm Lake, Iowa. Further information with regard to this meeting can be found in the proxy statement.

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

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

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

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

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

Form 10-K
Copies of the Company's annual report or Form 10-K for the year ended September 30, 1999 (excluding exhibits thereto) are available without charge, upon request to:

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. Quarterly dividends for 1998 and 1999 were $.12 and $.13 respectively. The price range of the common stock, as reported on the Nasdaq System, was as follows:

	Fiscal Year 1999		Fiscal Year 1998	
	Low	High	Low	High
First Quarter	$14.13	$19.63	$19.50	$22.63
Second Quarter	$14.25	$16.00	$21.88	$23.25
Third Quarter	$14.25	$15.50	$21.38	$25.25
Fourth Quarter	$12.50	$14.75	$17.13	$24.00

Prices disclose 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, 1999, First Midwest had 2,507,073 shares of common stock outstanding, which were held by 318 shareholders of record, and 325,400 shares subject to outstanding options. The shareholders of record number does not reflect approximately 565 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, 1999: Everen Securities, Inc.; Herzog, Heine, Geduld, Inc.; Howe Barnes Investments, Inc.; Spear, Leeds & Kellogg; Sandler O'Neill & Partners; and Tucker Anthony Incorporated.

First Federal Savings Bank

Average Land Value as of September 1999
High quality farmland in northwest Iowa: $2,334 per acre

Building Permits 1998
Storm Lake
Residential — $1,376,566
Commercial — $6,677,743

Taxable Retail Sales 1998
Storm Lake — $120,626,460

Unemployment Rate as of August 1999
Buena Vista County — 2.2%

Brookings Federal Bank

Average Land Value as of February 1999
High-productivity, non-irrigated cropland in east-central South Dakota: $949 per acre

Building Permits 1998
Brookings
Residential — $5,742,100
Commercial — $12,032,000

Taxable Retail Sales 1998
Brookings — $154,805,404

Unemployment Rate as of August 1999
Brookings — 1.6%

Iowa Savings Bank

Average Land Value as of September 1999
High quality farmland in central Iowa: $2,463 per acre

Building Permits 1998
Metropolitan Statistical Area*
Residential — $246,210,000
Commercial — $180,200,000

Taxable Retail Sales 1998
Des Moines — $3,944,053,446

Unemployment Rate as of August 1998
Polk County — 2.0%

**MSA = Dallas, Polk, and Warren Counties*

Security State Bank

Average Land Value as of September 1999
High quality farmland in west-central Iowa: $2,354 per acre

Building Permits 1998
N/A

Taxable Retail Sales 1998
Stuart — $6,719,643

Unemployment Rate as of August 1999
Guthrie County — 1.8%

First Midwest Financial, Inc.

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