PEOPLE HELPING PEOPLE

FIRST MIDWEST FINANCIAL, INC.

2003 ANNUAL REPORT

JESSICA J. STRUVE, Account Services
"Working in a numbers-focused industry, I believe a company's success still comes from its people. That's why I am proud to be part of the First Midwest family. We know that a handshake and smile, along with the financial services we provide, can make life a little easier for our customers."
Fun Fact: Recently accepted a marriage proposal while working at our bank's drive-up window.

PRIMARY PHOTOGRAPHY BY BILL NELLANS

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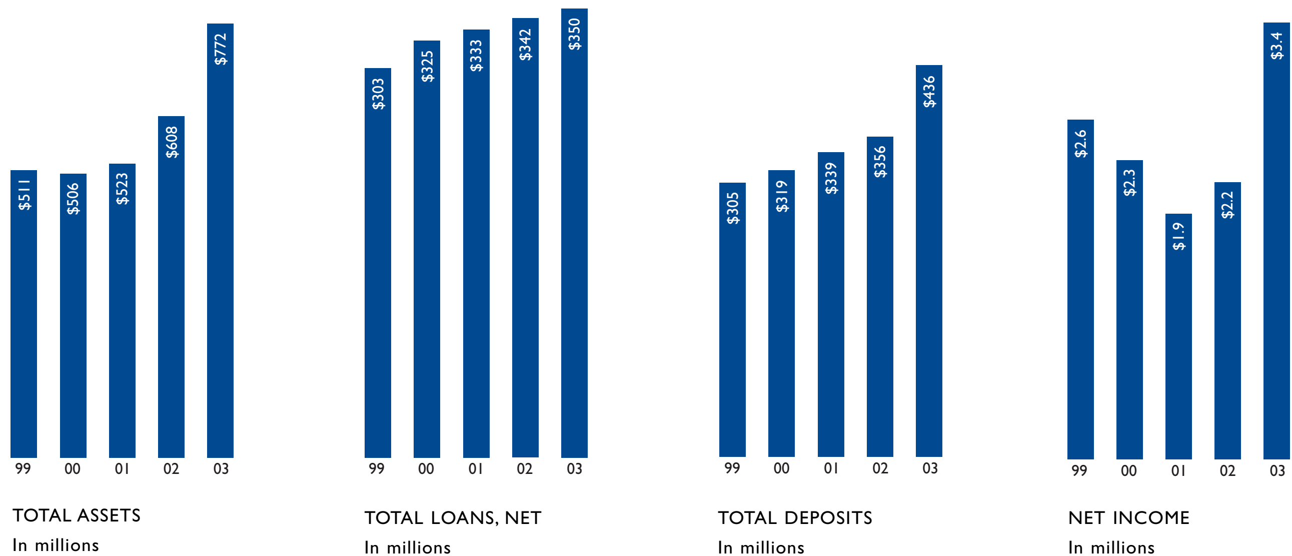
(Dollars in Thousands except Per Share Data)	2003	2002	2001	2000	1999
AT SEPTEMBER 30					
Total assets	$772,285	$607,648	$523,183	$505,590	$511,213
Total loans, net	349,692	341,937	333,062	324,703	303,079
Total deposits	435,553	355,780	338,782	318,654	304,780
Shareholders' equity	43,031	44,588	43,727	40,035	39,771
Book value per common share	$ 17.25	$ 18.06	$ 17.71	$ 16.48	$ 15.86
Total equity to assets	5.57%	7.34%	8.36%	7.93%	7.78%
FOR THE FISCAL YEAR					
Net interest income	$ 15,728	$ 13,700	$ 12,833	$ 14,177	$ 13,559
Net income	3,397	2,157	1,910	2,328	2,641
Diluted earnings per share	$ 1.36	$ 0.87	$ 0.78	$ 0.93	$ 1.04
Return on average assets	.47%	.38%	.37%	.46%	.54%
Return on average equity	7.57%	4.95%	4.57%	5.98%	6.35%
Net yield on interest-earning assets	2.31%	2.56%	2.59%	2.86%	2.91%



The Company and its subsidiaries exceed regulatory capital requirements.
Banks are Members FDIC and Equal Housing Lenders.

TO OUR SHAREHOLDERS

2003 WAS A STRONG YEAR FOR OUR COMPANY. FIRST MIDWEST FINANCIAL, INC.'S EARNINGS ROSE 57 PERCENT DURING THE FISCAL YEAR. NET INCOME WAS $3.4 MILLION OR $1.36 PER DILUTED SHARE FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003 COMPARED TO $2.2 MILLION OR $0.87 PER DILUTED SHARE THE PREVIOUS YEAR. THE 57 PERCENT JUMP IN EARNINGS FOLLOWS A 13 PERCENT INCREASE THE PREVIOUS YEAR.

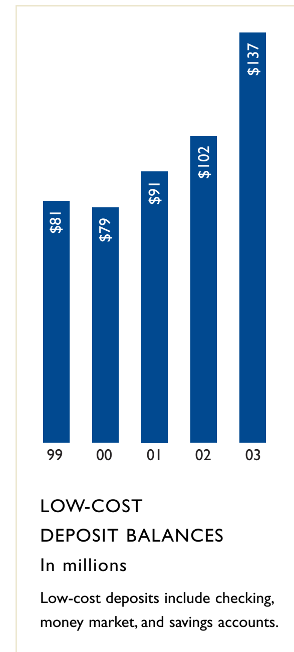
Net interest income rose 15 percent, or more than $2 million, compared to the previous fiscal year. Loan-to-deposit interest rate spreads were wider in 2003 due, in part, to our 34 percent growth in low-cost deposit balances (checking, money market, and savings accounts) and 44 percent growth in originated commercial loans.

Total deposit balances grew 22 percent, or $80 million, to total $436 million at year end. The Company's five-year deposit trends are most telling: 118 percent increase in low-cost deposit balances and 53.5 percent increase in total deposit balances. Both our low-cost and total deposit balance growth outperformed the average deposit percent growth for national commercial banks, savings banks and total FDIC-insured domestic deposits in 2003 and the last five years.[1]

"Our goal is to make financial management easy for customers through every life stage."

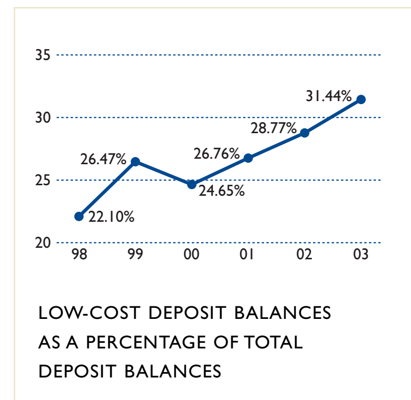
Our commitment to attract low-cost deposits has shifted the percentage of low-cost funds from 22 percent of total deposits to 31.5 percent during the past five years. The shift directly improves loan-to-deposit interest rate spreads and enhances the Company's ability to cultivate banking relationships that start from core services.

As our concentration and volume of originated commercial loans increase, the Company benefits with the related deposit accounts, better loan-to-deposit spreads, less interest rate sensitivity, and more fee income. Originated commercial loans grew $53 million, or 44 percent during fiscal 2003. This follows a 68 percent increase in 2002.



LOW-COST DEPOSIT BALANCES
In millions

Low-cost deposits include checking, money market, and savings accounts.



LOW-COST DEPOSIT BALANCES AS A PERCENTAGE OF TOTAL DEPOSIT BALANCES

	FMFIB	NAT	NAB	IAB
LOAN QUALITY AND ALLOWANCE COMPARISON				
Delinquent Loans >30 Days to Total Loans	0.57%	NA	NA	NA
Non-Performing Loans to Total Loans	0.30%	0.84%	1.33%	0.91%
Non-Performing Assets to Total Assets	0.28%	0.63%	0.84%	0.57%
Net Charge-Offs to Average Loans (Fiscal Year Annualized)	0.02%	0.32%	0.93%	0.19%
Allowance for Loan Losses to Total Loans	1.42%	0.90%	1.81%	1.36%

FMFIB (First Midwest Financial, Inc. Banks) statistics are as of September 30, 2003. The most current statistics available for NAT (National Average Thrift), NAB (National Average Bank), and IAB (Iowa Average Bank) are as of June 30, 2003. Peer group data, institutions with assets greater than $100 million, is taken from the FDIC.

Credit quality ratios outpaced the Company's state and national peer group in 2003.[1]

Centralization and expansion are two words that best describe our mortgage operation in 2003. We streamlined mortgage lending processes and purchased new software to make getting home loans easier for our customers, and more profitable for our banks. Now customers can choose from over 160 mortgage programs and customize the loan to suit their needs. Plus, we are increasing our mortgage lending staff to make service more responsive and personalized, so we can increase market share.

Start up costs associated with the mortgage operation and the new Des Moines and Urbandale, Iowa bank facilities contributed to an increase in noninterest expense for fiscal 2003 compared to 2002. The Company opened its Urbandale banking office in November 2002. At September 2003, the new Urbandale office has attracted more than $28 million in deposits and is quickly becoming a profitable branch for the Company.

LOOKING AHEAD

Former South Dakota Congressman John Thune joined our board of directors in January 2003. We are pleased and honored to welcome him. He brings a wealth of local, regional, and national insight that will benefit our customers, our banks, and First Midwest shareholders.

J. Tyler Haahr was promoted to president and chief operating officer in October of this year. He joined First Midwest's Board of Directors in 1992 and became an executive officer for First Midwest and its affiliates in March 1997. Tyler's new position reflects the leadership and contributions he has provided to our people and to our organization.

In recent years, the Company has focused primarily on managing credit quality, profitable growth, and streamlining operations. These areas are still top of mind as we implement plans for the next fiscal year.

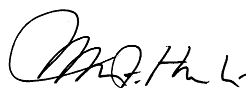
2004 strategies include initiatives such as:

1. Maintain exceptional credit quality.
2. Increase low-cost deposits.
3. Establish more full-service commercial relationships.
4. Increase mortgage business and streamline operations.
5. Implement branch expansion plans.

On October 6, 2003 First Midwest announced a definitive agreement with Manson State Bank (MSB) under which MSB will acquire First Federal's branch office in Manson, Iowa. The transaction is expected to close by January 31, 2004 and is subject to regulatory approval.

In July 2003, First Midwest announced its intention to repurchase up to 150,000 shares or approximately 6 percent of the Company's outstanding shares during the following twelve months. Since initiating its first stock repurchase program in 1994, the Company has invested a total of $14.7 million in the repurchase of more than 1 million shares. The Company's stock repurchase program confirms that we believe "CASH" is an attractive investment.

First Midwest Financial is a company of people helping people. It is that simple. Our goal is to make financial management easy for customers through every life stage. We know banking is not just about money. It is about making money work so customers have more time for what is really important in life. Our team remains dedicated to increasing shareholder value and enhancing your return. Thank you for your investment in First Midwest Financial.

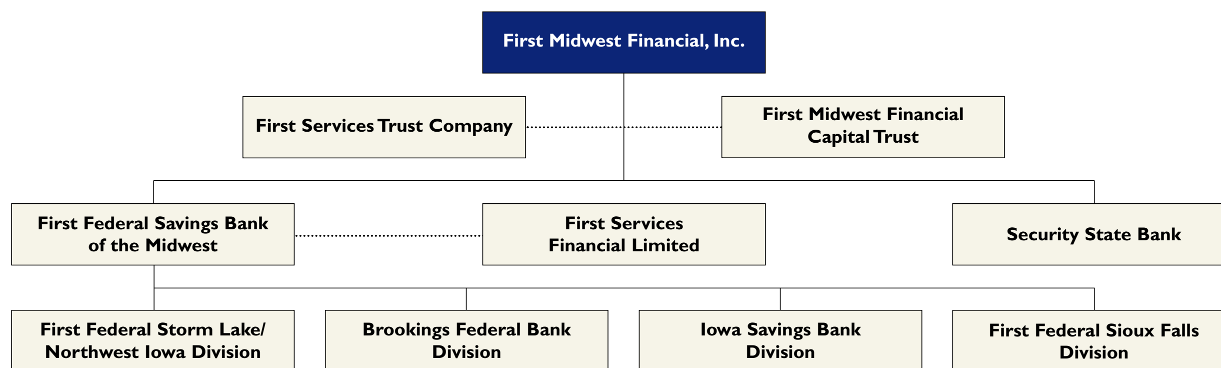


JAMES S. HAAHR
Chairman of the Board & CEO

J. TYLER HAAHR
President & COO

[1]Based on reports distributed by the FDIC.

COMPANY STRUCTURE



COMPANY PROFILE

First Midwest Financial, Inc. is a $772 million bank 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 grow while maintaining its community bank roots, with local decision making and customer service. 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 four divisions: First Federal Storm Lake/Northwest Iowa, Brookings Federal Bank, Iowa Savings Bank, and First Federal Sioux Falls. Security State Bank operates as a state-chartered commercial bank. Sixteen offices support customers in Brookings and Sioux Falls, South Dakota, and throughout central and northwest Iowa.

First Services Trust Company, a subsidiary of First Midwest Financial, Inc., provides professional trust services to bank customers. First Midwest Financial Capital Trust, also a wholly-owned subsidiary of First Midwest, was established in July 2001 for the purpose of issuing Company Trust Preferred Securities. First Services Financial Limited, a subsidiary of First Federal Savings Bank of the Midwest, is a full-service brokerage operation that offers a wide range of non-insured investment products to customers through LaSalle St. Securities, LLC.

COMPANY HISTORY

1954 Storm Lake Savings and Loan Association was granted a charter by the State of Iowa. Founder, *Stanley H. Haahr,* invested $2,000 of his personal savings and raised another $8,000 from friends to meet the $10,000 capital requirement. The first office was equipped with a desk, a cash box, and a borrowed vault in the back of Mr. Haahr's Buena Vista Abstract and Mortgage business.

1955 The Association applied for a Federal Charter. Stan Haahr collected deposits from one hundred friends to meet the required number of deposit accounts.

1957 The Association was converted to a Federal Charter and named First Federal Savings and Loan Association of Storm Lake (FFSLASL).

1971-1981 The Association maintained a subsidiary, Colonial Service Corporation, for the purpose of making consumer loans.

1973 Branch opened in Sac City, Iowa.

1975 Branches opened in Manson, Laurens, Odebolt and Lake View, Iowa.

1977-1981 The Association maintained a mortgage banking operation, First Services Mortgage Corporation, in Sioux Falls and Rapid City, South Dakota.

1979 Storm Lake Plaza branch opened.

1983 First Services Financial Limited, a subsidiary of the Association, was incorporated to serve as a full-service brokerage operation that offers a wide range of noninsured investments through LaSalle St. Securities, LLC.

1993 FFSLASL became First Federal Savings Bank of the Midwest, a subsidiary of First Midwest Financial, Inc. (FMFI). First Federal changed from a mutual savings institution to a public company through its association with FMFI. 1.9 million shares of FMFI stock were issued at $10.00 per share ($6.67 per share stock split adjusted) and began trading on the NASDAQ under the symbol "CASH."

1994 Brookings Federal Bank in Brookings, South Dakota was purchased.

1995 Iowa Savings Bank in Des Moines, Iowa was purchased.

1996 Security State Bank in Stuart, Iowa was purchased.

1997 Iowa Savings Bank opened its second office in West Des Moines, Iowa.

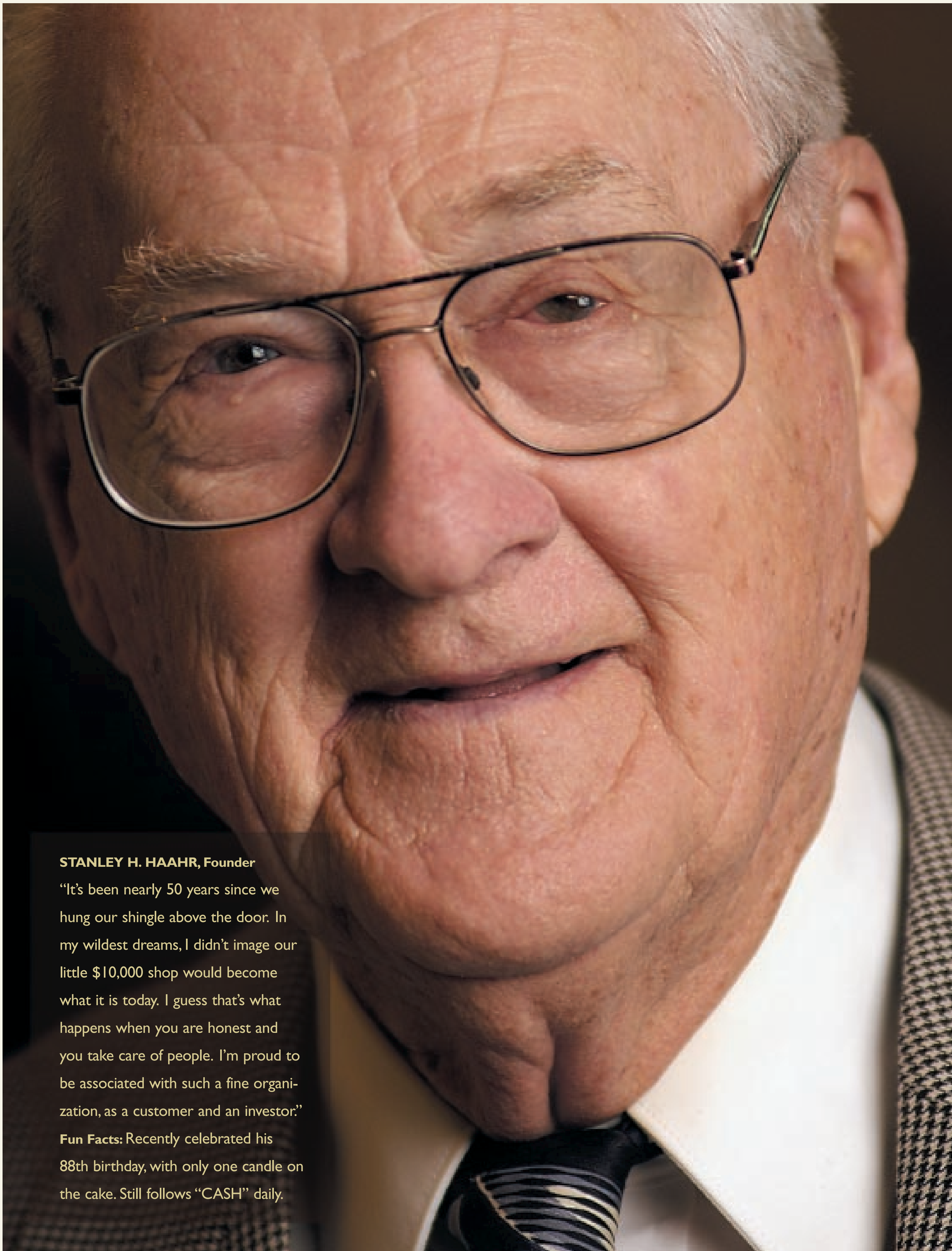
2000 First Federal opened a new bank in Sioux Falls, South Dakota.

2001 Iowa Savings Bank opened its third office in Des Moines, Iowa.

2002 Iowa Savings Bank built a new main office in Urbandale, Iowa, the fourth facility in the Des Moines area.

First Services Trust Company, a subsidiary of the Company, was established in Sioux Falls, South Dakota. The South Dakota charter allows the Company's customers to benefit from some of the most favorable trust and tax laws in the nation.

2003 First Federal Savings Bank leased land for a second Sioux Falls bank location. Keep reading for more 2003 highlights.



STANLEY H. HAAHR, Founder

"It's been nearly 50 years since we hung our shingle above the door. In my wildest dreams, I didn't image our little $10,000 shop would become what it is today. I guess that's what happens when you are honest and you take care of people. I'm proud to be associated with such a fine organization, as a customer and an investor."

Fun Facts: Recently celebrated his 88th birthday, with only one candle on the cake. Still follows "CASH" daily.

BANK EASY. LIVE LIFE.

Making life easier for you.

BANKING IS MORE THAN SIMPLY DEPOSITS AND LOANS. MUCH MORE.

OUR COMPANY MAKES FINANCIAL MANAGEMENT EASY FOR CUSTOMERS THROUGH EVERY LIFE STAGE. THAT IS BECAUSE WE KNOW BANKING IS NOT JUST ABOUT MONEY. IT IS ABOUT YOU. A GREAT BANK GIVES YOU CHOICES, AND HAS PEOPLE READY TO WORK WITH YOU EVERY STEP OF THE WAY. OUR COMPANY PUTS YOUR MONEY TO WORK, NO MATTER WHERE YOU ARE IN LIFE, SO YOU HAVE LESS WORRIES AND MORE TIME FOR WHAT IS REALLY IMPORTANT… LIVING LIFE.

HOW CAN WE MAKE MONEY MANAGEMENT EASIER FOR YOU?

PERSONAL FINANCIAL SERVICES

Checking Choices
Online Express Check Reorder
Online Banking
Online Bill Payment
QUICKbank 24-Hour Telebanking
Overdraft Protection
Privileged Status PhotoSecure *QUICKcard*
Privileged Status ATM Card
Money Market
Silver Savings
Moola Moola Kids Savings Club
Certificates of Deposit
Switch Kit
Commercial Lending
Mortgage Lending
Agricultural Lending
Consumer Lending
Lines of Credit
Ready Reserve
24-Hour Online Loan Applications
Credit Cards
Retirement Planning
Credit Life and Disability Insurance
Direct Deposits
Automatic Payment
Safe Deposit Boxes
Notary Service and Signature Guarantee
Travelers Cheques
Cashier's Checks
American Express Gift Checks
Interactive Web Sites

INVESTMENT AND INSURANCE SERVICES[1]

Stocks
Bonds
Mutual Funds
Fixed and Variable Annuities
Life Insurance
Disability Insurance
Long-term Care Insurance
Retirement Planning
Tax-advantaged Investments

TRUST SERVICES

Trust and Estate Planning
Investment Management Services
Custody Services
Retirement Planning
Employee Benefit Services

[1]Non-traditional bank products offered through LaSalle St. Securities, LLC are not FDIC insured, nor are they guaranteed by the banks of First Midwest or any affiliate.

RHONDA KIMBLE, Vice President and Residential Lending Manager

"People helping people is a core philosophy that helps our team do the right things right. From first-time homebuyer programs to new construction and refinances, we offer more than 160 mortgage loan programs that can be customized to suit your needs."

Fun Fact: Started fun-thing-of-the-month program. In November team members mailed care packages to U.S. troops overseas.

LARRY RINGGENBERG,
Vice President

"Agriculture is a constantly changing industry, and an integral part of midwestern life. It is exciting to be part of an organization that is committed to helping our ag customers succeed."

Fun Facts: Serves as chairman of the South Dakota Bankers Ag Credit Committee. Once caught a 17 pound brown trout.

BANK EASY. LIVE LIFE.

Making business easier for you.

IN TODAY'S DOG-EAT-DOG WORLD IT TAKES MORE THAN JUST HARD WORK TO RUN A SUCCESSFUL BUSINESS. YOU NEED THE RIGHT PEOPLE, THE RIGHT PRODUCT, AND THE RIGHT LOCATION. NOW, MORE THAN EVER, YOU ALSO NEED THE RIGHT FINANCIAL PARTNER.

FROM INVENTORY AND REAL ESTATE LOANS TO ONLINE CASH MANAGEMENT AND AUTOMATED PAYROLL SERVICES, OUR HOMETOWN KNOW-HOW AND BIG BANK RESOURCES CAN GIVE YOUR BUSINESS THE FINANCIAL BACKING IT NEEDS TO REACH ITS TRUE POTENTIAL. LET US ROLL UP OUR SLEEVES AND WORK WITH YOU EVERY STEP OF THE WAY. WE KEEP IT SIMPLE SO YOU HAVE MORE TIME AND MORE MONEY TO GET DOWN TO BUSINESS.

HOW CAN WE MAKE MONEY MANAGEMENT EASIER FOR YOUR BUSINESS?

BUSINESS FINANCING SERVICES

Commercial Real Estate Loans
Lines of Credit
Term Loans
Equipment Financing
Construction Lending
Management Buyouts
Employee Stock Ownership Plan Financing
Specialized Industries
Small Business Administration (SBA) Lending
Beginning Farmer Loan Programs
Crop Loans and Insurance
Livestock Loans
Alternative Lending Options
Letters of Credit

CASH MANAGEMENT SOLUTIONS

Business Advantage Checking
Monthly, Quarterly, or Annual Analysis
Business Money Market Accounts
Interest Advantage Accounts for Non-Profit Entities
Online Balance and Activity Reporting
Loan and Investment Sweeps
Zero Balance Accounts
Online Services and Administration
Automated Clearinghouse Origination
Automated Payroll Services
Domestic and International Wire Transfers
Federal Tax Payments
Ready Reserve Overdraft Protection
Cash Concentration Services

OTHER SERVICES

Business Retirement Planning
Personal Trust Services
Merchant Credit Card Processing
Business Credit Cards
Online Business Resource Center
Business and Cash Management Planning
Interactive Web Sites

BANK EASY. LIVE LIFE.

Making life better in our communities.

WE HAVE A SPECIAL CONNECTION TO OUR COMMUNITIES JUST BY THE NATURE OF OUR BUSINESS. LENDING MONEY FOR A FIRST HOME, A NEW BUSINESS, AND OTHER LIFE EVENTS IS ONE WAY OUR BANKS WORK TO ENHANCE PEOPLE'S LIVES.

OUR COMPANY ACTIVELY PARTICIPATES IN THE FEDERAL COMMUNITY REINVESTMENT ACT (CRA) TO MEET THE CREDIT NEEDS IN OUR COMMUNITIES. THAT MEANS YOUR INVESTMENTS WITH US ARE REINVESTED RIGHT BACK INTO OUR NEIGHBORHOODS TO MAKE THEM A BETTER PLACE TO LIVE, WORK, AND PLAY.

VOLUNTEERISM

Through our Volunteer of the Year program, we encourage every employee to become actively involved in community improvement programs. This year alone, employees volunteered 14,000 hours to more than 550 community projects. From sponsoring youth sports teams and providing volunteer coaches to feeding those in need, our company dedicates financial resources and employee talent to make our communities stronger.

BANK OF PROMISE

Each of our banks is recognized as a Bank of Promise. We are dedicated to building the character and competence of our nation's youth by fulfilling five promises:

1 CARING ADULTS – Provide ongoing relationships with caring adults, parents, mentors, tutors or coaches.

2 SAFE PLACES – Provide safe places with structured activities during nonschool hours.

3 HEALTHY START AND FUTURE – Provide adequate nutrition, health care and health education.

4 MARKETABLE SKILLS – Increase marketable skills through effective education.

5 OPPORTUNITIES TO SERVE – Provide opportunities to give back through community service.

TOUCHDOWN SCHOLARSHIPS

Our company partners with local schools to provide scholarships to high school seniors who typify leadership, community and school involvement, and scholastic achievement. Each year the bank contributes to the Touchdown Scholarship Fund each time a touchdown is made for our community school teams during home football games. The scholarship amount ranges from a minimum of $250 to $1,000 for each student. We have awarded more than $18,500 in scholarships to 50 area students who are interested in further education.

SCHOOL EDUCATION PROGRAMS

In collaboration with the American Bankers Association Education Foundation and local schools, our employees have taught more than 180 financial education lessons to more than 6,000 children from preschool through high school. These age-appropriate lessons help teach children basic money management skills. We are proud to invest in the future of our youth by teaching them how to make smart financial decisions.

CHARITY COOKOUTS

Charity Cookouts are held throughout our bank communities each Fall. For the past eight years, the bank has provided food, entertainment, and prizes for customers and friends. Together, we have raised more than $53,000 for local fire departments, community playgrounds, the United Way and other charities in need.

COMMITMENT

We remain committed to these and other community-centered programs that make life better for our neighbors and friends. When you get right down to it, we are in the business of helping people. Our success comes from the efforts of talented people working together to do the right things right—for our customers, for our communities, and for each other.

KATHY M. THORSON, Vice President
"We have business banking services that can help customers manage cash flow, fund operations, and better serve their employees. Just as important, we have the hands-on service they deserve. Customers can talk with us and get answers."
Fun Facts: Enjoys rollerblading with her daughter. Active board member and past president of Rotary North in Sioux Falls.

LISA RICHMOND-KIRBY, Trust Officer
"First Services Trust Company provides a full range of trust services to customers at all bank office locations. Thanks to its South Dakota charter, our customers benefit from some the most favorable trust and tax laws in the nation."
Fun Facts: Is an energetic room mother in both her daughters' classes at school. Serves on the Children's Inn and the Children's Home Society Boards to enhance the lives of Sioux Falls children.

FIRST FEDERAL SAVINGS BANK OF THE MIDWEST

First Federal Storm Lake, Main Office

FIRST FEDERAL STORM LAKE/NORTHWEST IOWA DIVISION

MAIN 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
1413 North Lake Avenue
Storm Lake, Iowa 50588
712.732.6655
712.732.7924 fax

LAKE VIEW
Fifth at Main
P.O. Box 649
Lake View, Iowa 51450
712.657.2721
712.657.2896 fax

LAURENS
104 North Third Street
Laurens, Iowa 50554
712.841.2588
712.841.2029 fax

MANSON
11th at Main
P.O. Box 130
Manson, Iowa 50563
712.469.3319
712.469.2458 fax

ODEBOLT
219 South Main Street
P.O. Box 465
Odebolt, Iowa 51458
712.668.4881
712.668.4882 fax

SAC CITY
518 Audubon Street
Sac City, Iowa 50583
712.662.7195
712.662.7196 fax
efirstfed.com

Brookings Federal Bank, Main Office

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
brookingsfed.com

First Federal Sioux Falls, Main Office

FIRST FEDERAL SIOUX FALLS DIVISION

MAIN OFFICE
2500 South Minnesota Avenue
Sioux Falls, South Dakota 57105
605.977.7500
605.977.7501 fax

12th AT ELMWOOD
(coming soon)
2104 West 12th Street
Sioux Falls, South Dakota 57104
605.336.8900
605.336.8901 fax
firstfedsf.com

FIRST SERVICES FINANCIAL LIMITED and FIRST SERVICES TRUST COMPANY

Investment[1] and trust services are available at all bank locations.

[1] Non-traditional bank products offered through LaSalle St. Securities, LLC are not FDIC insured, nor are they guaranteed by the banks of First Midwest or any affiliate.

Iowa Savings Bank, Main Office

IOWA SAVINGS BANK DIVISION

MAIN OFFICE
4848 86th Street
Urbandale, Iowa 50322
515.309.9800
515.309.9801 fax

HIGHLAND PARK
3624 Sixth Avenue
Des Moines, Iowa 50313
515.288.4866
515.288.3104 fax

INGERSOLL
3401 Ingersoll Avenue
Des Moines, Iowa 50312
515.274.9674
515.274.9675 fax

WEST DES MOINES
3448 Westown Parkway
West Des Moines, Iowa 50266
515.226.8474
515.226.8475 fax
iowasavings.com

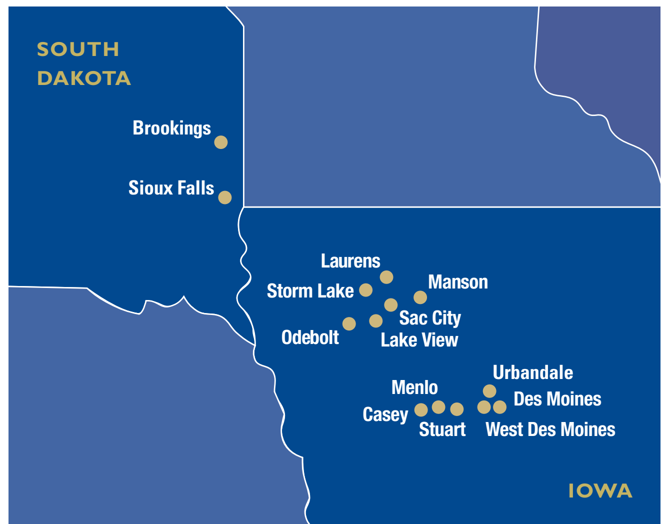
SECURITY STATE BANK

Security State Bank, Main Office

MAIN OFFICE
615 South Division
P.O. Box 606
Stuart, Iowa 50250
515.523.2203
800.523.8003
515.523.2460 fax

CASEY
101 East Logan
P.O. Box 97
Casey, Iowa 50048
641.746.3366
800.746.3367
641.746.2828 fax

MENLO
501 Sherman
P.O. Box 36
Menlo, Iowa 50164
641.524.4521
esecuritystate.com



SELECTED CONSOLIDATED FINANCIAL INFORMATION

SEPTEMBER 30,	2003	2002	2001	2000	1999
SELECTED FINANCIAL CONDITION DATA *(In Thousands)*					
Total assets	$ 772,285	$ 607,648	$ 523,183	$ 505,590	$ 511,213
Loans receivable, net	349,692	341,937	333,062	324,703	303,079
Securities available for sale	366,075	218,247	145,374	147,479	178,489
Excess of cost over net assets acquired, net	3,403	3,403	3,403	3,768	4,133
Deposits	435,553	355,780	338,782	318,654	304,780
Total borrowings	291,486	205,266	138,344	143,993	164,369
Shareholders' equity	43,031	44,588	43,727	40,035	39,771

YEAR ENDED SEPTEMBER 30,	2003	2002	2001	2000	1999
SELECTED OPERATIONS DATA *(In Thousands, Except Per Share Data)*					
Total interest income	$ 35,179	$ 35,434	$ 38,224	$ 38,755	$ 35,735
Total interest expense	19,451	21,734	25,391	24,578	22,176
Net interest income	15,728	13,700	12,833	14,177	13,559
Provision for loan losses	350	1,090	710	1,640	1,992
Net interest income after provision for loan losses	15,378	12,610	12,123	12,537	11,567
Total noninterest income	3,555	2,781	1,492	782	1,556
Total noninterest expense	13,858	12,268	10,695	9,408	8,645
Income before income taxes	5,075	3,123	2,920	3,911	4,478
Income tax expense	1,678	966	1,010	1,583	1,837
Net income	$ 3,397	$ 2,157	$ 1,910	$ 2,328	$ 2,641
Earnings per common and common equivalent share:					
Basic earnings per share	$ 1.37	$ 0.88	$ 0.79	$ 0.95	$ 1.07
Diluted earnings per share	$ 1.36	$ 0.87	$ 0.78	$ 0.93	$ 1.04

YEAR ENDED SEPTEMBER 30,	2003	2002	2001	2000	1999
SELECTED FINANCIAL RATIOS AND OTHER DATA					
PERFORMANCE RATIOS					
Return on average assets	0.47%	0.38%	0.37%	0.46%	0.54%
Return on average shareholders' equity	7.57%	4.95%	4.57%	5.98%	6.35%
Interest rate spread information:					
Average during the year	2.18%	2.37%	2.24%	2.46%	2.51%
End of year	1.90%	2.53%	2.21%	2.32%	2.40%
Net yield on average interest-earning assets	2.31%	2.56%	2.59%	2.86%	2.91%
Ratio of operating expense to average total assets	1.93%	2.16%	2.09%	1.85%	1.80%
QUALITY RATIOS					
Non-performing assets to total assets at end of year	0.28%	0.58%	0.49%	0.34%	0.66%
Allowance for loan losses to non-performing loans	492.75%	220.33%	240.02%	1,156.13%	137.16%
CAPITAL RATIOS					
Shareholders' equity to total assets at end of period	5.57%	7.34%	8.36%	7.93%	7.78%
Average shareholders' equity to average assets	6.25%	7.68%	8.17%	7.67%	8.65%
Ratio of average interest-earning assets to average interest-bearing liabilities	104.53%	104.86%	106.90%	108.02%	108.39%
OTHER DATA					
Book value per common share outstanding	$ 17.25	$ 18.06	$ 17.71	$ 16.48	$ 15.86
Dividends declared per share	$ 0.52	$ 0.52	$ 0.52	$ 0.52	$ 0.52
Dividend payout ratio	38%	59%	65%	55%	48%
Number of full-service offices	16	15	14	14	13

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

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

The 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, Dallas, Ida, Guthrie, Pocahontas, Polk, and Sac located in Iowa, and the counties of Brookings and Minnehaha 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, 2003 were $772.3 million, an increase of $164.7 million, or 27.1%, from $607.6 million at September 30, 2002. The increase in assets was due primarily to increases in securities available for sale and to a lesser extent in net loans receivable, total cash and cash equivilants, and Federal Home Loan Bank (FHLB) stock, and was funded by increases in deposits and advances from the FHLB, offset in part by a decrease in securities sold under agreements to repurchase.

The Company's portfolio of securities available for sale increased $147.9 million, or 67.8%, to $366.1 million at September 30, 2003 from $218.2 million at September 30, 2002. The increase reflects the purchase of mortgage-backed securities, primarily with balloon maturities, which have relatively short expected average lives and limited maturity extension. (See Note 3 of Notes to Consolidated Financial Statements.)

The Company's portfolio of net loans receivable increased by $7.8 million, or 2.3%, to $349.7 million at September 30, 2003 from $341.9 million at September 30, 2002. Net loans receivable increased as a result of the increased origination of commercial and multi-family real estate loans on existing and newly constructed properties and the increased origination of commercial business loans. In addition, the increase reflects an increase in consumer loans. Conventional one to four family residential mortgage loans declined as existing originated and purchased loans were repaid in amounts greater than new originations retained in portfolio during the period. (See Note 4 of Notes to Consolidated Financial Statements.)

The Company's investment in FHLB stock increased $4.1 million, or 60.3%, to $10.9 million at September 30, 2003 from $6.8 million at September 30, 2002. The increase is due to an increase in the level of borrowings from the FHLB, which require a calculated level of stock investment based on a formula determined by the FHLB.

Customer deposit balances increased by $79.8 million, or 22.4%, to $435.6 million at September 30, 2003 from $355.8 million at September 30, 2002. The increase in deposits reflects the opening of a new office in Des Moines, Iowa, and management's continued efforts to enhance deposit product design and marketing programs. Deposit balances increased for noninterest-bearing demand accounts, interest-bearing transaction accounts, which include savings, NOW and money market demand accounts, and time certificates of deposit in the amounts of $5.5 million, $29.1 million, and $45.2 million, respectively. Included in the increase in time certificates of deposit is a $61.0 million increase in jumbo certificates of deposit. (See Note 7 of Notes to Consolidated Financial Statements.)

The Company's borrowings from the Federal Home Loan Bank increased by $98.7 million, or 78.9%, to $223.8 million at September 30, 2003 from $125.1 million at September 30, 2002. The balance in securities sold under agreements to repurchase decreased by $12.5 million, or 17.8%, to $57.7 million at September 30, 2003 from $70.2 million at September 30, 2002. The overall increase in borrowings, in conjunction with the increase in deposits, was used to fund balance sheet growth during the period. (See Notes 8 and 9 of Notes to Consolidated Financial Statements.)

Shareholders' equity decreased $1.6 million, or 3.6%, to $43.0 million at September 30, 2003 from $44.6 million at September 30, 2002. The decrease in shareholders' equity was primarily due to dividends declared and an increase in unrealized loss on securities available for sale in accordance with SFAS 115, which was partially offset by net earnings during the period. (See Note 15 of Notes to Consolidated Financial Statements.)

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 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, which help offset the costs associated with establishing and maintaining these deposit accounts. In addition, noninterest income is derived from the activities of First Federal's wholly-owned subsidiary, First Services Financial Limited, which is engaged in the sale of various non-insured investment products as well as gains or losses on the sale of loans and securities available for sale. During fiscal year 2002, the Company established First Services Trust Company, a wholly-owned subsidiary of First Midwest that provides a variety of professional trust services.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND SEPTEMBER 30, 2002

GENERAL

Net income for the year ended September 30, 2003 increased $1,240,000, or 57.5%, to $3,397,000, from $2,157,000 for the same period ended September 30, 2002. The increase in net income reflects an increase in net interest income, an increase in noninterest income and a decrease in provision for loan losses, which were partially offset by an increase in noninterest expense.

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,	2003	2002	2001
WEIGHTED AVERAGE YIELD ON			
Loans receivable	6.17%	7.02%	7.93%
Mortgage-backed securities available for sale	2.87	5.29	6.46
Securities available for sale	2.23	2.85	4.61
FHLB stock	3.00	3.00	4.08
Combined weighted average yield on interest-earning assets	4.42	6.16	7.27
WEIGHTED AVERAGE RATE PAID ON			
Demand, NOW and money market demand deposits	0.83	1.27	2.06
Savings deposits	1.14	1.46	1.69
Time deposits	2.78	4.07	5.73
FHLB advances	3.40	5.46	5.76
Other borrowed money	1.71	2.36	7.07
Combined weighted average rate paid on interest-bearing liabilities	2.52	3.63	5.06
Spread	1.90	2.53	2.21

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,	2003 VS. 2002			2002 VS. 2001		
(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	$ 360	$ (1,575)	$ (1,215)	$ 874	$ (3,312)	$ (2,438)
Mortgage-backed securities available for sale	4,876	(3,355)	1,521	2,427	(860)	1,567
Securities available for sale	(84)	(535)	(619)	(471)	(1,248)	(1,719)
FHLB stock	72	(14)	58	(42)	(158)	(200)
Total interest-earning assets	$ 5,224	$ (5,479)	$ (255)	$ 2,788	$ (5,578)	$ (2,790)
INTEREST-BEARING LIABILITIES						
Demand, NOW and money market deposits	$ 236	$ (398)	$ (162)	$ 168	$ (904)	$ (736)
Savings deposits	32	(63)	(31)	57	(108)	(51)
Time deposits	693	(3,468)	(2,775)	26	(3,327)	(3,301)
FHLB advances	2,414	(2,008)	406	(453)	(29)	(482)
Other borrowed money	734	(455)	279	1,128	(215)	913
Total interest-bearing liabilities	$ 4,109	$ (6,392)	$ (2,283)	$ 926	$ (4,583)	$ (3,657)
Net effect on net interest income	$ 1,115	$ 913	$ 2,028	$ 1,862	$ (995)	$ 867

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. Non-accruing loans have been included in the table as loans carrying a zero yield.

YEAR ENDED SEPTEMBER 30,	2003			2002			2001		
(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]	$ 343,879	$ 24,099	7.01%	$ 338,736	$ 25,314	7.47%	$ 327,036	$ 27,752	8.49%
Mortgage-backed securities available for sale	288,560	9,900	3.43	146,435	8,379	5.72	104,012	6,812	6.55
Securities available for sale	38,623	894	2.31	42,273	1,513	3.58	55,442	3,232	5.83
FHLB stock	9,188	286	3.11	6,861	228	3.32	8,118	428	5.27
Total interest-earning assets	680,250	$ 35,179	5.17%	534,305	$ 35,434	6.63%	494,608	$ 38,224	7.73%
Noninterest-earning assets	37,737			32,374			18,251		
Total assets	$ 717,987			$ 566,679			$ 512,859		
INTEREST-BEARING LIABILITIES									
Demand, NOW and money market demand deposits	$ 95,118	$ 1,099	1.16%	$ 74,656	$ 1,261	1.69%	$ 64,711	$ 1,997	3.09%
Savings deposits	17,239	207	1.20	14,582	238	1.63	11,115	289	2.60
Time deposits	273,214	9,185	3.36	252,606	11,960	4.73	252,171	15,261	6.05
FHLB advances	176,961	7,297	4.12	118,415	6,891	5.82	126,208	7,373	5.84
Other borrowed money	88,209	1,663	1.89	49,288	1,384	2.81	8,471	471	5.56
Total interest-bearing liabilities	650,741	$ 19,451	2.99%	509,547	$ 21,734	4.27%	462,676	$ 25,391	5.49%
Noninterest-bearing:									
Deposits	15,375			10,105			6,551		
Liabilities	6,978			3,501			1,751		
Total liabilities	673,094			523,153			470,978		
Shareholders' equity	44,893			43,526			41,881		
Total liabilities and shareholders equity	$ 717,987			$ 566,679			$ 512,859		
Net interest-earning assets	$ 29,509			$ 24,758			$ 31,932		
Net interest income		$ 15,728			$ 13,700			$ 12,833	
Net interest rate spread			2.18%			2.37%			2.24%
Net yield on average interest-earning assets			2.31%			2.56%			2.59%
Average interest-earning assets to average interest-bearing liabilities	104.53%			104.86%			106.90%		

[1] Calculated net of deferred loan fees, loan discounts, loans in process and allowance for loan losses.

NET INTEREST INCOME

Net interest income for the year ended September 30, 2003 increased by $2,029,000, or 14.8%, to $15,728,000 compared to $13,699,000 for the period ended September 30, 2002. The increase in net interest income reflects a $145.9 million increase in the average balance of interest-earning assets, which was partially offset by a decrease in the net yield on average earning assets. The net yield on average earning assets decreased to 2.31% for the period ended September 30, 2003 from 2.56% for the same period in 2002. The decrease in net yield on average earning assets was due primarily to balance sheet growth during the year through the purchase of securities available for sale funded primarily with borrowings, which provided a net interest spread relatively lower than the spread received on the Company's loans and deposits. The average interest rate spread between loans and deposits increased to 4.29% for the fiscal year ended September 30, 2003 from 3.53% for the previous year. This increase reflects a reduction in the average cost of deposits due to an increase in the level of transactional deposit accounts and an increased percentage of originated commercial loans at relatively higher yields during the period.

INTEREST AND DIVIDEND INCOME

Interest and dividend income for the year ended September 30, 2003 decreased $254,000, or 0.7%, to $35,179,000 from $35,433,000 for the same period in 2002. The decrease is due primarily to a $1,215,000 decline in interest income from loans receivable as a result of a decrease in the average yield on these assets during the period. The decrease was partially offset by a $902,000 increase in interest income on securities available for sale due to a higher average balance of these assets during the period.

INTEREST EXPENSE

Interest expense decreased $2,283,000 or 10.5%, to $19,451,000 for the year ended September 30, 2003 from $21,734,000 for the same period in 2002. Interest expense was reduced due primarily to a $2,968,000 decrease in interest expense on deposits as a result of a decline in the average rates paid on deposits during the period. The decrease was partially offset by a $685,000 increase in interest expense on FHLB advances and other borrowings due to an increase in the average balance outstanding during the period.

PROVISION FOR LOAN LOSSES

The provision for loan losses for the year ended September 30, 2003 was $350,000 compared to $1,090,000 for the same period in 2002. Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, and other factors, the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate allowance against probable losses from the loan portfolio at such date.

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

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. While generally carrying higher rates, 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, though they have chosen not to do so in recent years.

NONINTEREST INCOME

Noninterest income increased by $774,000, or 27.8%, to $3,555,000 for the year ended September 30, 2003 from $2,781,000 for the same period in 2002. The increase in noninterest income reflects a $168,000 increase in service charges collected on deposit accounts, and a $334,000 increase in gain on sales of loans. The increase also reflects a gain on sale of securities available for sale in the amount of $243,000 during fiscal 2003 compared to a gain on sale of $86,000 in the previous year. Other noninterest income increased $177,000 for the year ended September 30, 2003 compared to the previous year due primarily to a gain on the sale of a building formerly used as a drive-up branch facility.

NONINTEREST EXPENSE

Noninterest expense increased by $1,590,000, or 13.0%, to $13,858,000 for the year ended September 30, 2003 from $12,268,000 for the same period in 2002. The increase in noninterest expense primarily reflects the costs associated with opening new offices during the period. In November 2001, the Company opened its third Des Moines, Iowa, location and in November 2002, the Company opened its newly constructed facility in Urbandale, Iowa, which serves as the Company's Des Moines area main office.

Noninterest expense also increased by $501,000 due to prepayment fees associated with the early extinguishment of FHLB advances that were repaid in conjunction with the sale of securities available for sale and early repayments received on loans.

INCOME TAX EXPENSE

Income tax expense increased by $712,000, or 73.7%, to $1,678,000 for the year ended September 30, 2003 from $966,000 for the same period in 2002. The increase in income tax expense reflects the increase in the level of taxable income between the comparable periods.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001

GENERAL

Net income for the year ended September 30, 2002 increased $247,000, or 12.9%, to $2,157,000, from $1,910,000 for the same period ended September 30, 2001. The increase in net income reflects increases in net interest income and noninterest income, which were partially offset by an increase in noninterest expense and an increase in the provision for loan losses.

NET INTEREST INCOME

Net interest income for the year ended September 30, 2002 increased by $866,000, or 6.7%, to $13,699,000 compared to $12,833,000 for the period ended September 30, 2001. The increase in net interest income reflects a $39.7 million increase in the average balance of interest-earning assets. The net yield on average earning assets decreased slightly to 2.56% for the period ended September 30, 2002 from 2.59% for the same period in 2001. The average interest rate spread increased to 2.37% for the fiscal year ended September 30, 2002 from 2.24% for the previous year. This increase reflects a reduction in the average cost of deposits due to an increase in the level of transactional deposit accounts and an increased percentage of originated commercial loans at relatively higher yields during the period.

INTEREST AND DIVIDEND INCOME

Interest and dividend income for the year ended September 30, 2002 decreased $2,791,000, or 7.3%, to $35,433,000 from $38,224,000 for the same period in 2001. The decrease is due primarily to a $2,438,000 decline in interest income from loans receivable as a result of a decrease in the average yield on these assets during the period. In addition, dividend income from FHLB stock decreased by $200,000 due primarily to a decline in average yield received.

INTEREST EXPENSE

Interest expense decreased $3,657,000, or 14.4%, to $21,734,000 for the year ended September 30, 2002 from $25,391,000 for the same period in 2001. Interest expense was reduced due to a $4,088,000 decrease in interest expense on deposits as a result primarily of a decline in the average rate paid on deposits during the period. In addition, interest expense was reduced by $482,000 on FHLB advances due primarily to a decrease in the average balance outstanding during the period. These decreases were partially offset by a $913,000 increase in expense on other borrowings due to an increase in the average balance outstanding during the period.

PROVISION FOR LOAN LOSSES

The provision for loan losses for the year ended September 30, 2002 was $1,090,000 compared to $710,000 for the same period in 2001. Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, and other factors, the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate allowance against probable losses from the loan portfolio at such date.

NONINTEREST INCOME

Noninterest income increased by $1,289,000, or 86.4%, to $2,781,000 for the year ended September 30, 2002 from $1,492,000 for the same period in 2001. The increase in noninterest income reflects a $421,000 increase in gain on sales of loans and a $566,000 increase in the accretion of income from bank owned life insurance, which was purchased in August 2001. In addition, the increase reflects a $78,000 increase in service charges collected on deposit accounts, an $84,000 increase in commissions received through the Company's brokerage subsidiary, and a gain on sale of securities available for sale in the amount of $86,000 during fiscal 2002 compared to a loss on sale of $60,000 in the previous year.

NONINTEREST EXPENSE

Noninterest expense increased by $1,573,000, or 14.7%, to $12,268,000 for the year ended September 30, 2002 from $10,695,000 for the same period in 2001. The increase in noninterest expense primarily reflects the costs associated with opening new offices during the period. In April 2001, the Company moved into its newly constructed facility in Sioux Falls, South Dakota and opened its third Des Moines, Iowa, location in November 2001. In November 2002, the Company opened its newly constructed facility in Urbandale, Iowa, which is the Company's fourth Des Moines area location and serves as the Company's Des Moines area main office. Noninterest expense also increased as a result of the Company's on-going effort to maintain and enhance its technology systems for the efficient delivery of products and customer service. This includes internet banking, which became available to customers in January 2002.

INCOME TAX EXPENSE

Income tax expense decreased by $45,000, or 4.5%, to $966,000 for the year ended September 30, 2002 from $1,011,000 for the same period in 2001. The decrease in income tax expense reflects a decrease in taxable income between the comparable periods. Taxable income decreased due to an increase in the accretion of income from bank owned life insurance attributable to a buildup in cash surrender value, which is not taxable.

CRITICAL ACCOUNTING POLICY

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for loan losses. The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest and in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan portfolio, it will enhance its methodology accordingly. Management may report a materially different amount for the provision for loan losses in the statement of operations to change the allowance for loan losses if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion of this Management's Discussion and Analysis section entitled "Asset Quality." Although management believes the levels of the allowance as of both September 30, 2003 and September 30, 2002 were adequate to absorb losses inherent in the loan portfolio, a decline in local economic conditions, or other factors, could result in increasing losses.

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 only significant "market" risk as defined in rules adopted by the Securities and Exchange Commission.

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 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 short to intermediate terms to maturity, generally 15 years or less. This theoretically allows the Company to maintain a portfolio of loans that will be relatively 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 the funding needs of the loan portfolio. 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 that 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, 2003 and 2002, 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 at September 30, 2003 was more sensitive to increasing interest rates than to declining interest 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, 2003 compared to September 30, 2002 due primarily to an increase in fixed-rate mortgage-backed securities and a reduction in the average maturity of its borrowings.

Change in Interest Rate (Basis Points)	Board Limit % Change	At September 30, 2003 $ Change	At September 30, 2003 % Change	At September 30, 2002 $ Change	At September 30, 2002 % Change
Dollars In Thousands					
+200 bp	(40)%	$ (6,062)	(19)%	$ 1,543	4%
+100 bp	(25)	(2,451)	(8)	1,898	5
0	–	—	–	—	–
-100 bp	(25)	1,085	3	(4,362)	(12)
-200 bp	(40)	925	3	(8,873)	(25)

Certain shortcomings are inherent in the method of analysis presented in the table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets such as adjustable-rate mortgage loans have features that 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 table. 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 at fiscal year end, that the Company's current asset quality is satisfactory. At September 30, 2003, non-performing assets, consisting of non-accruing loans, accruing loans delinquent 90 days or more, restructured loans, foreclosed real estate, and repossessed consumer property, totaled $2,175,000, or 0.28% of total assets, compared to $3,538,000, or 0.58% of total assets, for the fiscal year ended 2002.

Non-accruing loans at September 30, 2003 include, among others, a commercial real estate loan in the amount of $417,000 secured by a casino and an agricultural operating loan in the amount of $291,000 secured by agricultural land.

Foreclosed real estate at September 30, 2003 consists primarily of a nursing home in the amount of $889,000 and a car wash facility in the amount of $193,000.

The Company maintains an allowance for loan losses because of the potential that some loans may not be repaid in full. (See Note 1 of Notes to Consolidated Financial Statements.) At September 30, 2003, the Company had an allowance for loan losses in the amount of $4,962,000 as compared to $4,693,000 at September 30, 2002. Management's periodic review of the adequacy of the allowance for loan losses is based on various subjective and objective factors including the Company's past 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 allocate portions of the allowance for specifically identified problem loan situations, the majority of the allowance is based on judgmental factors related to the overall loan portfolio and is available for any loan charge-offs that may occur.

In determining the allowance for loan losses, the Company specifically identifies loans that it considers to have potential collectibility problems. Based on criteria established by Statement of Financial Accounting Standards (SFAS) No. 114, some of these loans are considered to be "impaired" while others are not considered to be impaired, but possess weaknesses that the Company believes merit additional analysis in establishing the allowance for loan losses. All other loans are evaluated by applying estimated loss ratios to various pools of loans. The Company then analyzes other factors (such as economic conditions) in determining the aggregate amount of the allowance needed.

At September 30, 2003, $312,000 of the allowance for loan losses was allocated to impaired loans (See Note 4 of Notes to Consolidated Financial Statements), $1,522,000 was allocated to identified problem loan situations, and $3,128,000 was allocated as a reserve against losses from the overall loan portfolio based on historical loss experience and general economic conditions. At September 30, 2002, $304,000 of the allowance for loan losses was allocated to impaired loans, $1,701,000 was allocated to identified problem loan situations, and $2,688,000 was allocated as a reserve against losses from the overall loan portfolio based on historical loss experience and general economic conditions.

The September 30, 2003 allowance for loan losses that was allocated to impaired loans was $312,000, which is 39.5% of impaired loans as of that date. The September 30, 2002 allowance allocated to impaired loans was $304,000, which is 25.6% of impaired loans at that date. The increase in the dollar amount and percentage of the allocated allowance is a result of the specific analysis performed on a loan-by-loan basis as described above.

The September 30, 2003 allowance allocated to other identified problem loan situations was $1,522,000 as compared to $1,701,000 at September 30, 2002, a decrease of $179,000. The decrease in the dollar amount of the allocated allowance is due to a relative decrease in identified problem loan situations between the periods and is the result of a specific analysis performed on a loan-by-loan basis as described above.

The portion of the September 30, 2003 allowance that was not specifically allocated to individual loans was $3,128,000 as compared to $2,688,000 at September 30, 2002, an increase of $440,000. The increase primarily reflects a change in the composition of the loan portfolio, which reduced one-to-four family residential mortgage loans and increased commercial and multi-family real estate loans.

LIQUIDITY AND SOURCES OF FUNDS

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

The Company relies on competitive pricing policies, advertising and customer service to attract and retain its deposits and only solicits these deposits from its primary market area. Based on its experience, the Company believes that its passbook savings, money market savings accounts, NOW and regular checking accounts are relatively stable sources of deposits. The Company's ability to attract and retain time deposits has been, and will continue to be, significantly affected by market conditions. However, the Company does not foresee significant funding issues resulting from disintermediation of its portfolio of time deposits.

First Federal and Security are required by regulation to maintain sufficient liquidity to assure their safe and sound operation. In the opinion of management, both First Federal and Security are in compliance with this requirement.

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 FHLB and has collateral eligible for use with reverse repurchase agreements. The Company is not aware of any significant trends in the Company's liquidity or its ability to borrow additional funds if needed.

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, 2003, 2002 and 2001, the Company originated loans totaling $324.7 million, $299.9 million and $159.6 million,

respectively. Purchases of loans totaled $26.2 million, $27.1 million and $32.8 million during the years ended September 30, 2003, 2002 and 2001, respectively. During fiscal 2003, the mix of loans outstanding changed, with commercial and multi-family real estate loans, commercial business loans and consumer loans increasing while one-to-four family residential mortgage loans and other categories of loans decreased. (See Note 4 of Notes to Consolidated Financial Statements.) During the years ended September 30, 2003, 2002 and 2001, the Company purchased mortgage-backed securities and other securities available for sale in the amount of $431.7 million, $135.5 million and $22.9 million, respectively. (See Note 3 of Notes to Consolidated Financial Statements.)

At September 30, 2003, the Company had outstanding commitments to originate and purchase loans of $63.4 million. (See Note 14 of Notes to Consolidated Financial Statements.) Certificates of deposit scheduled to mature in one year or less from September 30, 2003 total $184.4 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.

During July 2001, the Company's trust subsidiary, First Midwest Financial Capital Trust I, sold $10 million in floating rate cumulative preferred securities. Proceeds from the sale were used to purchase subordinated debentures of First Midwest, which mature in the year 2031, and are redeemable at any time after five years. The Company used the proceeds for general corporate purposes.

During fiscal year 2002, the Company initiated construction of a new office facility in Urbandale, Iowa. Construction was completed in October 2002 and the facility opened as a branch office in November 2002. 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, 2003, the liquidation account approximated $2.6 million.

The Company, First Federal and Security are in compliance with their capital requirements and are considered "well capitalized" under current regulatory guidelines. (See Note 13 of Notes to Consolidated Financial Statements.) The Company does not anticipate any significant changes to its capital structure.

On July 7, 2003, the Company announced its intention to repurchase up to 150,000 shares, or approximately 6% of the Company's outstanding shares, through open market and privately negotiated transactions. The shares will be purchased at prevailing market prices during the next twelve months, depending upon market conditions. The repurchased shares will become treasury shares to be used for general corporate purposes, including the issuance of shares in connection with grants and awards under the Company's stock-based benefits plans. The Company also believes the repurchase of shares to be an attractive investment that will benefit the Company and its shareholders. Through December 1, 2003, no shares had been purchased under the program.

The payment of dividends and repurchase of shares has the effect of reducing stockholders' equity. Prior to authorizing such transactions, the Board of Directors considers the effect the dividend or repurchase of shares would have on liquidity and capital ratios. The Banks and the Company may not declare or pay cash dividends if the effect thereof would cause equity to be reduced below applicable regulatory capital requirements.

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

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued and clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The effects of implementation on the Company's financial statements were not material.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

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

entered into after January 31, 2003. For existing VIEs, the implementation date of FIN 46 is the first period ending after December 15, 2003.

The Company expects to adopt FIN 46 in connection with its consolidated financial statements beginning October 1, 2003. In its current form, FIN 46 may require the Company to deconsolidate its investment in First Midwest Financial Capital Trust I in future financial statements. The potential deconsolidation of subsidiary trusts of bank holding companies formed in connection with the issuance of trust preferred securities, like First Midwest Financial Capital Trust I, appears to be an unintended consequence of FIN 46. It is currently unknown if, or when, the FASB will address this issue. In July 2003, the Board of Governors of the Federal Reserve System issued a supervisory letter instructing bank holding companies to continue to include the trust preferred securities in their Tier I capital for regulatory capital purposes until notice is given to the contrary. The Federal Reserve intends to review the regulatory implications of any accounting treatment changes and, if necessary or warranted, provide further appropriate guidance. There can be no assurance that the Federal Reserve will continue to permit institutions to include trust preferred securities in Tier I capital for regulatory capital purposes. As of September 30, 2003, assuming the Company was not permitted to include the $10 million in trust preferred securities issued by First Midwest Financial Capital Trust I in its Tier 1 capital, the Company would still exceed the regulatory required minimums for capital adequacy purposes (see Note 13 of Notes to Consolidated Financial Statements). If the trust preferred securities were no longer permitted to be included in Tier 1 capital, the Company would also be permitted to redeem the capital securities, which bear interest at 4.9%, without penalty.

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

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, (SFAS 149). SFAS 149 amends Statement 133 for certain items. The Company adopted SFAS 149 on July 1, 2003 and such adoption did not have a material effect on its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or asset in some circumstances). The Company adopted SFAS 150 on July 1, 2003 and such adoption did not have a material effect on its financial position or results of operations.

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 this its annual report to shareholders, in other 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.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheets of First Midwest Financial, Inc. and Subsidiaries as of September 30, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended September 30, 2003. 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 auditing standards generally accepted in the United States of America. 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 First Midwest Financial, Inc. and Subsidiaries as of September 30, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Des Moines, Iowa
October 23, 2003

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2003 AND 2002

	2003	2002
ASSETS		
Cash and due from banks	$ 2,090,221	$ 1,325,139
Interest-bearing deposits in other financial institutions	7,666,594	6,051,295
Total cash and cash equivalents	9,756,815	7,376,434
Securities available for sale	366,075,033	218,247,310
Loans receivable, net of allowance for loan losses of $4,961,777 in 2003 and $4,692,988 in 2002	349,691,995	341,937,408
Loans held for sale	1,126,310	1,254,962
Federal Home Loan Bank (FHLB) stock, at cost	10,930,300	6,842,600
Accrued interest receivable	3,932,076	4,320,514
Premises and equipment, net	11,353,365	11,054,243
Foreclosed real estate	1,109,338	1,327,802
Bank owned life insurance	11,301,390	10,742,301
Other assets	7,008,505	4,544,886
Total assets	$ 772,285,127	$ 607,648,460
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Noninterest-bearing demand deposits	$ 17,457,662	$ 11,934,712
Savings, NOW and money market demand deposits	119,497,887	90,413,488
Time certificates of deposit	298,597,193	253,431,553
Total deposits	435,552,742	355,779,753
Advances from FHLB	223,784,394	125,089,999
Securities sold under agreements to repurchase	57,702,034	70,176,228
Trust preferred securities	10,000,000	10,000,000
Advances from borrowers for taxes and insurance	268,682	355,884
Accrued interest payable	506,861	671,033
Accrued expenses and other liabilities	1,439,615	987,797
Total liabilities	729,254,328	563,060,694
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 2,493,949 shares outstanding at September 30, 2003; 2,957,999 shares issued and 2,468,804 shares outstanding at September 30, 2002	29,580	29,580
Additional paid-in capital	20,538,879	20,593,768
Retained earnings - substantially restricted	34,057,741	31,940,648
Accumulated other comprehensive income (loss)	(3,028,762)	494,834
Unearned Employee Stock Ownership Plan shares	(401,676)	(46,142)
Treasury stock, 464,050 and 489,195 common shares, at cost, at September 30, 2003 and 2002, respectively	(8,164,963)	(8,424,922)
Total shareholders' equity	43,030,799	44,587,766
Total liabilities and shareholders' equity	$ 772,285,127	$ 607,648,460

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 30, 2003, 2002 AND 2001

	2003	2002	2001
Interest and dividend income:			
Loans receivable, including fees	$ 24,098,700	$ 25,313,828	$ 27,752,278
Securities available for sale	10,794,142	9,891,529	10,043,154
Dividends on FHLB stock	286,311	228,137	428,472
	35,179,153	35,433,494	38,223,904
Interest expense:			
Deposits	10,490,920	13,458,794	17,546,621
FHLB advances and other borrowings	8,959,831	8,275,256	7,843,978
	19,450,751	21,734,050	25,390,599
Net interest income	15,728,402	13,699,444	12,833,305
Provision for loan losses	350,000	1,090,000	710,000
Net interest income after provision for loan losses	15,378,402	12,609,444	12,123,305
Noninterest income:			
Deposit service charges and other fees	1,324,769	1,157,217	1,078,904
Gain on sales of loans, net	955,469	621,491	199,623
Bank owned life insurance	628,957	671,136	105,000
Gain (loss) on sales of securities available for sale, net	242,562	86,194	(60,275)
Gain (loss) on sales of foreclosed real estate, net	(5,372)	(42,866)	27,017
Brokerage commissions	125,374	181,296	96,808
Other income	283,297	106,481	44,745
	3,555,056	2,780,949	1,491,822
Noninterest expense:			
Employee compensation and benefits	8,400,501	7,528,999	6,552,712
Occupancy and equipment expense	2,154,355	2,077,885	1,569,387
Deposit insurance premium	61,950	61,508	63,944
Data processing expense	634,098	563,485	457,766
Prepayment fee on FHLB advances	500,674	-	-
Other expense	2,106,590	2,036,006	2,051,029
	13,858,168	12,267,883	10,694,838
Net income before income tax expense	5,075,290	3,122,510	2,920,289
Income tax expense	1,678,286	965,882	1,010,546
Net income	$3,397,004	$2,156,628	$1,909,743
Earnings per common and common equivalent share:			
Basic earnings per common share	$ 1.37	$ 0.88	$ 0.79
Diluted earnings per common share	1.36	0.87	0.78

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED SEPTEMBER 30, 2003, 2002 AND 2001

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance, September 30, 2000	$ 29,580	$ 20,976,107	$ 30,404,386	$ (2,553,891)	$ -	$ (8,821,097)	$ 40,035,085
Comprehensive income:							
Net income for the year ended September 30, 2001	-	-	1,909,743	-	-	-	1,909,743
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	-	-	-	2,892,318	-	-	2,892,318
Total comprehensive income							4,802,061
Purchase of 1,847 common shares of treasury stock	-	-	-	-	-	(17,777)	(17,777)
Purchase of 30,000 common shares for ESOP	-	-	-	-	(360,000)	-	(360,000)
15,000 common shares committed to be released under the ESOP	-	(5,340)	-	-	180,000	-	174,660
Issuance of 40,000 common shares from treasury stock due to exercise of stock options	-	(181,388)	-	-	-	448,055	266,667
Tax benefit from exercise of stock options	-	74,000	-	-	-	-	74,000
Cash dividends declared on common stock ($.52 per share)	-	-	(1,247,486)	-	-	-	(1,247,486)
Balance, September 30, 2001	$ 29,580	$20,863,379	$31,066,643	$338,427	$(180,000)	$(8,390,819)	$43,727,210
Balance, September 30, 2001	$ 29,580	$20,863,379	$31,066,643	$338,427	$(180,000)	$(8,390,819)	$43,727,210
Comprehensive income:							
Net income for the year ended September 30, 2002	-	-	2,156,628	-	-	-	2,156,628
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	-	-	-	156,407	-	-	156,407
Total comprehensive income							2,313,035
Purchase of 62,447 common shares of treasury stock	-	-	-	-	-	(843,327)	(843,327)
Purchase of 10,238 common shares for ESOP	-	-	-	-	(145,892)	-	(145,892)
22,000 common shares committed to be released under the ESOP	-	24,718	-	-	279,750	-	304,468
Issuance of 61,524 common shares from treasury stock due to exercise of stock options	-	(369,364)	-	-	-	809,224	439,860
Tax benefit from exercise of stock options	-	75,035	-	-	-	-	75,035
Cash dividends declared on common stock ($.52 per share)	-	-	(1,282,623)	-	-	-	(1,282,623)
Balance, September 30, 2002	$ 29,580	$ 20,593,768	$ 31,940,648	$ 494,834	$ (46,142)	$ (8,424,922)	$ 44,587,766
Balance, September 30, 2002	$ 29,580	$ 20,593,768	$ 31,940,648	$ 494,834	$ (46,142)	$ (8,424,922)	$ 44,587,766
Comprehensive income:							
Net income for the year ended September 30, 2003	-	-	3,397,004	-	-	-	3,397,004
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	-	-	-	(3,523,596)	-	-	(3,523,596)
Total comprehensive (loss)							(126,592)
Purchase of 10,147 common shares of treasury stock	-	-	-	-	-	(165,092)	(165,092)
Purchase of 35,574 common shares for ESOP	-	-	-	-	(608,584)	-	(608,584)
15,000 common shares committed to be released under the ESOP	-	10,005	-	-	253,050	-	263,055
Issuance of 35,292 common shares from treasury stock due to exercise of stock options	-	(189,770)	-	-	-	425,051	235,281
Tax benefit from exercise of stock options	-	124,876	-	-	-	-	124,876
Cash dividends declared on common stock ($.52 per share)	-	-	(1,279,911)	-	-	-	(1,279,911)
Balance, September 30, 2003	$ 29,580	$ 20,538,879	$ 34,057,741	$ (3,028,762)	$ (401,676)	$ (8,164,963)	$ 43,030,799

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2003, 2002 AND 2001

	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,397,004	$ 2,156,628	$ 1,909,743
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion, net	3,380,213	2,186,335	849,695
Provision for loan losses	350,000	1,090,000	710,000
Prepayment fee on FHLB advances	500,674	-	-
(Gain) loss on sales of securities available for sale, net	(242,562)	(86,194)	60,275
(Gain) on sales of office property, net	(134,700)	-	-
Proceeds from sales of loans held for sale	76,465,663	22,107,878	14,284,441
Originations of loans held for sale	(75,381,542)	(22,741,349)	(14,084,818)
(Gain) on sales of loans, net	(955,469)	(621,491)	(199,623)
(Gain) loss on sales of foreclosed real estate, net	5,372	42,866	(27,017)
Net change in:			
Accrued interest receivable	388,438	430,278	466,137
Other assets	(809,716)	(836,105)	88,031
Accrued interest payable	(164,172)	(197,248)	(138,060)
Accrued expenses and other liabilities	451,818	48,015	(425,537)
Net cash provided by operating activities	7,251,021	3,579,613	3,493,267
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities available for sale	(431,711,574)	(135,493,814)	(22,886,271)
Proceeds from sales of securities available for sale	90,473,567	7,464,706	795,000
Proceeds from maturities and principal repayments of securities available for sale	185,761,348	54,277,854	28,670,713
Loans purchased	(26,162,845)	(27,104,383)	(32,754,225)
Net change in loans	17,696,050	16,402,377	22,830,506
Proceeds from sales of foreclosed real estate	631,156	317,000	521,074
Proceeds from sale of office building	197,169	-	-
Purchase of shares by ESOP	(608,584)	-	-
Purchase of FHLB stock	(7,786,600)	(443,700)	(71,300)
Proceeds from redemption of FHLB stock	3,698,900	-	2,000,000
Purchase of other investment	-	-	(10,000,000)
Purchase of premises and equipment	(1,254,819)	(2,532,542)	(3,914,687)
Net cash (used in) investing activities	(169,066,232)	(87,112,502)	(14,809,190)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in noninterest-bearing demand, savings, NOW and money market demand deposits	$ 34,607,349	$ 11,698,102	$ 12,100,577
Net change in time deposits	45,165,640	5,299,773	8,027,580
Proceeds from advances from FHLB	1,219,200,000	275,520,000	133,265,000
Repayments of advances from FHLB	(1,121,006,279)	(276,781,762)	(146,651,690)
Net change in securities sold under agreements to repurchase	(12,474,194)	68,183,508	(2,262,245)
Proceeds from issuance of trust preferred securities	-	-	10,000,000
Net change in advances from borrowers for taxes and insurance	(87,202)	(90,513)	(15,117)
Debt issuance costs incurred	-	-	(305,812)
Cash dividends paid	(1,279,911)	(1,282,623)	(1,247,486)
Proceeds from exercise of stock options	235,281	439,860	266,667
Purchase of treasury stock	(165,092)	(843,327)	(17,777)
Net cash provided by financing activities	164,195,592	82,143,018	13,159,697
Net change in cash and cash equivalents	2,380,381	(1,389,871)	1,843,774
CASH AND CASH EQUIVALENTS			
Beginning of year	7,376,434	8,766,305	6,922,531
End of year	$ 9,756,815	$ 7,376,434	$ 8,766,305
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 19,614,923	$ 21,931,298	$ 25,528,659
Income taxes	1,757,440	889,568	926,543
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES			
Loans transferred to foreclosed real estate	$ 418,064	$ 747,525	$ 989,067

See Notes to 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. (the Company) a bank holding company located in Storm Lake, Iowa, and its wholly-owned subsidiaries which include First Federal Savings Bank of the Midwest (the Bank or First Federal), a federally chartered savings bank whose primary regulator is the Office of Thrift Supervision, Security State Bank (Security), a state chartered commercial bank whose primary regulator is the Federal Reserve, First Services Financial Limited and Brookings Service Corporation, which offer brokerage services and non-insured investment products, First Services Trust Company, which offers various trust services, and First Midwest Financial Capital Trust I, which was capitalized in July 2001, for the purpose of issuing trust preferred securities. All significant inter-company 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. 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 management monitors 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, 2003 and 2002, trust assets totaled approximately $15,383,000 and $13,842,000, respectively.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements 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 and fair values of securities and other financial instruments involve certain significant estimates made by management. These estimates are reviewed by management regularly and it is reasonably possible that circumstances that exist at September 30, 2003, may change in the near-term future and that the effect could be material to the consolidated financial statements.

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, and short-term borrowings with maturities of 90 days or less.

SECURITIES

The Company classifies all securities as available for sale. 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.

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 income as earned.

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.

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 reduced by the allowance for loan losses and any deferred fees or costs on originated 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 and agricultural 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, which range from 15 to 39 years for buildings and 3 to 7 years for furniture, fixtures and equipment. These assets are reviewed for impairment under Statement of Financial Accounting Standards (SFAS) No. 144 when events indicate the carrying amount may not be recoverable.

BANK OWNED LIFE INSURANCE

Bank owned life insurance consists of investments in life insurance contracts. Earnings on the contracts are based on the earnings on the cash surrender value, less mortality costs.

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 14.

INTANGIBLE ASSETS

On October 1, 2001, the Company elected early adoption of Statement of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets (SFAS 141 and 142). SFAS 141 addresses financial accounting and reporting for business combinations and replaces APB Opinion No. 16, Business Combinations (APB 16). SFAS 141 no longer allows the pooling of interests method of accounting for acquisitions, provides new recognition criteria for intangible assets and carries forward without reconsideration the guidance in APB 16 related to the application of the purchase method of accounting. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and replaces APB Opinion No. 17, Intangible Assets. SFAS 142 addresses how intangible assets should be accounted for upon their acquisition and after they have been initially recognized in the financial statements. The standards provide specific guidance on measuring goodwill for impairment annually using a two-step process. The first step identifies potential impairment and the second step measures the amount of goodwill impairment loss to be recognized.

The Company has undertaken to identify those intangible assets that remain separable under the provisions of the new standard and those that are to be included in goodwill and has concluded that all amounts should be included in goodwill. Goodwill results from the acquisition of three banks. At the time of each acquisition, the purchase price of the acquisition was allocated to various assets and liabilities with the remainder allocated to goodwill. The Company has completed the annual goodwill impairment tests and has determined that there has been no impairment of goodwill.

Had the provisions of SFAS 141 and 142 been applied in fiscal year 2001, the Company's net income and net income per share would have been as follows:

YEAR ENDED SEPTEMBER 30, 2001

	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share
Net income:			
As reported	$ 1,909,743	$ 0.79	$ 0.78
Add: Goodwill amortization	364,932	0.15	0.15
Pro forma net income	$ 2,274,675	$ 0.94	$ 0.93

As of September 30, 2003 and 2002, the Company had intangible assets of $3,403,019, all of which has been determined to be goodwill. There was no goodwill impairment loss or amortization related to goodwill during the years ended September 30, 2003 and 2002.

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 safe-keeping in the name of the Bank or Security 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.

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. Diluted earnings per common share shows the dilutive effect of additional potential common shares issuable under stock options.

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.

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.

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, no compensation cost was actually recognized for stock options during 2003, 2002 or 2001.

	2003	2002	2001
Net income as reported	$ 3,397,004	$ 2,156,628	$ 1,909,743
Proforma net income	3,253,603	2,091,222	1,836,857
Reported earnings per common and common equivalent share:			
Basic	$ 1.37	$ 0.88	$ 0.79
Diluted	1.36	0.87	0.78
Proforma earnings per common and common equivalent share:			
Basic	$ 1.32	$ 0.85	$ 0.76
Diluted	1.30	0.84	0.75

The fair value of options granted during 2003, 2002 and 2001 is estimated using the following weighted-average information: risk-free interest rate of 3.53%, 3.57% and 4.52%, expected life of 7 years, expected dividends of 2.41%, 3.68% and 3.85% per year and expected stock price volatility of 22.54%, 21.36% and 22.36% per year, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued and clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The effects of implementation on the Company's financial statements were not material.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

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

The Company expects to adopt FIN 46 in connection with its consolidated financial statements beginning October 1, 2003. In its current form, FIN 46 may require the Company to deconsolidate its investment in First Midwest Financial Capital Trust I in future financial statements. The potential deconsolidation of subsidiary trusts of bank holding companies formed in connection with the issuance of trust preferred securities, like First Midwest Financial Capital Trust I, appears to be an unintended consequence of FIN 46. It is currently unknown if, or when, the FASB will address this issue. In July 2003, the Board of Governors of the Federal Reserve System issued a supervisory letter instructing bank holding companies to continue to include the trust preferred securities in their Tier I capital for regulatory capital purposes until notice is given to the contrary. The Federal Reserve intends to review the regulatory implications of any accounting treatment changes and, if necessary or warranted, provide further appropriate guidance. There can be no assurance that the Federal Reserve will continue to permit institutions to include trust preferred securities in Tier I capital for regulatory capital purposes. As of September 30, 2003, assuming the Company was not permitted to include the $10 million in trust preferred securities issued by First Midwest Financial Capital Trust I in its Tier 1 capital, the Company would still exceed the regulatory required minimums for capital adequacy purposes (see Note 13). If the trust preferred securities were no longer permitted to be included in Tier 1 capital, the Company would also be permitted to redeem the capital securities, which bear interest at 4.9%, without penalty.

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

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, (SFAS 149). SFAS 149 amends Statement 133 for certain items. The Company adopted SFAS 149 on July 1, 2003 and such adoption did not have a material effect on its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or asset in some circumstances). The Company adopted SFAS 150 on July 1, 2003 and such adoption did not have a material effect on its financial position or results of operations.

RECLASSIFICATION OF CERTAIN ITEMS

Certain items on the consolidated balance sheets and statements of income for 2002 and 2001, have been reclassified, with no effect on shareholders' equity, net income or earnings per common share, to be consistent with the classifications adopted for 2003.

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:

	2003	2002	2001
Basic earnings per common share:			
Numerator, net income	$ 3,397,004	$ 2,156,628	$ 1,909,743
Denominator, weighted average common shares outstanding	2,485,088	2,461,402	2,433,453
Less weighted average unallocated ESOP shares	(13,797)	(8,294)	(13,353)
Weighted average common shares outstanding for basic earnings per common share	2,471,291	2,453,108	2,420,100
Basic earnings per common share	$ 1.37	$ 0.88	$ 0.79
Diluted earnings per common share:			
Numerator, net income	$ 3,397,004	$ 2,156,628	$ 1,909,743
Denominator, weighted average common shares outstanding for basic earnings per common share	2,471,291	2,453,108	2,420,100
Add dilutive effects of assumed exercises of stock options, net of tax benefits	33,654	31,428	42,973
Weighted average common and dilutive potential common shares outstanding	2,504,945	2,484,536	2,463,073
Diluted earnings per common share	$ 1.36	$ 0.87	$ 0.78

Stock options totaling 58,566, 136,464 and 171,416 shares were not considered in computing diluted earnings per common share for the years ended September 30, 2003, 2002 and 2001, respectively, because they were not dilutive.

NOTE 3. SECURITIES

Year end securities available for sale were as follows:

2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Trust preferred	$ 26,741,317	$ 120,200	$ (3,538,252)	$ 23,323,265
Obligations of states and political subdivisions	585,000	21,395	-	606,395
Mortgage-backed securities	341,973,353	1,399,297	(3,088,061)	340,284,589
Other	998,229	2,711	-	1,000,940
	370,297,899	1,543,603	(6,626,313)	365,215,189
Marketable equity securities	602,331	263,942	(6,429)	859,844
	$ 370,900,230	$ 1,807,545	$ (6,632,742)	$ 366,075,033

2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Trust preferred	$ 26,730,670	$ 51,000	$ (2,653,690)	$ 24,127,980
Obligations of states and political subdivisions	725,000	38,978	-	763,978
Mortgage-backed securities	189,343,213	3,131,194	(126,217)	192,348,190
	216,798,883	3,221,172	(2,779,907)	217,240,148
Marketable equity securities	661,913	352,254	(7,005)	1,007,162
	$ 217,460,796	$ 3,573,426	$ (2,786,912)	$ 218,247,310

The amortized cost and fair value of debt securities by contractual maturity are shown below. Certain securities have call features which allow the issuer to call the security prior to maturity. Expected maturities may differ from contractual maturities in mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore these securities are not included in the maturity categories in the following maturity summary.

SEPTEMBER 30, 2003

	Amortized Cost	Fair Value
Due in one year or less	$ 310,000	$ 318,875
Due after one year through five years	1,273,229	1,288,460
Due after five years through ten years	-	-
Due after ten years	26,741,317	23,323,265
	28,324,546	24,930,600
Mortgage-backed securities	341,973,353	340,284,589
	$ 370,297,899	$ 365,215,189

Activities related to the sale of securities available for sale are summarized below.

	2003	2002	2001
Proceeds from sales	$ 90,473,567	$ 7,464,706	$ 795,000
Gross gains on sales	342,871	86,194	76,874
Gross (losses) on sales	(100,309)	-	(137,149)

NOTE 4. LOANS RECEIVABLE, NET

Year-end loans receivable were as follows:

	2003	2002
One to four family residential mortgage loans	$ 52,192,827	$ 72,678,866
Construction	19,435,319	25,744,856
Commercial and multi-family real estate loans	171,791,575	151,805,753
Agricultural real estate loans	11,638,780	12,066,776
Commercial business loans	59,467,802	42,844,163
Agricultural business loans	22,599,397	25,308,066
Consumer loans	26,633,610	23,592,634
	363,759,310	354,041,114
Less:		
Allowance for loan losses	(4,961,777)	(4,692,988)
Undistributed portion of loans in process	(8,895,047)	(7,155,273)
Net deferred loan origination fees	(210,491)	(255,445)
	$ 349,691,995	$ 341,937,408

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

	2003	2002	2001
Beginning balance	$ 4,692,988	$ 3,868,664	$ 3,589,873
Provision for loan losses	350,000	1,090,000	710,000
Recoveries	32,148	54,240	51,331
Charge-offs	(113,359)	(319,916)	(482,540)
Ending balance	$ 4,961,777	$ 4,692,988	$ 3,868,664

Virtually all of the Company's originated loans are to Iowa and South Dakota-based individuals and organizations. The Company's purchased loans totaled approximately $76,269,000 at September 30, 2003, and were secured by properties located, as a percentage of total loans, as follows: 8% in Washington, 1% in Colorado, 1% in Minnesota, 2% in Iowa, 2% in Wisconsin, 1% in South Dakota, 2% in Arizona, 1% in Missouri and the remaining 3% in 14 other states. The Company's purchased loans totaled approximately $107,279,000 at September 30, 2002, and were secured by properties located, as a percentage of total loans, as follows: 12% in Washington, 2% in North Carolina, 2% in Minnesota, 2% in Iowa, 2% in Wisconsin, 2% in California, 3% in South Dakota, 2% in Arizona and the remaining 3% in 14 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 $20,070,000 and $28,470,000 of loans secured by hotel properties and $16,891,000 and $22,416,000 of loans secured by assisted living facilities at September 30, 2003 and 2002, 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.

Impaired loans were as follows:

	2003	2002
Year-end loans with no allowance for loan losses allocated	$ -	$ -
Year-end loans with allowance for loan losses allocated	790,430	1,186,739
Amount of the allowance allocated	312,359	303,730
Average of impaired loans during the year	910,303	4,676,344
Interest income recognized during impairment	-	-

Cash interest collected on impaired loans was not material during the years ended September 30, 2003, 2002 and 2001.

NOTE 5. 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:

	2003	2002
Mortgage loan portfolios serviced for FNMA	$ 25,957,000	$ 18,164,000
Other	22,095,000	22,170,000
	$ 48,052,000	$ 40,334,000

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $112,000 and $168,000 at September 30, 2003 and 2002, respectively.

NOTE 6. PREMISES AND EQUIPMENT, NET

Year end premises and equipment were as follows:

	2003	2002
Land	$ 2,120,000	$ 2,049,135
Buildings	9,134,858	9,535,699
Furniture, fixtures and equipment	4,804,462	4,545,443
	16,059,320	16,130,277
Less accumulated depreciation	(4,705,955)	(5,076,034)
	$ 11,353,365	$ 11,054,243

Depreciation of premises and equipment included in occupancy and equipment expense was approximately $893,000, $825,000 and $660,000 for the years ended September 30, 2003, 2002 and 2001, respectively.

NOTE 7. DEPOSITS

Jumbo certificates of deposit in denominations of $100,000 or more were approximately $109,429,000 and $48,416,000 at September 30, 2003 and 2002, respectively.

At September 30, 2003, the scheduled maturities of certificates of deposit were as follows for the years ending September 30:

2004	$ 184,392,769
2005	57,656,158
2006	24,210,808
2007	22,327,729
2008	8,905,573
Thereafter	1,104,156
	$ 298,597,193

NOTE 8. ADVANCES FROM FEDERAL HOME LOAN BANK

At September 30, 2003 advances from the FHLB of Des Moines with fixed and variable rates ranging from 1.12% to 7.19% (weighted-average rate of 3.41%) are required to be repaid in the year ending September 30 as presented below. Advances totaling $49,700,000 contain call features which allow the FHLB to call for the prepayment of the borrowing prior to maturity.

2004	$ 110,835,778
2005	14,884,475
2006	8,601,886
2007	11,188,213
2008	23,568,667
Thereafter	54,705,375
	$ 223,784,394

First Federal and Security have executed blanket pledge agreements whereby First Federal 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, First Federal and Security have the right to use, commingle and dispose of the collateral they have assigned to the FHLB. Under the agreements, First Federal 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 2003 and 2002, First Federal and Security collectively pledged securities with amortized costs of $168,857,000 and $75,975,000 and fair values of approximately $167,899,000 and $77,641,000 against specific FHLB advances. In addition, qualifying mortgage loans of approximately $120,888,000 and $70,258,000 were pledged as collateral at September 30, 2003 and 2002.

NOTE 9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase totaled $57,702,034 and $70,176,228 at September 30, 2003 and 2002, respectively.

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

	2003	2002
Highest month-end balance	$ 110,488,119	$ 70,176,228
Average balance	78,208,576	39,288,209
Weighted average interest rate during the period	1.42%	2.01%
Weighted average interest rate at end of period	1.16%	1.90%

At year-end 2003, securities sold under agreements to repurchase had a weighted average maturity of less than 1 month.

The Company pledged securities with amortized costs of approximately $81,428,000 and $79,548,000 and fair values of approximately $81,612,000 and $80,950,000, respectively, at year-end 2003 and 2002 as collateral for securities sold under agreements to repurchase.

NOTE 10. TRUST PREFERRED SECURITIES

The Company issued all of the 10,000 authorized shares of trust preferred securities of First Midwest Financial Capital Trust I holding solely subordinated debt securities. Distributions are paid semi-annually. Cumulative cash distributions are calculated at a variable rate of LIBOR (as defined) plus 3.75% (4.90% at September 30, 2003 and 5.61% at September 30, 2002), not to exceed 12.5%. The Company may, at one or more times, defer interest payments on the capital securities for up to 10 consecutive semi-annual periods, but not beyond July 25, 2031. At the end of any deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on July 25, 2031; however, the Company has the option to shorten the maturity date to a date not earlier than July 25, 2006. The redemption price is $1,000 per capital security plus any accrued and unpaid distributions to the date of redemption plus, if redeemed prior to July 25, 2011, a redemption premium as defined in the Indenture agreement.

Holders of the capital securities have no voting rights, are unsecured and rank junior in priority of payment to all of the Company's indebtedness and senior to the Company's common stock.

The debentures are included on the balance sheet as of September 30, 2003 as liabilities.

NOTE 11. 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, have worked one year at the Bank and who have attained age 21. In 2001, the ESOP borrowed $360,000 from the Company to purchase 30,000 shares of the Company's common stock. Final payment of this loan was received during the year ended September 30, 2002. In 2002, the ESOP borrowed $145,982 from the Company to purchase 10,238 shares of the Company's common stock. Final payment of this loan was received during the year ended September 30, 2003. In 2003, the ESOP borrowed $608,584 from the Company to purchase 35,574 shares of the Company's common stock. Shares purchased by the ESOP are held in suspense for allocation among participants as the loan is repaid. ESOP expense of $263,055, $304,468 and $174,660 was recorded for the years ended September 30, 2003, 2002 and 2001, respectively. Contributions of $253,050, $279,750 and $180,000 were made to the ESOP during the years ended September 30, 2003, 2002 and 2001, respectively.

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 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.

For the years ended September 30, 2003, 2002 and 2001, 15,000, 22,000 and 15,000 shares with an average fair value of $17.54, $13.84 and $11.64 per share, respectively, were committed to be released. Also for the years ended September 30, 2003, 2002 and 2001, allocated shares and total ESOP shares reflect 4,865, 12,629 and 5,514 shares, respectively, withdrawn from the ESOP by participants who are no longer with the Company and 6,569, 7,760 and 9,312 shares, respectively, purchased for dividend reinvestment.

Year-end ESOP shares are as follows:

	2003	2002	2001
Allocated shares	252,448	235,744	218,613
Unearned shares	23,812	3,238	15,000
Total ESOP shares	276,260	238,982	233,613
Fair value of unearned shares	$ 525,055	$ 46,142	$ 202,500

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. 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 September 30, 2003, 205,277 shares were authorized for future grants.

Information about option grants follows:

	Number of Options	Weighted-Average Exercise Price
Outstanding, September 30, 2000	300,318	$ 11.51
Granted	31,738	13.61
Exercised	(40,000)	6.67
Forfeited	(4,000)	13.00
Outstanding, September 30, 2001	288,056	12.40
Granted	27,641	14.27
Exercised	(61,524)	7.14
Forfeited	(3,000)	13.22
Outstanding, September 30, 2002	251,173	13.88
Granted	36,708	21.45
Exercised	(35,292)	6.67
Forfeited	-	-
Outstanding, September 30, 2003	252,589	$ 15.99

The weighted-average fair value per option for options granted in 2003, 2002 and 2001 was $4.81, $2.41 and $2.61. At September 30, 2003, options outstanding were as follows:

Exercise Price	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Options
$ 9.63 - $ 9.99	$ 9.63	6.91	21,824
$10.00 - $14.99	13.68	7.63	81,234
$15.00 - $19.99	16.78	3.55	104,383
$20.00 - $21.77	21.39	8.61	45,148
	$15.99	6.06	252,589

Options exercisable at year end were as follows:

	Number of Options	Weighted-Average Exercise Price
2001	270,556	12.38
2002	237,048	13.95
2003	236,464	15.99

PROFIT SHARING PLAN

The Company has a profit sharing plan covering substantially all full-time employees. Contribution expense for the years ended September 30, 2003, 2002 and 2001, was $283,212, $244,927 and $315,773, respectively.

NOTE 12. 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 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 recap-ture 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 6-year period beginning with the tax year ending September 30, 1999.

The provision for income taxes consists of:

	2003	2002	2001
Federal:			
Current	$ 1,430,109	$ 904,539	$ 1,170,302
Deferred	(23,962)	(64,787)	(105,167)
	1,406,147	839,752	1,065,135
State:			
Current	278,015	153,170	(27,756)
Deferred	(5,876)	(27,040)	(26,833)
	272,139	126,130	(54,589)
Income tax expense	$ 1,678,286	$ 965,882	$ 1,010,546

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

	2003	2002	2001
Income taxes at 34% federal tax rate	$ 1,726,000	$ 1,062,000	$ 993,000
Increase (decrease) resulting from:			
State income taxes - net of federal benefit	141,000	97,000	113,000
Nondeductible goodwill	-	-	124,000
Nontaxable buildup in cash surrender value	(190,000)	(217,000)	-
Resolution of a tax contingency	-	-	(139,000)
Other, net	1,286	23,882	(80,454)
Total income tax expense	$ 1,678,286	$ 965,882	$ 1,010,546

Year-end deferred tax assets and liabilities consist of:

	2003	2002
Deferred tax assets:		
Bad debts	$ 1,640,000	$ 1,447,000
Net unrealized losses on securities available for sale	1,796,435	-
Other	-	54,000
	3,436,435	1,501,000
Deferred tax liabilities:		
Federal Home Loan Bank stock dividend	(452,000)	(452,000)
Premises and equipment	(342,000)	(204,000)
Deferred loan fees	(148,000)	(97,000)
Net unrealized gains on securities available for sale	-	(291,680)
Other	(98,335)	(178,173)
	(1,040,335)	(1,222,853)
Net deferred tax assets	$ 2,396,100	$ 278,147

Federal income tax laws provided 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 approximately $2,300,000 at September 30, 2003 and 2002. 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 13. 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.

Quantitative measures established by regulation to ensure capital adequacy require First Federal and Security to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2003, that First Federal and Security meet the capital adequacy requirements.

First Federal's and 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, 2003:						
Total capital (to risk-weighted assets):						
First Federal	$ 50,794	12.1%	$ 33,721	8.0%	$ 42,152	10.0%
Security	4,588	15.5	2,366	8.0	2,957	10.0
Tier 1 (Core) capital (to risk-weighted assets):						
First Federal	46,058	10.9	16,861	4.0	25,291	6.0
Security	4,294	14.5	1,183	4.0	1,774	6.0
Tier 1 (Core) capital (to average total assets):						
First Federal	46,058	7.1	26,108	4.0	32,634	5.0
Security	4,294	6.7	2,549	4.0	3,186	5.0
Tier 1 (Core) capital (to total assets),						
First Federal	46,058	6.5	28,222	4.0	35,277	5.0
AS OF SEPTEMBER 30, 2002:						
Total capital (to risk-weighted assets):						
First Federal	$ 47,800	12.9%	$ 29,603	8.0%	$ 37,004	10.0%
Security	4,773	15.0	2,543	8.0	3,179	10.0
Tier 1 (Core) capital (to risk-weighted assets):						
First Federal	43,327	11.7	14,801	4.0	22,202	6.0
Security	4,448	14.0	1,272	4.0	1,907	6.0
Tier 1 (Core) capital (to average total assets):						
First Federal	43,327	8.5	20,372	4.0	25,465	5.0
Security	4,448	8.3	2,142	4.0	2,677	5.0
Tier 1 (Core) capital (to total assets),						
First Federal	43,327	7.9	21,822	4.0	27,277	5.0

Regulations limit the amount of dividends and other capital distributions that may be paid by a financial institution without prior approval of its primary regulator. The regulatory restriction is based on a three-tiered system with the greatest flexibility being afforded to well-capitalized (Tier 1) institutions. First Federal and Security are currently Tier 1 institutions. Accordingly, First Federal and Security can make, without prior regulatory approval, distributions during a calendar year up to 100% of their 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 they remain well-capitalized, as defined in prompt corrective action regulations, following the proposed distribution. Accordingly, at September 30, 2003, approximately $5,662,000 of First Federal's retained earnings and $119,000 of Security's retained earnings were potentially available for distribution to the Company.

NOTE 14. 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, 2003 and 2002, loan commitments approximated $63,421,000 and $35,562,000, respectively, excluding undisbursed portions of loans in process. Loan commitments at September 30, 2003 included commitments to originate fixed-rate loans with interest rates ranging from 4% to 10% totaling $13,208,000 and adjustable-rate loan commitments with interest rates ranging from 3% to 18% totaling $30,663,000. The Company also had commitments to purchase adjustable rate loans of $14,000,000 with interest rates ranging from 5% to 5.79% and fixed-rate loans of $5,550,000 with interest rates ranging from 5.38% to 8%. Loan commitments at September 30, 2002 included commitments to originate fixed-rate loans with interest rates ranging from 4.6% to 10% totaling $13,070,000 and adjustable-rate loan commitments with interest rates ranging from 2.1% to 18% totaling $18,492,000. The Company also had commitments to purchase adjustable rate loans of $3,000,000 with interest rates of 6.63% and fixed-rate loans of $1,000,000 with interest rates of 6.75%. 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 nonperformance 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 $31,349,000 and $31,381,000 and fair values of approximately $27,858,000 and $28,954,000 at September 30, 2003 and 2002, respectively, were pledged as collateral for public funds on deposit.

Securities with amortized costs of approximately $6,040,000 and $7,280,000 and fair values of approximately $6,220,000 and $7,568,000 at September 30, 2003 and 2002, 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 $2,688,000 as of September 30, 2003.

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 15. OTHER COMPREHENSIVE INCOME (LOSS)

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

	2003	2002	2001
Net change in net unrealized gains and losses on securities available for sale:			
Unrealized gains (losses) arising during the year	$ (5,369,149)	$ 335,288	$ 4,546,133
Reclassification adjustment for (gains) losses included in net income	(242,562)	(86,194)	60,275
Net change in unrealized gains and losses on securities available for sale	(5,611,711)	249,094	4,606,408
Tax effects	2,088,115	(92,687)	(1,714,090)
Other comprehensive income (loss)	$ (3,523,596)	$ 156,407	$ 2,892,318

NOTE 16. LEASE COMMITMENT

The Company has leased property under various noncancelable operating lease agreements which expire at various times through December 2009, and require annual rentals ranging from $6,000 to $52,200 plus the payment of the property taxes, normal maintenance and insurance on the property.

The total minimum rental commitment at September 30, 2003, under the leases is as follows:

2004	$ 96,400
2005	100,600
2006	99,140
2007	99,580
2008	99,015
Thereafter	362,550
	$ 857,285

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, 2003 AND 2002

	2003	2002
ASSETS		
Cash and cash equivalents	$ 138,017	$ 57,651
Securities available for sale	2,613,771	2,609,357
Investment in subsidiaries	50,832,669	51,975,306
Loan receivable from ESOP	401,676	46,142
Loan receivable	1,307,259	1,349,543
Other assets	916,660	350,302
Total assets	$ 56,210,052	$ 56,388,301
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Loan payable to subsidiaries	$ 2,900,000	$ 1,755,000
Trust preferred securities	10,000,000	10,000,000
Accrued expenses and other liabilities	279,253	45,535
Total liabilities	13,179,253	11,800,535
SHAREHOLDERS' EQUITY		
Common stock	29,580	29,580
Additional paid-in capital	20,538,879	20,593,768
Retained earnings, substantially restricted	34,057,741	31,940,648
Accumulated other comprehensive income (loss)	(3,028,762)	494,834
Unearned Employee Stock Ownership Plan shares	(401,676)	(46,142)
Treasury stock, at cost	(8,164,963)	(8,424,922)
Total shareholders' equity	43,030,799	44,587,766
Total liabilities and shareholders' equity	$ 56,210,052	$ 56,388,301

CONDENSED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 30, 2003, 2002 AND 2001

	2003	2002	2001
Dividend income from subsidiaries	$ 1,250,000	$ 245,000	$ 1,550,000
Interest income	334,656	322,345	309,054
Gain (loss) on sales of securities available for sale, net	48,109	48,064	(60,275)
	1,632,765	615,409	1,798,779
Interest expense	644,385	682,134	332,250
Operating expenses	662,046	618,578	550,038
	1,306,431	1,300,712	882,288
Income (loss) before income taxes and equity in undistributed net income of subsidiaries	326,334	(685,303)	916,491
Income tax (benefit)	(304,000)	(304,000)	(247,000)
Income (loss) before equity in undistributed net income of subsidiaries	630,334	(381,303)	1,163,491
Equity in undistributed net income of subsidiaries	2,766,670	2,537,931	746,252
Net income	$ 3,397,004	$ 2,156,628	$ 1,909,743

CONDENSED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2003, 2002 AND 2001

	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,397,004	$ 2,156,628	$ 1,909,743
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(2,766,670)	(2,537,931)	(746,252)
(Gain) loss on sales of securities available for sale, net	(48,109)	(48,064)	60,275
Change in other assets	(465,296)	436,856	(364,088)
Change in accrued expenses and other liabilities	233,718	75,539	(61,205)
Net cash provided by operating activities	350,647	83,028	798,473
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiary	-	(250,000)	(7,000,000)
Repayment of securities	-	342	3,806
Purchase of securities available for sale	(48,325)	(1,000,000)	-
Proceeds from sales of securities available for sale	156,016	1,410,770	795,000
Loan to ESOP	(608,584)	(145,893)	(360,000)
Net change in loan receivable	42,284	(450,230)	(574,134)
Repayments on loan receivable from ESOP	253,050	279,751	180,000
Net cash (used in) investment activities	(205,559)	(155,260)	(6,955,328)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of trust preferred securities	-	-	10,000,000
Proceeds from loan payable to subsidiaries	1,975,000	1,755,000	-
Repayments on loan payable to subsidiaries	(830,000)	-	(2,550,000)
Debt issuance costs incurred	-	-	(305,812)
Cash dividends paid	(1,279,911)	(1,282,623)	(1,247,486)
Proceeds from exercise of stock options	235,281	439,860	266,667
Purchase of treasury stock	(165,092)	(843,327)	(17,777)
Net cash provided by (used in) financing activities	(64,722)	68,910	6,145,592
Net change in cash and cash equivalents	80,366	(3,322)	(11,263)
CASH AND CASH EQUIVALENTS			
Beginning of year	57,651	60,973	72,236
End of year	$ 138,017	$ 57,651	$ 60,973
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest	$ 644,385	$ 682,134	$ 332,250

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 13).

NOTE 18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended			
	December 31	March 31	June 30	September 30
FISCAL YEAR 2003:				
Total interest income	$ 8,952,749	$ 9,001,683	$ 8,773,197	$ 8,451,524
Total interest expense	5,027,183	4,854,739	4,841,730	4,727,099
Net interest income	3,925,566	4,146,944	3,931,467	3,724,425
Provision for loan losses	175,000	108,000	67,000	-
Net income	844,256	915,186	892,407	741,155
Earnings per common and common equivalent share:				
Basic	$ 0.34	$ 0.37	0.36	$ 0.30
Diluted	0.34	0.37	0.36	0.30
FISCAL YEAR 2002:				
Total interest income	$ 8,990,799	$ 8,633,888	$ 8,904,424	$ 8,904,383
Total interest expense	5,928,035	5,429,196	5,293,508	5,083,311
Net interest income	3,062,764	3,204,692	3,610,916	3,821,072
Provision for loan losses	299,000	136,000	280,000	375,000
Net income	436,785	448,123	528,458	743,262
Earnings per common and common equivalent share:				
Basic	$ 0.18	$ 0.18	0.22	$ 0.30
Diluted	0.18	0.18	0.21	0.30
FISCAL YEAR 2001:				
Total interest income	$ 9,861,440	$ 9,534,327	$ 9,419,259	$ 9,408,878
Total interest expense	6,545,052	6,349,019	6,250,738	6,245,790
Net interest income	3,316,388	3,185,308	3,168,521	3,163,088
Provision for loan losses	150,000	120,000	200,000	240,000
Net income	606,306	409,127	456,346	437,964
Earnings per common and common equivalent share:				
Basic	$ 0.25	$ 0.17	0.19	$ 0.18
Diluted	0.25	0.17	0.19	0.18

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, 2002 and 2001, 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, 2003 and 2002. This information is presented solely for compliance with SFAS No. 107 and is subject to change over time based on a variety of factors.

	2003		2002	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Selected assets:				
Cash and cash equivalents	$ 9,756,815	$ 9,757,000	$ 7,376,434	$ 7,376,000
Securities available for sale	366,075,033	366,075,000	218,247,310	218,247,000
Loans receivable, net	349,691,995	352,547,000	341,937,408	345,473,000
Loans held for sale	1,126,310	1,126,000	1,254,962	1,255,000
FHLB stock	10,930,300	10,930,000	6,842,600	6,843,000
Accrued interest receivable	3,932,076	3,932,000	4,320,514	4,321,000
Selected liabilities:				
Noninterest bearing demand deposits	(17,457,662)	(17,458,000)	(11,934,712)	(11,935,000)
Savings, NOW and money market demand deposits	(119,497,887)	(119,498,000)	(90,413,488)	(90,413,000)
Time certificates of deposit	(298,597,193)	(303,189,000)	(253,431,553)	(257,688,000)
Total deposits	(435,552,742)	(440,145,000)	(355,779,753)	(360,036,000)
Advances from FHLB	(223,784,394)	(236,829,000)	(125,089,999)	(138,495,000)
Securities sold under agreements to repurchase	(57,702,034)	(57,703,000)	(70,176,228)	(70,180,000)
Trust preferred securities	(10,000,000)	(10,227,000)	(10,000,000)	(10,008,000)
Advances from borrowers for taxes and insurance	(268,682)	(269,000)	(355,884)	(356,000)
Accrued interest payable	(506,861)	(507,000)	(671,033)	(671,000)
Off-balance-sheet instruments, loan commitments	-	-	-	-

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 2003 and 2002.

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 AND LOANS HELD FOR SALE

The fair value of loans 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, 2003 and 2002. 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, 2003 and 2002, 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, 2003 and 2002, for advances with similar terms and remaining maturities.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE, OTHER BORROWINGS AND TRUST PREFERRED SECURITIES

The fair value of securities sold under agreements to repurchase, other borrowings and trust preferred securities was estimated by discounting the expected future cash flows using derived interest rates approximating market as of September 30, 2003 and 2002, over the contractual maturity of such borrowings.

ADVANCES FROM BORROWERS FOR TAXES AND INSURANCE

The carrying amount of advances from borrowers for taxes and insurance is assumed to approximate the fair value.

ACCRUED INTEREST PAYABLE

The carrying amount of accrued interest payable is assumed to approximate the fair value.

LOAN COMMITMENTS

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

LIMITATIONS

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

JOHN THUNE, Board Member
"It is a privilege to serve on the Board of Directors at First Midwest and its banks. From the front-line staff to my peers on the Board, this organization is filled with quality people. In fact, my wife and I just experienced the company's first-class service when we refinanced our home."
Fun Fact: Having given up aspirations of making it in the NBA, John now plays in Sioux Falls' over-40 basketball league.

BOARD OF DIRECTORS

JAMES S. HAAHR
Chairman of the Board and Chief Executive Officer for First Midwest Financial, Inc. (FMFI) and First Federal Savings Bank of the Midwest (FFSBM); Chairman of the Board for Security State Bank (SSB)

E. WAYNE COOLEY
Consultant Emeritus of the Iowa Girls' High School Athletic Union

E. THURMAN GASKILL
Iowa State Senator and Owner of a Grain and Livestock Farming Operation

J. TYLER HAAHR
President and Chief Operating Officer for FMFI and FFSBM, Chief Executive Officer of SSB, Vice President and Secretary of First Services Financial Limited, and President of First Services Trust Company

G. MARK MICKELSON
Vice President of Operations for Blue Dot Services, Inc.

RODNEY G. MUILENBURG
Retired Dairy Specialist Manager for Purina Mills, Inc.; Consultant for TransOva Genetics Dairy Division

JEANNE PARTLOW
Retired Chairman of the Board and President of Iowa Savings Bank

JOHN THUNE
Thune Group, LLC, and Senior Government Relations Advisor to Arent Fox Kintner Plotkin & Kahn, PLLC; Former South Dakota Representative to the U.S. House of Representatives

EXECUTIVE OFFICERS

JAMES S. HAAHR
J. TYLER HAAHR

DONALD J. WINCHELL, CPA
Senior Vice President, Secretary, Treasurer and Chief Financial Officer for FMFI and FFSBM; and Secretary for SSB

ELLEN E. MOORE
Vice President of Marketing and Sales for FMFI and Senior Vice President of Marketing and Sales for FFSBM

BEN GUENTHER
President, First Federal Storm Lake/Northwest Iowa Division

TIM D. HARVEY
President, Brookings Federal Bank Division

TROY MOORE
President, Iowa Savings Bank Division

TONY TRUSSELL
President, First Federal Sioux Falls Division

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

CHARLES B. FRIEDERICHS
Senior Vice President and Chief Information Officer

JON C. GEISTFELD
Senior Vice President and Chief Lending Officer

SANDRA K. HEGLAND
Senior Vice President of Human Resources

SUSAN C. JESSE
Senior Vice President of Compliance and Operations

BANK DIRECTORS

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
Jeanne Partlow
John Thune

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
Jeanne Partlow
I. Eugene Richardson, Jr.
John Thune

INVESTOR INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will convene at 1:00 pm on Monday, January 26, 2004. The meeting will be held in the Board Room of First Federal Savings Bank, 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

Katten Muchin Zavis Rosenman
1025 Thomas Jefferson Street NW
East Lobby, Suite 700
Washington, D.C. 20007-5201

INDEPENDENT AUDITORS

McGladrey & Pullen LLP
400 Locust Street, Suite 640
Des Moines, Iowa 50309-2372

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: 800.368.5948
Email: invrelations@rtco.com
Web site: www.rtco.com

FORM 10-K

Copies of the Company's Annual Report on Form 10-K for the year ended September 30, 2003 (excluding exhibits thereto) may be obtained without charge by contacting:

INVESTOR RELATIONS
First Midwest Financial, Inc.
First Federal Building, Fifth at Erie
P.O. Box 1307
Storm Lake, Iowa 50588
Telephone: 712.732.4117
Email: invrelations@fmficash.com
Web site: www.fmficash.com

DIVIDEND AND 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 2002 and 2003 were $0.13. The price range of the common stock, as reported on the Nasdaq System, was as follows:

	FISCAL YEAR 2003		FISCAL YEAR 2002	
	LOW	HIGH	LOW	HIGH
FIRST QUARTER	$14.16	$16.57	$12.90	$14.10
SECOND QUARTER	15.88	17.16	12.95	14.25
THIRD QUARTER	16.21	19.25	13.44	14.50
FOURTH QUARTER	18.37	24.50	12.90	15.45

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 13 of the Notes to Consolidated Financial Statements included in this Annual Report.

As of September 30, 2003, First Midwest had 2,493,949 shares of common stock outstanding, which were held by 257 shareholders of record, and 252,589 shares subject to outstanding options. The shareholders of record number does not reflect approximately 433 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, 2003: Brokerage America, LLC; CIBC World Markets Corp.; Fig Partners, LLC; Friedman Billings Ramsey & Co.; FTN Midwest Research Secs.; Goldman, Sachs & Co.; Howe Barnes Investments, Inc.; Knight Equity Markets, L.P.; Sandler O'Neill & Partners; and Schwab Capital Markets.

DIANA GONZALES PAULEY,
Bilingual Mortgage Originator

"Home ownership is an American dream. I enjoy sitting down with our customers and really getting to know them. What I learn helps me recommend a mortgage loan that is right for their budget and their lifestyle. I'm happiest when helping others."

Fun Facts: Makes homemade enchiladas for teammates and customers over lunch breaks. Volunteered 265 hours in the community this year.

First Midwest Financial, Inc.

People helping people

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

www.fmficash.com