

FIRST MIDWEST FINANCIAL, INC.

2001 Annual Report

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People helping people.

A compelling story of
one company in pursuit
of better banking.

IT'S SIMPLE.

We are a company of people helping people.
Together, we make our company stronger
one relationship at a time.

WE BELIEVE IN...

get-to-know-you customer service,
unrelenting continuous improvement,
an empowering work environment, and
profit-making results.

AND SO OUR STORY BEGINS...

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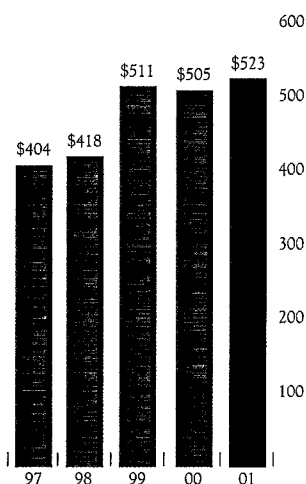
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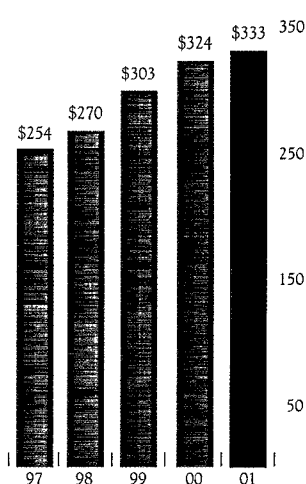
(Dollars in Thousands except Per Share Data)

	2001	2000	1999	1998	1997
AT SEPTEMBER 30					
Total assets	\$523,183	\$505,590	\$511,213	\$418,380	\$404,589
Total loans, net	333,062	324,703	303,079	270,286	254,641
Total deposits	338,782	318,654	304,780	283,858	246,116
Shareholders' equity	43,727	40,035	39,771	42,286	43,477
Book value per common share	\$ 17.71	\$ 16.48	\$ 15.86	\$ 16.56	\$ 16.11
Total equity to assets	8.36%	7.93%	7.78%	10.11%	10.75%
FOR THE FISCAL YEAR					
Net interest income	\$ 12,536	\$ 13,832	\$ 13,197	\$ 12,829	\$ 11,946
Net income	1,910	2,328	2,641	2,785	3,642
Diluted earnings per share	\$ 0.78	\$ 0.93	\$ 1.04	\$ 1.03	\$ 1.28
Return on average assets	.37%	.46%	.54%	.68%	.98%
Return on average equity	4.57%	5.98%	6.35%	6.43%	8.41%
Net yield on interest-earning assets	2.53%	2.79%	2.83%	3.26%	3.38%
Cash earnings ⁽¹⁾	\$ 2,278	\$ 2,696	\$ 3,006	\$ 3,150	\$ 4,006
Cash earnings per share diluted ⁽¹⁾	\$.93	\$ 1.08	\$ 1.18	\$ 1.17	\$ 1.40
Cash return on average assets ⁽¹⁾	.44%	.53%	.61%	.77%	1.08%
Cash return on average equity ⁽¹⁾	5.44%	6.93%	7.23%	7.27%	9.25%

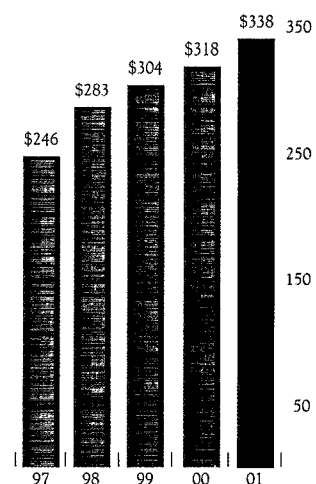
TOTAL ASSETS
(in millions)



TOTAL LOANS, NET
(in millions)



TOTAL DEPOSITS
(in millions)



(1) Cash earnings exclude the amortization of excess of cost over fair value of assets acquired. The Company and its subsidiaries exceed regulatory capital requirements.

Banks are Members FDIC and Equal Housing Lenders.

"We invite you to bank
with us, invest in us, and
experience the difference
of better banking."

— James S. Haahr
Chairman of the Board,
President and CEO

J. Tyler Haahr
Senior Vice President,
Secretary and COO

FIRST FEDERAL SAVINGS BANK



TO OUR SHAREHOLDERS:

Ours is a story that we are proud to tell. In eight short years, First Midwest has more than doubled its financial service network from seven to sixteen offices. Assets have more than tripled from \$161 million in 1993 to \$523 million in 2001.

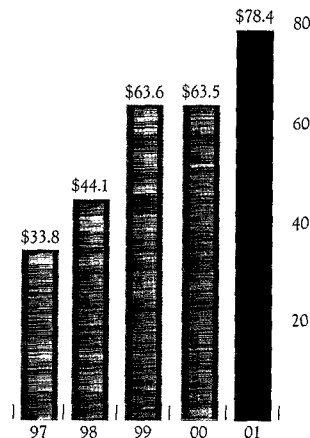
But, we are not just getting bigger. We are getting better. Our company is using resources to build employee skills and to create customer-focused products. We are investing in and utilizing technology to benefit our customers and our internal operations. We are making it easier to bank with us by opening new offices and providing more ways for customers to bank on their schedules, not ours.

Construction was completed in April 2001, on schedule and on budget, for our new facility in Sioux Falls, South Dakota. Since opening, deposits and loans have grown to more than \$12 million and \$22.2 million respectively. Nearly half of the deposits are in checking and money market accounts – a tremendous start as we branch into a new market.

The Company purchased a third retail location for Iowa Savings Bank in Des Moines, Iowa. Doors opened on November 16, 2001. Since its purchase in 1995, Iowa Savings Bank's assets multiplied more than five times from \$23 million to \$128 million. We expect solid growth to continue in coming years.

Along with brick and mortar, we are also reaching more customers with new products and technology. The past year we introduced *Checking Choices* – free and benefit-packed accounts designed to meet more customer lifestyles, a switch kit that makes it easier for customers to move their accounts, and new business banking products. We also launched six interactive web sites, one for First Midwest and one for each of its divisions. To link to the bank sites and access more infor-

DEMAND DEPOSIT
BALANCES
(in millions)



mation about our company, go to www.fmficash.com.

Behind-the-scenes technology progressed with more employee training; computer and network upgrades; and the integration of new loan, deposit, retirement, and reporting software. A major data processing conversion was also completed at our Security State Bank subsidiary. The conversion provides on-going efficiencies as a consistent system is now in use throughout the Company's operating divisions. Thanks to the conversion, Security State Bank, like our other offices, is able to offer *QUICKbank 24-Hour Telebanking* to its customers.

The past year we grappled with challenges and enjoyed successes.

◆ Total deposits reached an all-time high of \$339 million, a 6 percent increase in 2001 and a 45 percent increase during the past five years.

◆ Checking and money market balances increased 21 percent and 25 percent respectively in 2001. Total demand deposit balances have grown 114 percent the past five years.

◆ Net loans rose to a record \$333 million, a 3 percent increase in 2001 and a 37 percent increase during the past five years. Non-performing loans to total loans bettered state and national trends for the second consecutive year.⁽¹⁾

◆ Loan/deposit spreads widened for First Midwest while industry trends declined.⁽¹⁾

◆ Total assets grew 3.5 percent and shareholder's equity grew 9.2 percent while book value and tangible

book value per share grew \$1.23 and \$1.40 respectively.

The Company is attracting more low cost deposits. We are building more relationships by selling more services to current customers and attracting new ones. Our credit quality remains strong as we expand our loan portfolio.

While deposit and loan trends are strong, diluted earnings per share declined from \$0.93 in 2000 to \$0.78 in 2001. This is primarily due to start-up costs associated with two new offices and expenses associated with technology advances and the data processing conversion at Security State Bank. Long-term performance is our top priority, and we invested in strategies that we believe will pay greater dividends in the future.

The Company's trust subsidiary, First Midwest Financial Capital Trust I, sold \$10 million in floating rate cumulative preferred securities on July 16, 2001. Proceeds from the sales were used to purchase subordinated debentures of First Midwest, which mature in the year 2031, and are redeemable at any time after five years. Our company is using the proceeds for general corporate purposes.

In August 2001, we announced First Midwest's intention to repurchase approximately 5 percent of the Company's outstanding shares. As of the fiscal year-end, no shares have been repurchased under this program. Since initiating our first stock repurchase program in 1994, the Company has invested a total of \$13.9 million in the repurchase of approximately 954 thousand shares of outstanding stock.

THE PLOT THICKENS

We, like the rest of the world, are mindful of the uncertainty in the U.S. economy after the September 11th terrorist attacks. Proactive plans are in place to support our local communities and protect the banks. In 2002, execution of five main focus areas will be the key to our banks' success.

1. Loan quality
2. Profitable growth (demand deposits, loans, and fee income)
3. Managed expenses and sharing best practices
4. Employee and team development
5. People helping people

Comprehensive internet banking, bill paying, and business cash management services will be unveiled in the coming year. A consolidated savings product mix will also be integrated. These enhancements complete our plan to provide a consistent product mix across the Company, and will improve our ability to meet customer demands and broaden our customer base. We will continue to implement innovative solutions that serve our customers and the banks well.

We invest in technology advancements to enhance one-on-one service, not to replace it. That is because we truly believe in people helping people, where customers can talk with a real person and get answers. We have put systems in place that empower our people to make quick and local decisions. To us, that is what being a super-community bank is all about – neighborhood service with the resources of a larger bank.

We invite you to bank with us, invest in us, and experience the difference of better banking. We believe our stock remains an attractive investment, and we thank our shareholders, customers, employees, and directors for your continuing support. The First Midwest team remains dedicated to increasing shareholder value and enhancing your investment. And so the story goes.



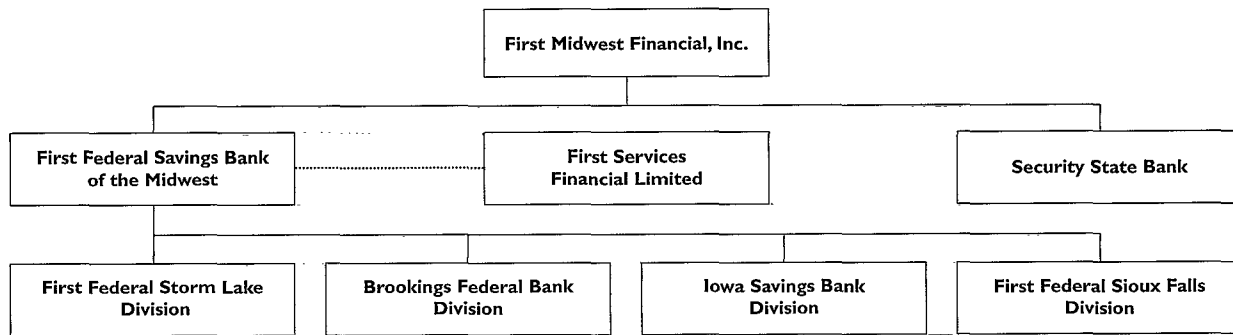
JAMES S. HAAHR
Chairman of the Board,
President and CEO



J. TYLER HAAHR
Senior Vice President,
Secretary and COO

(1) Based on reports distributed by the FDIC, Federal Reserve Bank, and OTS.

COMPANY STRUCTURE



COMPANY PROFILE

First Midwest Financial, Inc. is a \$523 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, 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 Financial Limited, a subsidiary of First Federal Savings Bank, is a full-service brokerage operation that offers a wide range of noninsured investment products to customers through LaSalle St. Securities, Inc.

COMPANY VISION, MISSION AND VALUES

VISION OF FIRST MIDWEST FINANCIAL, INC.

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

VISION OF FIRST MIDWEST FINANCIAL BANKS

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

MISSION

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

COMPANY VALUES

Customer Service

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

Continuous Improvement

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

Great Work Environment

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

Results

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

"I can do my banking at any time, and that is what works best for me. But the best part of First Federal is its people! Tracee Dierenfield made buying a different home easy. She did the work for my husband and me, and that was important since we both work full-time. I like banking where people know who you are and the faces do not change. That says something about First Federal... it must be a great place to work!"

— Judy Arnfelt,
First Federal Savings Bank
customer



OUR PEOPLE

The banks of First Midwest are in the business of helping people. We sit down and really get to know our customers and their financial needs. What we learn helps us recommend the right products and services to help them succeed.

Good service comes from good people. That is why our people are encouraged to expand their financial knowledge and professional skills. Every employee uses

a development plan to set goals and track performance. We believe people who are empowered to learn, grow, and make decisions provide better service – to customers and each other.

After all, the driving force behind First Midwest's success is our people. Their talents, dedication, and genuine desire to help people are what keep our customers coming back.



"As an entrepreneur, your bank continues to provide me with the best business banking solutions and ideas. There is constant communication and timely follow up provided on all transactions and requests. Your company's honesty, integrity and customer service ensures we will always be First Federal Savings Bank customers."

— Daniel Nelson, President
Dan Nelson Automotive Group

"The folks at Brookings Federal Bank have been there for us every step of the way. Becky Krause talks to us about markets, trends, ratios and other things that help us manage our finances. She understands our operation and provides financial services that work for us."

— Greg and Sherry Lunden,
Dairy Farmers



Becky Krause
Ag Loan Officer
Brookings Federal Bank

OUR PRODUCTS *and* SERVICES

Whether our customers have a family, run a business, or just want to save for the future, we offer a complete line of competitive products and services designed to work through every life stage. Combine that with good people and customer-focused service standards, and you have the right formula for success.

Checking Choices * Business Advantage Checking * Photo-Secure QUICKcard Debit Card * ATM Card * Money Market Accounts * Certificates of Deposit * QUICKbank 24-Hour Telebanking * Savings Accounts * Mortgage Lending * Commercial Lending * Agricultural Lending * Consumer Lending * Lines of Credit * 24-Hour Loan Applications * Credit Life Insurance * Crop Insurance * Credit Cards * Retirement and Trust Services * Ready Reserve * Overdraft Protection * Automated

Clearing House Origination * Direct Deposit * Automatic Payment * Switch Kits * Interactive Web Sites * Investments and Insurance including:⁽¹⁾ Stocks * Bonds * Mutual Funds * Fixed and Variable Annuities * Life Insurance * Disability Insurance * Long-term Care Insurance * Retirement Plans * Tax Advantaged Investments * Financial Planning

Our company is proud to offer products and services that make handling money easier for our customers. We continuously look for and implement innovative ways to exceed customer expectations. In fact, right now we are gearing up to launch online banking and a new savings product mix.

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

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 important life events is one way our banks work to enhance people's lives.

Through our partnership with the American Bankers Association, Colin Powell and America's Promise, each of our banks is recognized as a *Bank of Promise*. We dedicate financial resources and thousands of employee hours to help youth and charitable organizations in our communities.

Every year we host a charity cookout to benefit local organizations. Together, we have raised tens of thousands of dollars that stay right here in our neighborhoods and make them a better place.

Whether it is providing annual scholarships, teaching students the importance of saving, or volunteering in the classrooms, we have developed partnerships with our community school systems that work. In fact, two *Partners in Education* programs, initiated by our people, earned state recognition for their impact to children.



"Your bank and the people working in your bank are great when it comes to helping the teachers and kids of West Central Valley. Just the other day, Jaime Waddle was at our school reading to the kids. She also presented a check to our band director. He was thrilled. As a customer, your bank employees have taken care of my every need, and always with a smile."

— Jim Woodward,
Superintendent of Schools
for West Central Valley
Community Schools

"We couldn't be more pleased with the personalized attention we receive from Brian Bond and your people at Iowa Savings Bank. We were looking for a bank with local decision makers and the resources to grow with us. What we found was a team of professionals ready to push up their sleeves and get to work. We've been sending many referrals your way."

— Brian Jones, Tom Dunphy and Jarrett Cowden,
Partners of Two Rivers
Marketing Resource Group



Brian Bond
Vice President; Manager
of Commercial Lending
Iowa Savings Bank

OUR RESULTS

Every day our team works together to do the right things right. We review performance, update strategies, and develop action plans to achieve our goals. Then we track results. Our people participate in the process so we all have ownership in the outcome.

We believe the only way to move ahead of the competition is to embrace change and strive toward continuous improvement in everything we do. This past year we did just that. We expanded our branch network and integrated more technologies across the Company. New products and web sites were launched while operations were streamlined for smarter use of the banks' resources. But, we are not stopping here.

Our people are sharing best practices and implementing practical ideas to make the banks even better. We are earning more new and repeat business thanks to employee initiatives and customer referrals. Our people are exploring opportunities to manage expenses and increase profitability. We are challenging the status quo to make banking and investing with us easier than ever.

When you get right down to it, we are simply people helping people. Our success comes from the efforts of talented people working together toward common goals. It comes from listening to and taking care of our customers — and each other. And, that is what better banking is all about.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

September 30,	2001	2000	1999	1998	1997
SELECTED FINANCIAL CONDITION DATA (In Thousands)					
Total assets	\$ 523,183	\$ 505,590	\$ 511,213	\$ 418,380	\$ 404,589
Loans receivable, net	333,062	324,703	303,079	270,286	254,641
Securities available for sale	145,374	147,479	178,489	120,610	115,985
Excess of cost over net assets acquired, net	3,403	3,768	4,133	4,498	4,863
Deposits	338,782	318,654	304,780	283,858	246,116
Total borrowings	138,344	143,993	164,369	89,888	112,126
Shareholders' equity	43,727	40,035	39,771	42,286	43,477

Year Ended September 30,

SELECTED OPERATIONS DATA (In Thousands, Except Per Share Data)					
Total interest income	\$ 37,927	\$ 38,410	\$ 35,373	\$ 32,059	\$ 29,005
Total interest expense	25,391	24,578	22,176	19,230	17,059
Net interest income	12,536	13,832	13,197	12,829	11,946
Provision for loan losses	710	1,640	1,992	1,663	120
Net interest income after provision for loan losses	11,826	12,192	11,205	11,166	11,826
Total noninterest income	1,789	566	1,918	1,875	1,700
Total noninterest expense	10,695	9,408	8,645	8,253	7,382
Income before income taxes and extraordinary items	2,920	3,350	4,478	4,788	6,144
Income tax expense	1,010	1,374	1,837	2,003	2,502
Income before extraordinary items	1,910	1,976	2,641	2,785	3,642
Extraordinary items, net of income tax		352			
Net income	\$ 1,910	\$ 2,328	\$ 2,641	\$ 2,785	\$ 3,642

Earnings per common and common equivalent share:

Income before extraordinary items					
Basic earnings per share	\$ 0.79	\$ 0.81	\$ 1.07	\$ 1.08	\$ 1.34
Diluted earnings per share	\$ 0.78	\$ 0.79	\$ 1.04	\$ 1.03	\$ 1.28
Net income					
Basic earnings per share	\$ 0.79	\$ 0.95	\$ 1.07	\$ 1.08	\$ 1.34
Diluted earnings per share	\$ 0.78	\$ 0.93	\$ 1.04	\$ 1.03	\$ 1.28

Year Ended September 30,

SELECTED FINANCIAL RATIOS AND OTHER DATA

PERFORMANCE RATIOS

Return on average assets	0.37%	0.46%	0.54%	0.68%	0.98%
Return on average shareholders' equity	4.57	5.98	6.35	6.43	8.41
Interest rate spread information:					
Average during the year	2.18%	2.39%	2.43%	2.76%	2.80%
End of year	2.21	2.32	2.40	2.74	2.78
Net yield on average interest-earning assets	2.53	2.79	2.83	3.26	3.38
Ratio of operating expense to average total assets	2.09	1.85	1.80	2.00	2.00

QUALITY RATIOS

Non-performing assets to total assets at end of year	0.49%	0.15%	0.47%	1.94%	0.82%
Allowance for loan losses to non-performing loans	240.02	1,156.13	137.16	41.15	75.36

CAPITAL RATIOS

Shareholders' equity to total assets at end of period	8.36%	7.93%	7.78%	10.11%	10.75%
Average shareholders' equity to average assets	8.17	7.67	8.65	10.51	11.62
Ratio of average interest-earning assets to average interest-bearing liabilities	106.90	108.02	108.39	110.22	112.00

OTHER DATA

Cash earnings (in thousands) ⁽¹⁾	\$ 2,278	\$ 2,696	\$ 3,006	\$ 3,150	\$ 4,006
Cash earnings per share - diluted ⁽¹⁾	\$ 0.93	\$ 1.08	\$ 1.18	\$ 1.17	\$ 1.40
Cash return on average assets ⁽¹⁾	0.44%	0.53%	0.61%	0.77%	1.08%
Cash return on average equity ⁽¹⁾	5.44	6.93	7.23	7.27	9.25
Book value per common share outstanding	\$ 17.71	\$ 16.48	\$ 15.86	\$ 16.56	\$ 16.11
Dividends declared per share	\$ 0.52	\$ 0.52	\$ 0.52	\$ 0.48	\$ 0.36
Dividend payout ratio	65.32%	54.83%	48.24%	44.05%	26.41%
Number of full-service offices	14	14	13	13	13

(1) Cash earnings exclude the amortization of excess of cost over fair value of assets acquired.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 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, 2001 were \$523.2 million, an increase of \$17.6 million, or 3.5%, from \$505.6 million at September 30, 2000. The increase in assets was due to an increase in net loans receivable, increased investment in premises and equipment, and an increase in other assets.

The Company's portfolio of securities available for sale decreased \$2.1 million, or 1.4%, to \$145.4 million at September 30, 2001 from \$147.5 million at September 30, 2000. The decrease in securities available for sale resulted

from securities that matured, were called, or were sold during the period in an amount greater than new security purchases. In addition, mortgage-backed securities were repaid at higher than normal rates during the period due to the historically low interest rate environment.

The Company's portfolio of net loans receivable increased by \$8.4 million, or 2.6%, to \$333.1 million at September 30, 2001 from \$324.7 million at September 30, 2000. Net loans receivable increased as a result of increased origination and purchase of commercial and multi-family real estate loans on existing and newly constructed properties and the increased origination and purchase of commercial business loans. In addition, the increase resulted from the increased origination of consumer loans and agricultural real estate 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. Agricultural business loans also declined during the period as a result of repayments in excess of new originations.

The Company's investment in premises and equipment increased \$3.2 million, or 52.5%, to \$9.3 million at September 30, 2001 from \$6.1 million at September 30, 2000. The increase is due primarily to the construction of a new office facility in Sioux Falls, South Dakota and the purchase of an existing building to be used as an office facility in Des Moines, Iowa.

Other assets increased \$8.1 million, or 126.6%, to \$14.5 million at September 30, 2001 from \$6.4 million at September 30, 2000. The increase is due primarily to the purchase of bank owned life insurance.

Customer deposit balances increased by \$20.1 million, or 6.3%, to \$338.8 million at September 30, 2001 from \$318.7 million at September 30, 2000. The increase in deposits resulted from management's continued efforts to enhance deposit product design and marketing programs. Deposit balances increased for noninterest-bearing demand accounts, interest-bearing transaction accounts, which include savings, NOW and money market demand accounts, and time certificates of deposit in the amounts of \$1.7 million, \$10.4 million, and \$8.0 million, respectively.

The Company's borrowings from the Federal Home Loan Bank decreased by \$13.3 million, or 9.5%, from \$139.7 million at September 30, 2000 to \$126.4 million at September 30, 2001. The reduction in borrowings was primarily the result of an increase in deposit balances.

Shareholders' equity increased \$3.7 million, or 9.3%, to \$43.7 million at September 30, 2001 from \$40.0 million at September 30, 2000. The increase in shareholders' equity is the result of net earnings during the period and an increase in net unrealized gains on securities available for sale.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

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

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

The Company's noninterest income consists primarily of fees charged on transaction accounts and for the origination of loans, both of which help offset the costs associated with establishing and maintaining deposit and loan accounts. In addition, noninterest income is derived from the activities of First Federal's wholly-owned subsidiaries, First Services Financial Limited and Brookings Service Corporation. Both engage in the sale of various non-insured

investment products. Historically, the Company has not derived significant income as a result of gains on the sale of securities and other assets. During the year ended September 30, 2000, the Company recorded a loss on the sale of securities available for sale in the amount of \$1,021,000 resulting from the planned restructuring of the balance sheet that involved the sale of lower yielding securities, the reinvestment of funds into higher yielding assets, and the repayment of borrowings. The loss on sale of securities was partially offset by a \$561,000 gain on the transfer of Federal Home Loan Bank advances.

**COMPARISON OF OPERATING RESULTS
FOR THE YEARS ENDED SEPTEMBER 30, 2001
AND SEPTEMBER 30, 2000**

General

Net income for the year ended September 30, 2001 decreased \$418,000, or 18.0%, to \$1,910,000, from \$2,328,000 for the same period ended September 30, 2000. The decrease in net income reflects a reduction in net interest income and an increase in noninterest expense, which were partially offset by an increase in noninterest income and a decrease in the provision for loan losses. In addition, the prior fiscal year included an extraordinary item resulting from a gain on the transfer of Federal Home Loan Bank advances.

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

	2001	2000	1999
WEIGHTED AVERAGE YIELD ON			
Loans receivable	7.93%	8.47%	8.09%
Mortgage-backed securities available for sale	6.46	6.66	6.38
Securities available for sale	4.61	6.92	6.14
FHLB stock	4.08	7.10	6.25
Combined weighted average yield on interest-earning assets	7.27	7.91	7.39
WEIGHTED AVERAGE RATE PAID ON			
Demand, NOW and money market demand deposits	2.06	3.50	3.24
Savings deposits	1.69	3.05	2.50
Time deposits	5.73	6.02	5.32
FHLB advances	5.76	5.99	5.38
Other borrowed money	7.10	6.32	5.28
Combined weighted average rate paid on interest-bearing liabilities	5.06	5.59	4.99
Spread	2.21%	2.32%	2.40%

MANAGEMENT'S DISCUSSION AND ANALYSIS

RATE/VOLUME ANALYSIS

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

Year Ended September 30,

In Thousands	2001 vs. 2000			2000 vs. 1999		
	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	\$ 1,450	\$ (263)	\$ 1,187	\$ 2,081	\$ 391	\$ 2,472
Mortgage-backed securities available for sale	(1,423)	25	(1,398)	651	55	706
Securities available for sale	161	(308)	(147)	(354)	129	(225)
FHLB stock	(4)	(121)	(125)	62	22	84
Total interest-earning assets	\$ 184	\$ (667)	\$ (483)	\$ 2,440	\$ 597	\$ 3,037
INTEREST-BEARING LIABILITIES						
Demand, NOW and money market deposits	\$ 170	\$ (318)	\$ (148)	\$ 269	\$ 146	\$ 415
Savings deposits	(127)	(61)	(188)	(46)	76	30
Time deposits	1,282	964	2,246	514	171	685
FHLB advances	(1,384)	22	(1,362)	819	433	1,252
Other borrowed money	302	(37)	265	7	13	20
Total interest-bearing liabilities	\$ 243	\$ 570	\$ 813	\$ 1,563	\$ 839	\$ 2,402
Net effect on net interest income	\$ (59)	\$ (1,237)	\$ (1,296)	\$ 877	\$ (242)	\$ 635

MANAGEMENT'S DISCUSSION AND ANALYSIS

AVERAGE BALANCES, INTEREST RATES AND YIELDS

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

Year Ended September 30,

(Dollars in Thousands)	2001			2000			1999		
	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⁾	\$ 327,036	\$ 27,455	8.40%	\$ 309,768	\$ 26,268	8.48%	\$ 285,232	\$ 23,796	8.34%
Mortgage-backed securities available for sale	104,012	6,812	6.55	125,749	8,210	6.53	115,784	7,504	6.48
Securities available for sale	55,442	3,232	5.83	52,672	3,379	6.42	58,190	3,604	6.19
FHLB stock	8,118	428	5.27	8,190	553	6.75	7,278	469	6.44
Total interest-earning assets	494,608	\$ 37,927	7.67%	496,379	\$ 38,410	7.74%	466,484	\$ 35,373	7.58%
Noninterest-earning assets	18,251			10,879			14,719		
Total assets	\$ 512,859			\$ 507,258			\$ 481,203		
INTEREST-BEARING LIABILITIES									
Demand, NOW and money market demand deposits	\$ 64,711	\$ 1,997	3.09%	\$ 59,199	\$ 2,145	3.62%	\$ 51,778	\$ 1,730	3.34%
Savings deposits	11,115	289	2.60	15,986	477	2.98	17,528	447	2.55
Time deposits	252,171	15,261	6.05	230,992	13,015	5.63	221,873	12,330	5.56
FHLB advances	126,208	7,373	5.84	149,896	8,735	5.83	135,846	7,483	5.51
Other borrowed money	8,471	471	5.56	3,460	206	5.95	3,348	186	5.56
Total interest-bearing liabilities	462,676	\$ 25,391	5.49%	459,533	\$ 24,578	5.35%	430,373	\$ 22,176	5.15%
Noninterest-bearing:									
Deposits	6,551			5,639			5,749		
Liabilities	1,751			3,178			3,451		
Total liabilities	470,978			468,350			439,573		
Shareholders' equity	41,881			38,908			41,630		
Total liabilities and shareholders' equity	\$ 512,859			\$ 507,258			\$ 481,203		
Net interest-earning assets	\$ 31,932			\$ 36,846			\$ 36,111		
Net interest income		\$ 12,536			\$ 13,832			\$ 13,197	
Net interest rate spread			2.18%			2.39%			2.43%
Net yield on average interest-earning assets			2.53%			2.79%			2.83%
Average interest-earning assets to average interest-bearing liabilities		106.90%			108.02%			108.39%	

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Interest Income

Net interest income for the year ended September 30, 2001 decreased by \$1,296,000, or 9.4%, to \$12,536,000 compared to \$13,832,000 for the period ended September 30, 2000. The decrease in net interest income reflects a decrease in the net interest rate spread between interest-earning assets and interest-bearing liabilities during the period. The average interest rate spread declined to 2.18% for the fiscal year ended September 30, 2001 from 2.39% for the previous year. The decline in spread was due primarily to an increase in the average cost of time deposits as a result of an interest rate yield curve that was flat or inverted for much of the period.

The decrease in net interest income was also due to the average balance of interest-earning assets decreasing while the average balance of interest-bearing liabilities increased, resulting in a decline in average net earning assets. This decline in net earning assets was due in part to the use of proceeds from the maturity of investment securities for the purchase of bank owned life insurance, which is carried as a noninterest-earning asset. In addition, the construction and purchase of additional office facilities during the period increased the balance in noninterest-earning assets.

The net yield on average earning assets decreased to 2.53% for the period ended September 30, 2001 from 2.79% for the same period in 2000. The decrease in net yield is due to the decrease in net interest rate spread and the decrease in net earning assets.

Interest and Dividend Income

Interest and dividend income for the year ended September 30, 2001 decreased \$483,000, or 1.3%, to \$37,927,000 from \$38,410,000 for the same period in 2000. The decrease is due primarily to a decline of \$1,545,000 in interest income from securities available for sale due to a decrease in the average balance outstanding and to a decrease in the average yield on these assets during the period. In addition, dividend income from FHLB stock decreased by \$125,000 due primarily to a decline in average yield received. These decreases were partially offset by a \$1,187,000 increase in interest income from net loans receivable due to an increase in the average balance outstanding during the period.

Interest Expense

Interest expense increased \$813,000, or 3.3%, to \$25,391,000 for the year ended September 30, 2001 from \$24,578,000 for the same period in 2000. The increase is due to an increase of \$1,910,000 in interest expense on deposits due to an increase in the average outstanding balance and to an increase in the average rate paid on deposits during the period. The increase in the average outstanding balance of deposits resulted from internal growth of the deposit portfolio. The increase in deposit interest expense was partially

offset by a decrease of \$1,098,000 in expense on FHLB advances and other borrowings due to a decline in the average balances outstanding during the period.

Provision for Loan Losses

The provision for loan losses for the year ended September 30, 2001 was \$710,000 compared to \$1,640,000 for the same period in 2000. 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 reserve against potential losses from the loan portfolio.

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

During recent years, the Company has increased its origination and purchase of multi-family and commercial real estate loans and has increased its origination of commercial business loans. The Company anticipates activity in this type of lending to continue in future years. This lending activity is considered to carry a higher level of risk due to the nature of the collateral and the size of individual loans. As such, the Company anticipates continued increases in its allowance for loan losses as a result of this lending activity.

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

Noninterest Income

Noninterest income increased by \$1,223,000, or 216.1%, to \$1,789,000 for the year ended September 30, 2001 from \$566,000 for the same period in 2000. The increase in non-interest income reflects a \$265,000 increase in loan fees and deposit service charges. In addition, the loss on sale of securities available for sale totaled \$60,000 for the year ended September 30, 2001 as compared to \$1,021,000 for the previous year. The fiscal 2000 loss on sale of securities available for sale resulted primarily from the planned

MANAGEMENT'S DISCUSSION AND ANALYSIS

restructuring of the balance sheet that involved the sale of lower yielding securities, the reinvestment of proceeds into higher yielding assets, and the repayment of borrowings.

Noninterest Expense

Noninterest expense increased by \$1,287,000, or 13.7%, to \$10,695,000 for the year ended September 30, 2001 from \$9,408,000 for the same period in 2000. The increase in noninterest expense reflects the costs associated with opening a new office in Sioux Falls, South Dakota, and the opening of the Company's third Des Moines location which opened in November 2001. The Sioux Falls office opened in a temporary facility in September 2000, with construction of a permanent facility completed on schedule, and the move to the new office made in April 2001. Noninterest expense was also increased due to costs associated with a data processing conversion at the Company's Security State Bank subsidiary. This conversion will provide on-going efficiencies as a consistent data processing system is now in use throughout the Company's operating divisions. In addition, increased occupancy and equipment expense reflects the Company's on-going effort to enhance its technology systems for the efficient delivery of products and customer service.

Income Tax Expense

Income tax expense decreased by \$364,000, or 26.5%, to \$1,010,000 for the year ended September 30, 2001 from \$1,374,000 for the same period in 2000. The decrease in income tax expense reflects the decrease in the level of taxable income between the comparable periods. In addition, income tax expense was reduced for the period ended September 30, 2001 due to the favorable resolution of a tax contingency in the net amount of \$117,000.

Extraordinary Item

The extraordinary item for the year ended September 30, 2000 was \$352,000, which is net of the income tax effect. The extraordinary item reflects the gain on the transfer of FHLB advances resulting from the balance sheet restructuring as previously discussed. There was no such extraordinary item in the year ended September 30, 2001.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND SEPTEMBER 30, 1999

General

Net income for the year ended September 30, 2000 decreased \$313,000, or 11.9%, to \$2,328,000, from \$2,641,000 for the same period ended September 30, 1999. The decrease in net income reflects the loss on sale of securities available for sale and an increase in noninterest expenses, which were partially offset by an increase in net interest income, a

decrease in the provision for loan losses and a gain on the transfer of FHLB advances.

Net Interest Income

Net interest income for the year ended September 30, 2000 increased by \$635,000, or 4.8%, to \$13,832,000 compared to \$13,197,000 for the same period ended September 30, 1999. The increase in net interest income reflects an overall increase in the average balance of interest-earning assets during the period, which was partially offset by a decrease in the net interest rate spread between interest-earning assets and interest-bearing liabilities. The net yield on average earning assets decreased to 2.79% for the period ended September 30, 2000 from 2.83% for the same period in 1999. The decrease in net yield is primarily due to the decrease in net interest rate spread between interest-earning assets and interest-bearing liabilities.

Interest and Dividend Income

Interest and dividend income for the year ended September 30, 2000 increased \$3,037,000, or 8.6%, to \$38,410,000 from \$35,373,000 for the same period in 1999. The increase reflects an increase in interest income from net loans receivable of \$2,472,000 due to an increase in the average balance outstanding and, to a lesser extent, an increase in the overall yield during the period. In addition, the increase in interest income reflects an increase in interest income from the portfolio of securities available for sale of \$481,000 due to an increase in the portfolio yield and an increase in the average portfolio balance during the period.

Interest Expense

Interest expense increased \$2,402,000, or 10.8%, to \$24,578,000 for the year ended September 30, 2000 from \$22,176,000 for the same period in 1999. The increase in interest expense is due to increases in the average outstanding balance of demand deposits, time deposits, and FHLB advances during the year ended September 30, 2000 as compared to the same period in 1999. The increase in the average balance of demand and time deposits resulted from internal growth of the deposit portfolio. The average balance of FHLB advances increased due to borrowing activity throughout the period used to fund growth of the loan portfolio. The increase in interest expense also reflects higher interest rates paid on interest-bearing liabilities during the year ended September 30, 2000, as market interest rates generally trended upward during the period.

Provision for Loan Losses

The provision for loan losses for the year ended September 30, 2000 was \$1,640,000 compared to \$1,992,000 for the

MANAGEMENT'S DISCUSSION AND ANALYSIS

same period in 1999. 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 reserve against potential losses from the loan portfolio.

Noninterest Income

Noninterest income for the year ended September 30, 2000 decreased \$1,352,000, or 70.5%, to \$566,000 from \$1,918,000 for the same period in 1999. The decrease in noninterest income reflects a \$1,021,000 loss on sale of securities available for sale for the year ended September 30, 2000 as compared to a gain of \$332,000 the previous year. The fiscal 2000 loss on sale of securities available for sale resulted primarily from the balance sheet restructuring as previously discussed. Noninterest income reflects an increase for fiscal 2000 in brokerage commissions received from sales of non-insured investment products through First Federal's subsidiaries.

Noninterest Expense

Noninterest expense increased by \$763,000, or 8.8%, to \$9,408,000 for the year ended September 30, 2000 as compared to \$8,645,000 for the same period in 1999. The increase in noninterest expense for fiscal 2000 reflects a \$695,000 increase in employee compensation and benefits expense due to normal wage and benefit cost increases and the addition of personnel related to the opening of a new office facility. In addition, occupancy and equipment expense and data processing expense increased for fiscal 2000 by \$142,000 and \$32,000, respectively, due to expenditures related to the opening of a new office facility and to expenditures on technological enhancements to the Company's computer and product delivery systems designed to provide continued efficient customer service.

Income Tax Expense

Income tax expense decreased by \$463,000, or 25.2%, to \$1,374,000 for the year ended September 30, 2000 from \$1,837,000 for the same period in 1999. The decrease in income tax expense reflects the decrease in the level of taxable income for the period ended September 30, 2000 compared to the same period in 1999.

Extraordinary Item

The extraordinary item for the year ended September 30, 2000 was \$352,000, which is net of the income tax effect. The extraordinary item reflects the gain on the transfer of FHLB advances resulting from the balance sheet restructuring as previously discussed. There was no such extraordinary item in the previous year.

**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.

Quantitative Aspects of Market Risk

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

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

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

The Company's primary objective for its investment portfolio is to provide the liquidity necessary to meet 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

categories of security types and maturities based upon the Company's need for liquidity, desire to achieve a proper balance between minimizing risk while maximizing yield, the need to provide collateral for borrowings, and to fulfill the Company's asset/liability management goals.

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

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

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

Net Portfolio Value

The Company uses a net portfolio value ("NPV") approach to the quantification of interest rate risk. This approach calculates the difference between the present value of expected cash flows from assets and the present value of expected cash flows from liabilities, as well as cash flows from off-balance-sheet contracts. Management of the Company's

assets and liabilities is performed within the context of the marketplace, but also within limits established by the Board of Directors on the amount of change in NPV that is acceptable given certain interest rate changes.

Presented below, as of September 30, 2001 and 2000, 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, 2001 is more sensitive to declining interest rates than to increasing interest rates. At September 30, 2000, the Company's NPV was more sensitive to increasing interest rates than to declining interest rates. The change reflects management's effort to modify the Company's interest rate sensitivity in light of a significant decline in interest rates during the period. With interest rates at historically low levels, management believes there is less risk from interest rates declining substantially from current levels than from the potential increase in interest rates. The Company's sensitivity to declining interest rates exceeds the established limits at September 30, 2001; however, the Board considers this to be acceptable given the current interest rate environment.

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 quarter-

Change in Interest Rate (Basis Points)	Board Limit % Change	At September 30, 2001		At September 30, 2000	
		\$ Change	% Change	\$ Change	% Change
<i>Dollars In Thousands</i>					
+200 bp	(40)%	\$(2,472)	(6)%	\$(7,202)	(18)%
+100 bp	(25)	(698)	(2)	(3,323)	(8)
0	—	—	—	—	—
-100 bp	(10)	(4,336)	(11)	2,659	6
-200 bp	(15)	(11,377)	(29)	1,657	4

MANAGEMENT'S DISCUSSION AND ANALYSIS

ly basis. In addition to monitoring selected measures of NPV, management also monitors the effects on net interest income resulting from increases or decreases in interest rates. This measure is used in conjunction with NPV measures to identify excessive interest rate risk.

Asset Quality

It is management's belief, based on information available, that the Company's current asset quality is satisfactory. At September 30, 2001, non-performing assets, consisting of non-accruing loans, accruing loans delinquent 90 days or more, foreclosed real estate, and repossessed consumer property, totaled \$2,543,000, or 0.49% of total assets, compared to \$755,000, or 0.15% of total assets, for the fiscal year ended 2000.

Non-accruing loans at September 30, 2001 include, among others, an agricultural operating loan in the amount of \$500,000 secured by livestock and land, a commercial real estate loan in the amount of \$464,000 secured by a casino, and a commercial business loan in the amount of \$286,000 secured by two car wash facilities. Foreclosed real estate at September 30, 2001 consists of a nursing home in the amount of \$889,000.

The Company maintains an allowance for loan losses because of the potential that some loans may not be repaid in full. At September 30, 2001, the Company had an allowance for loan losses in the amount of \$3,869,000 as compared to \$3,590,000 at September 30, 2000. 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, 2001, \$168,000 of the allowance for loan losses was allocated to impaired loans (See Note 4 of

Notes to Consolidated Financial Statements), \$1,048,000 was allocated to identified problem loan situations, and \$2,653,000 was allocated as a reserve against losses from the overall loan portfolio. At September 30, 2000, \$734,000 of the allowance for loan losses was allocated to impaired loans, \$500,000 was allocated to identified problem loan situations, and \$2,356,000 was allocated as a reserve against losses from the overall loan portfolio.

The September 30, 2001 allowance for loan losses that was allocated to impaired loans was \$168,000, which is 12.4% of impaired loans as of that date. The September 30, 2000 allowance allocated to impaired loans was \$734,000, which is 12.9% of impaired loans at that date. The decrease in the dollar amount of the allocated allowance is due to the relative decrease in total impaired loans between the periods and the decrease in the allocated allowance as a percentage of total impaired loans is a result of the specific analysis performed on a loan-by-loan basis as described above.

The September 30, 2001 allowance allocated to other identified problem loan situations was \$1,048,000 as compared to \$500,000 at September 30, 2000, an increase of \$548,000. The increase in the dollar amount of the allocated allowance is due to the relative increase 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, 2001 allowance that was not specifically allocated was \$2,653,000 as compared to \$2,356,000 at September 30, 2000, an increase of \$297,000. This increase was primarily due to an increase in the size of the loan portfolio and a change in the composition of the loan portfolio that 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.

First Federal and Security are required by regulation to maintain sufficient liquidity to assure their safe and sound operation. First Federal and Security have historically maintained a level of liquid assets in excess of that required to meet regulatory requirements.

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)

MANAGEMENT'S DISCUSSION AND ANALYSIS

expected deposit flows, (iv) yields available on interest-bearing deposits, and (v) the objectives of its asset/liability management program. Excess liquidity is generally invested in interest-earning overnight deposits and other short-term government agency obligations. If the Company requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the Federal Home Loan Bank of Des Moines and has collateral eligible for use with reverse repurchase agreements.

The primary investing activities of the Company are the origination and purchase of loans and the purchase of securities. During the years ended September 30, 2001, 2000 and 1999, the Company originated loans totaling \$159.6 million, \$104.3 million and \$143.3 million, respectively. Purchases of loans totaled \$33.2 million, \$55.6 million and \$77.3 million during the years ended September 30, 2001, 2000 and 1999, respectively. During the years ended September 30, 2001, 2000 and 1999, the Company purchased mortgage-backed securities and other securities available for sale in the amount of \$22.9 million, \$515,000 and \$125.4 million, respectively.

At September 30, 2001, the Company had outstanding commitments to originate and purchase loans of \$29.7 million. (See Note 14 of Notes to Consolidated Financial Statements.) Certificates of deposit scheduled to mature in one year or less from September 30, 2001 total \$163.3 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 2001, the Company completed construction of a new office facility in Sioux Falls, South Dakota. In addition, the Company purchased an existing building located in Des Moines, Iowa, that opened as a branch office in November 2001. Plans have also been initiated to construct a new office located in Urbandale, Iowa, which is anticipated to be completed by the end of the 2002 fiscal year. The source of funds for capital improvements of this type is from the normal operations of the Company.

On September 20, 1993, the Bank converted from a federally chartered mutual savings and loan association to a federally chartered stock savings bank. At that time,

a liquidation account was established for the benefit of eligible account holders who continue to maintain their account with the Bank after the conversion. The liquidation account is reduced annually to the extent that eligible account holders have reduced their qualifying deposits. At September 30, 2001, the liquidation account approximated \$2.5 million.

First Federal and Security are in full compliance with their capital requirements. See Note 13 of Notes to Consolidated Financial Statements for additional information.

Impact of Inflation and Changing Prices

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

Impact of New Accounting Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued two statements, Statement 141, *Business Combinations* and Statement 142, *Goodwill and Other Intangible Assets*, which will impact the Company's accounting for its reported goodwill. Statement 141 eliminates the pooling method for accounting for business combinations and requires that intangible assets that meet certain criteria be reported separately from goodwill. Statement 142 eliminates the amortization of goodwill and other intangibles that are determined to have an indefinite life. It also requires, at a minimum, annual impairment tests for goodwill and other intangible assets that are determined to have an indefinite life and requires the carrying value of goodwill which exceeds its implied fair value to be recognized as an impairment loss. Upon adoption of these Statements, the Company is required to evaluate its existing goodwill that was acquired in prior business combinations and to make any necessary adjustments in order to conform to the new criteria.

The provisions of FASB Statement 141 apply to all business combinations initiated after June 30, 2001, and all business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later. The provisions of FASB Statement 142 are required

MANAGEMENT'S DISCUSSION AND ANALYSIS

to be implemented by the Company in the first quarter of its 2003 fiscal year, although the Company currently intends to early implement in the first quarter of its 2002 fiscal year. The Company has not yet completed its full assessment of the effects of these new pronouncements on its financial statements, however, the impact of adopting FASB Statement No. 142 will be to eliminate the amortization of goodwill and subject goodwill to annual impairment tests. For the year ended September 30, 2001, goodwill amortization expense was approximately \$365,000.

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements include statements with respect to the Company's beliefs, expectations, estimates, and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such statements address the following subjects: future operating results; customer growth and retention;

loan and other product demand; earnings growth and expectations; new products and services; credit quality and adequacy of reserves; technology; and our employees. The following factors, among others, could cause the Company's financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users; the impact of changes in financial services' laws and regulations; technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

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

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, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of First Midwest Financial, Inc. and Subsidiaries for the year ended September 30, 1999, were audited by other auditors, whose report, dated October 15, 1999, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require 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 sup-

porting 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. as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

McGladrey & Pullen, LLP
Des Moines, Iowa
October 26, 2001

First Midwest Financial, Inc.
and Subsidiaries

CONSOLIDATED BALANCE SHEETS

September 30, 2001 and 2000

	2001	2000
ASSETS		
Cash and due from banks	\$ 1,016,111	\$ 984,937
Interest-bearing deposits in other financial institutions	7,750,194	5,937,594
Total cash and cash equivalents	8,766,305	6,922,531
Securities available for sale	145,374,339	147,478,931
Loans receivable, net of allowance for loan losses of \$3,868,664 in 2001 and \$3,589,873 in 2000	333,062,025	324,702,629
Federal Home Loan Bank (FHLB) stock, at cost	6,398,900	8,327,600
Accrued interest receivable	4,750,792	5,216,929
Premises and equipment, net	9,346,788	6,091,741
Foreclosed real estate	940,143	445,133
Other assets	14,543,771	6,404,936
Total assets	\$ 523,183,063	\$ 505,590,430
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Noninterest-bearing demand deposits	\$ 7,733,294	\$ 6,040,991
Savings, NOW and money market demand deposits	82,916,804	72,508,530
Time certificates of deposit	248,131,780	240,104,200
Total deposits	338,781,878	318,653,721
Advances from FHLB	126,351,761	139,738,451
Securities sold under agreements to repurchase	1,992,720	4,254,965
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures	10,000,000	-
Advances from borrowers for taxes and insurance	446,397	461,514
Accrued interest payable	868,281	1,006,341
Accrued expenses and other liabilities	1,014,816	1,440,353
Total liabilities	479,455,853	465,555,345
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 2,469,727 shares outstanding at September 30, 2001; 2,957,999 shares issued and 2,431,574 shares outstanding at September 30, 2000	29,580	29,580
Additional paid-in capital	20,863,379	20,976,107
Retained earnings - substantially restricted	31,066,643	30,404,386
Accumulated other comprehensive income (loss)	338,427	(2,553,891)
Unearned Employee Stock Ownership Plan shares	(180,000)	-
Treasury stock, 488,272 and 526,425 common shares, at cost, at September 30, 2001 and 2000, respectively	(8,390,819)	(8,821,097)
Total shareholders' equity	43,727,210	40,035,085
Total liabilities and shareholders' equity	\$ 523,183,063	\$ 505,590,430

See Notes to Consolidated Financial Statements.

First Midwest Financial, Inc.
and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

Years ended September 30, 2001, 2000 and 1999

	2001	2000	1999
Interest and dividend income:			
Loans receivable, including fees	\$ 27,455,000	\$ 26,267,638	\$ 23,795,796
Securities available for sale	10,043,154	11,589,221	11,108,170
Dividends on FHLB stock	428,472	553,165	468,765
	<u>37,926,626</u>	<u>38,410,024</u>	<u>35,372,731</u>
Interest expense:			
Deposits	17,546,621	15,636,793	14,506,472
FHLB advances and other borrowings	7,843,978	8,941,569	7,669,408
	<u>25,390,599</u>	<u>24,578,362</u>	<u>22,175,880</u>
Net interest income	12,536,027	13,831,662	13,196,851
Provision for loan losses	710,000	1,640,000	1,992,000
Net interest income after provision for loan losses	11,826,027	12,191,662	11,204,851
Noninterest income:			
Deposit service charges and other fees	1,575,805	1,310,642	1,346,117
Gain (loss) on sales of securities available for sale, net	(60,275)	(1,020,885)	331,611
Gain (loss) on sales of foreclosed real estate, net	27,017	(12,033)	16,513
Brokerage commissions	96,808	131,801	79,159
Other income	149,745	156,707	144,625
	<u>1,789,100</u>	<u>566,232</u>	<u>1,918,025</u>
Noninterest expense:			
Employee compensation and benefits	6,552,712	5,830,791	5,135,672
Occupancy and equipment expense	1,569,387	1,301,495	1,158,946
Deposit insurance premium	63,944	89,990	155,901
Data processing expense	457,766	410,645	378,709
Other expense	2,051,029	1,775,122	1,815,730
	<u>10,694,838</u>	<u>9,408,043</u>	<u>8,644,958</u>
Net income before income tax expense and extraordinary item	2,920,289	3,349,851	4,477,918
Income tax expense	1,010,546	1,374,220	1,836,786
Net income before extraordinary item	1,909,743	1,975,631	2,641,132
Extraordinary item, gain on extinguishment of debt, less income tax effect of \$208,600	-	351,995	-
Net income	\$ 1,909,743	\$ 2,327,626	\$ 2,641,132
Earnings per common and common equivalent share:			
Basic earnings per common share:			
Income before extraordinary item	\$ 0.79	\$ 0.81	\$ 1.07
Extraordinary item, net of income taxes	-	0.14	-
Net income	\$ 0.79	0.95	\$ 1.07
Diluted earnings per common share:			
Income before extraordinary item	\$ 0.78	\$ 0.79	\$ 1.04
Extraordinary item, net of income taxes	-	0.14	-
Net income	\$ 0.78	\$ 0.93	\$ 1.04

See Notes to Consolidated Financial Statements.

First Midwest Financial, Inc.
and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years ended September 30, 2001, 2000 and 1999

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance, September 30, 1998	\$ 29,580	\$ 21,330,075	\$ 27,985,814	\$ 798,820	\$ (367,200)	\$ (7,491,526)	\$ 42,285,563
Comprehensive income:							
Net income for the year ended September 30, 1999	-	-	2,641,132	-	-	-	2,641,132
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	-	-	-	(3,319,453)	-	-	(3,319,453)
Total comprehensive income (loss)							(678,321)
Purchase of 79,647 common shares of treasury stock	-	-	-	-	-	(1,289,186)	(1,289,186)
30,000 common shares committed to be released under the ESOP	-	255,220	-	-	200,000	-	455,220
Amortization of management recognition and retention plan common shares and tax benefits of restricted stock under the plans	-	101,634	-	-	-	-	101,634
Cash dividends declared on common stock (\$.52 per share)	-	-	(1,274,003)	-	-	-	(1,274,003)
Issuance of 23,051 common shares from treasury stock due to exercise of stock options	-	(222,026)	-	-	-	391,867	169,841
Issuance of 10,424 common shares from treasury stock for award of stock under management recognition and retention plans	-	(158,966)	-	-	-	158,966	-
Balance, September 30, 1999	\$ 29,580	\$ 21,305,937	\$ 29,352,943	\$ (2,520,633)	\$ (167,200)	\$ (8,229,879)	\$ 39,770,748
Balance, September 30, 1999	\$ 29,580	\$ 21,305,937	\$ 29,352,943	\$ (2,520,633)	\$ (167,200)	\$ (8,229,879)	\$ 39,770,748
Comprehensive income:							
Net income for the year ended September 30, 2000	-	-	2,327,626	-	-	-	2,327,626
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	-	-	-	(33,258)	-	-	(33,258)
Total comprehensive income							2,294,368
Purchase of 129,999 common shares of treasury stock	-	-	-	-	-	(1,478,508)	(1,478,508)
25,080 common shares committed to be released under the ESOP	-	103,664	-	-	167,200	-	270,864
Issuance of 54,500 common shares from treasury stock due to exercise of stock options	-	(467,372)	-	-	-	887,290	419,918
Cash dividends declared on common stock (\$.52 per share)	-	-	(1,276,183)	-	-	-	(1,276,183)
Amortization of management recognition and retention plan common shares and tax benefits of restricted stock under the plans	-	33,878	-	-	-	-	33,878
Balance, September 30, 2000	\$ 29,580	\$ 20,976,107	\$ 30,404,386	\$ (2,553,891)	\$ -	\$ (8,821,097)	\$ 40,035,085

First Midwest Financial, Inc.
and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY, CONT.

Years ended September 30, 2001, 2000 and 1999

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance, 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

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2001, 2000 and 1999

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,909,743	\$ 2,327,626	\$ 2,641,132
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion, net	849,695	1,522,239	1,757,207
Provision for loan losses	710,000	1,640,000	1,992,000
Gain on transfer of FHLB advances	-	(560,595)	-
(Gain) loss on sales of securities available for sale, net	60,275	1,020,885	(331,611)
Proceeds from the sales of loans held for sale	14,084,818	1,435,581	7,403,780
Originations of loans held for sale	(14,084,818)	(1,435,581)	(7,403,780)
(Gain) loss on sales of foreclosed real estate, net	(27,017)	12,033	(16,513)
Net change in:			
Accrued interest receivable	466,137	(170,695)	(77,627)
Other assets	88,031	(505,918)	113,315
Accrued interest payable	(138,060)	130,976	40,624
Accrued expenses and other liabilities	(425,537)	445,250	360,857
Net cash provided by operating activities	3,493,267	5,861,801	6,479,384
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities available for sale	(22,886,271)	(515,000)	(125,354,705)
Proceeds from sales of securities available for sale	795,000	20,275,060	24,791,295
Proceeds from maturities and principal repayment of securities available for sale	28,670,713	9,822,708	37,255,192
Loans purchased	(33,208,949)	(55,565,541)	(77,329,717)
Net change in loans	23,285,230	31,437,629	42,151,758
Proceeds from sales of foreclosed real estate	521,074	498,316	1,357,430
Purchase of FHLB stock	(71,300)	(201,800)	(2,620,000)
Proceeds from redemption of FHLB stock	2,000,000	-	-
Purchase of other investment	(10,000,000)	-	-
Purchase of premises and equipment	(3,914,687)	(1,770,906)	(1,110,859)
Net cash provided by (used in) investing activities	(14,809,190)	3,980,466	(100,859,606)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in noninterest-bearing demand, savings, NOW and money market demand deposits	12,100,577	(2,134,430)	17,956,774
Net change in time deposits	8,027,580	16,008,230	2,964,995
Proceeds from advances from FHLB	133,265,000	789,920,595	278,950,000
Repayments of advances from FHLB	(146,651,690)	(810,969,620)	(202,865,491)
Net change in securities sold under agreements to repurchase	(2,262,245)	1,234,014	(1,053,616)
Net change in other borrowings	-	-	(550,000)
Proceeds from issuance of Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures	10,000,000	-	-
Net change in advances from borrowers for taxes and insurance	(15,117)	38,921	17,375
Debt issuance costs incurred	(305,812)	-	-
Cash dividends paid	(1,247,486)	(1,276,183)	(1,274,003)
Proceeds from exercise of stock options	266,667	363,335	169,841
Purchase of treasury stock	(17,777)	(1,478,509)	(1,289,186)
Net cash provided by (used in) financing activities	13,159,697	(8,293,647)	93,026,689
Net change in cash and cash equivalents	1,843,774	1,548,620	(1,353,533)
CASH AND CASH EQUIVALENTS			
Beginning of year	6,922,531	5,373,911	6,727,444
End of year	\$ 8,766,305	\$ 6,922,531	\$ 5,373,911
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	\$ 25,528,659	\$ 24,447,386	\$ 22,135,256
Income taxes	926,543	2,038,500	1,919,389
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES			
Loans transferred to foreclosed real estate	\$ 989,067	\$ 812,581	\$ 420,501

See Notes to Consolidated Financial Statements.

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 and First Midwest Financial Capital Trust I, which was capitalized in July 2001, for the purpose of issuing Company Obligated Mandatorily Redeemable Preferred Securities. All significant intercompany balances and transactions have been eliminated.

*Nature of business, concentration of credit risk
and industry segment information*

The primary source of income for the Company is the purchase or origination of consumer, commercial, agricultural commercial real estate, and residential real estate loans. See Note 4 for a discussion of concentrations of credit risk. 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, 2001 and 2000, trust assets totaled approximately \$13,213,000 and \$14,473,000, respectively.

Use of estimates in preparing financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 routinely and it is reasonably possible that circumstances that exist at September 30, 2001, 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, longer term interest-bearing deposits in other financial institutions, 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 earnings.

Loans held for sale

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 and 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 ranging from 3 to 40 years. These assets are reviewed for impairment under Statement of Financial Accounting Standards (SFAS) No. 121 when events indicate the carrying amount may not be recoverable.

Employee stock ownership plan

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill arising from the acquisition of subsidiary banks is amortized over 15 years using the straight-line method. As of September 30, 2001 and 2000, unamortized goodwill totaled \$3,403,019 and \$3,767,951, respectively. Amortization expense was \$364,932 for each of the years ended September 30, 2001, 2000 and 1999, respectively.

Securities sold under agreements to repurchase

The Company enters into sales of securities under agreements to repurchase with primary dealers only, which provide for the repurchase of the same security. Securities sold under agreements to purchase identical securities are collateralized by assets which are held in safekeeping in the name of the Bank 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. Management recognition and retention plan (MRRP) shares are considered outstanding for basic earnings per common share calculations as they become vested. Diluted earnings per common share shows the dilutive effect of additional potential common shares issuable under stock options and nonvested shares issued under management recognition and retention plans.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes the net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects, and is also recognized as a separate component of shareholders' equity.

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. Disclosures of net income and earnings per share are provided as if the fair value method of SFAS No. 123 were used for stock-based compensation.

New accounting pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued two statements, Statement 141, *Business Combinations* and Statement 142, *Goodwill and Other Intangible Assets*, which will impact the Company's accounting for its reported goodwill. Statement 141 eliminates the pooling method for accounting for business combinations and requires that intangible assets that meet certain criteria be reported separately from goodwill. Statement 142 eliminates the amortization of goodwill and other intangibles that are determined to have an indefinite life. It also requires, at a minimum, annual impairment tests for goodwill and other intangible assets that are determined to have an indefinite life and requires the carrying value of goodwill which exceeds its implied fair value to be recognized as an impairment loss. Upon adoption of these Statements, the Company is required to evaluate its existing goodwill that was acquired in prior business combinations and to make any necessary adjustments in order to conform to the new criteria.

The provisions of FASB Statement 141 apply to all business combinations initiated after June 30, 2001, and all business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later. The provisions of FASB Statement 142 are required to be implemented by the Company in the first quarter of its 2003 fiscal year, although the Company currently intends to early implement in the first quarter of its 2002 fiscal year. The Company has not yet completed its full assessment of the effects of these new pronouncements on its financial statements, however, the impact of adopting FASB Statement No. 142 will be to eliminate the amortization of goodwill and subject goodwill to annual impairment tests. For the year ended September 30, 2001, goodwill amortization expense was approximately \$365,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	2001	2000	1999
Basic earnings per common share:			
Numerator:			
Net income before extraordinary item	\$ 1,909,743	\$ 1,975,631	\$ 2,641,132
Extraordinary item, gain on extinguishment of debt, less income tax effect of \$208,600	-	351,995	-
Net Income	\$ 1,909,743	\$ 2,327,626	\$ 2,641,132
Denominator:			
Weighted average common shares outstanding	2,433,453	2,464,829	2,510,494
Less weighted average unallocated ESOP shares	(13,353)	(11,535)	(41,327)
Weighted average common shares outstanding for basic earnings per common share	2,420,100	2,453,294	2,469,167
Basic earnings per common share:			
Earnings per common share before extraordinary item	\$ 0.79	\$ 0.81	\$ 1.07
Extraordinary item per common share	-	0.14	-
Earnings per common share	\$ 0.79	\$ 0.95	\$ 1.07
Diluted earnings per common share:			
Numerator:			
Net income before extraordinary item	\$ 1,909,743	\$ 1,975,631	\$ 2,641,132
Extraordinary item, gain on extinguishment of debt, less income tax effect of \$208,600	-	351,995	-
Net income	\$ 1,909,743	\$ 2,327,626	\$ 2,641,132
Denominator:			
Weighted average common shares outstanding for basic earnings per common share	2,420,100	2,453,294	2,469,167
Add dilutive effects of assumed exercises of stock options and average nonvested MRRP shares, net of tax benefits	42,973	40,661	79,681
Weighted average common and dilutive potential common shares outstanding	2,463,073	2,493,955	2,548,848
Diluted earnings per common share:			
Diluted earnings per common share before extraordinary item	\$ 0.78	\$ 0.79	\$ 1.04
Diluted extraordinary item per common share	-	0.14	-
Diluted earnings per common share	\$ 0.78	\$ 0.93	\$ 1.04

Stock options totaling 171,416 shares were not considered in computing diluted earnings per common share for the year ended September 30, 2001, because they were not dilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. SECURITIES

Year end securities available for sale were as follows:

2001	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Trust preferred	\$ 27,170,021	\$ 22,050	\$ (2,512,211)	\$ 24,679,860
Obligations of states and political subdivisions	980,029	43,060	-	1,023,089
U.S. Government and federal agencies	4,992,275	88,324	-	5,080,599
Mortgage-backed securities	111,119,632	2,644,002	(1,718)	113,761,916
	144,261,957	2,797,436	(2,513,929)	144,545,464
Marketable equity securities	574,962	312,613	(58,700)	828,875
	\$144,836,919	\$ 3,110,049	\$ (2,572,629)	\$145,374,339

2000	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Trust preferred	\$ 27,159,373	\$ 6,410	\$ (1,244,923)	\$ 25,920,860
Obligations of states and political subdivisions	1,199,591	24,016	(8,850)	1,214,757
U.S. Government and federal agencies	16,959,412	-	(579,462)	16,379,950
Mortgage-backed securities	104,795,500	408,115	(2,666,055)	102,537,560
	150,113,876	438,541	(4,499,290)	146,053,127
Marketable equity securities	1,434,043	280,511	(288,750)	1,425,804
	\$151,547,919	\$ 719,052	\$ (4,788,040)	\$147,478,931

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, 2001	Amortized Cost	Fair Value
Due in one year or less	\$ 255,029	\$ 258,240
Due after one year through five years	675,000	713,501
Due after five years through ten years	5,042,275	5,131,947
Due after ten years	27,170,021	24,679,860
	33,142,325	30,783,548
Mortgage-backed securities	111,119,632	113,761,916
	\$144,261,957	\$144,545,464

First Midwest Financial, Inc.
and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Activities related to the sale of securities available for sale are summarized below. Included in gross (losses) on sales in 2001 and 2000 is impairment losses of approximately \$5,000 and \$142,000, respectively.

	2001	2000	1999
Proceeds from sales	\$ 795,000	\$ 20,275,060	\$ 24,791,295
Gross gains on sales	76,874	-	331,611
Gross (losses) on sales	(137,149)	(878,679)	-

NOTE 4. LOANS RECEIVABLE, NET

Year end loans receivable were as follows:

	2001	2000
One to four family residential mortgage loans:		
Insured by FHA or guaranteed by VA	\$ 85,222	\$ 127,377
Conventional	95,526,705	105,574,680
Construction	21,883,909	31,301,308
Commercial and multi-family real estate loans	123,636,351	103,595,098
Agricultural real estate loans	11,729,027	10,894,866
Commercial business loans	36,773,258	29,331,875
Agricultural business loans	25,253,174	26,810,047
Consumer loans	28,169,202	26,483,135
	343,056,848	334,118,386
Less:		
Allowance for loan losses	(3,868,664)	(3,589,873)
Undistributed portion of loans in process	(5,859,813)	(5,424,794)
Net deferred loan origination fees	(266,346)	(401,090)
	\$333,062,025	\$324,702,629

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

	2001	2000	1999
Beginning balance	\$ 3,589,873	\$ 3,092,628	\$ 2,908,902
Provision for loan losses	710,000	1,640,000	1,992,000
Recoveries	51,331	126,887	58,240
Charge-offs	(482,540)	(1,269,642)	(1,866,514)
Ending balance	\$ 3,868,664	\$ 3,589,873	\$ 3,092,628

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 \$126,660,000 at September 30, 2001, and were secured by properties located, as a percentage of total loans, as follows: 15% in Washington, 3% in North Carolina, 3% in Minnesota, 3% in Iowa, 2% in Wisconsin, 2% in South Dakota, 2% in Arizona and the remaining 7% in 15 other states. The Company's purchased loans totaled approximately \$136,798,000 at September 30, 2000, and were secured by properties located, as a percentage of total loans,

as follows: 13% in Washington, 5% in North Carolina, 4% in Minnesota, 4% in Iowa, 3% in Wisconsin, 2% in South Dakota, 2% in New Mexico, 2% in Arizona and the remaining 6% in 17 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 \$28,141,000 and \$18,333,000 of loans secured by hotel properties, \$20,702,000 and \$14,631,000 of loans secured by multi-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

family properties and \$19,953,000 and \$17,216,000 of loans secured by assisted living facilities at September 30, 2001 and 2000, respectively. The remainder of the commercial

real estate portfolio is diversified by industry. The Company's policy for requiring collateral and guarantees varies with the creditworthiness of each borrower.

Impaired loans were as follows:

	2001	2000
Year-end loans with no allowance for loan losses allocated	\$ -	\$ -
Year-end loans with allowance for loan losses allocated	1,347,574	5,693,460
Amount of the allowance allocated	167,693	734,237
Average of impaired loans during the year	4,770,909	3,954,277
Interest income recognized during impairment	255,002	374,205

Foregone interest income and cash interest collected on impaired loans was not material during the years ended September 30, 2001, 2000 and 1999.

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:

	2001	2000
Mortgage loan portfolios serviced for FNMA	\$ 12,058,000	\$ 5,695,000
Other	20,450,000	16,096,000
	<u>\$ 32,508,000</u>	<u>\$ 21,791,000</u>

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately \$11,000 and \$12,000 at September 30, 2001 and 2000, respectively.

NOTE 6. PREMISES AND EQUIPMENT, NET

Year end premises and equipment were as follows:

	2001	2000
Land	\$ 2,043,370	\$ 1,782,970
Buildings	7,850,052	5,214,003
Furniture, fixtures and equipment	4,448,902	3,430,664
	<u>14,342,324</u>	<u>10,427,637</u>
Less accumulated depreciation	(4,995,536)	(4,335,896)
	<u>\$ 9,346,788</u>	<u>\$ 6,091,741</u>

Depreciation of premises and equipment included in occupancy and equipment expense was approximately \$660,000, \$449,000 and \$390,000 for the years ended September 30, 2001, 2000 and 1999, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. DEPOSITS

Jumbo certificates of deposit in denominations of \$100,000 or more were approximately \$35,475,000 and \$31,214,000 at year end 2001 and 2000, respectively.

At September 30, 2001, the scheduled maturities of certificates of deposit were as follows for the years ended September 30:

2002	\$163,272,566
2003	58,062,943
2004	14,116,594
2005	7,532,579
2006	4,942,641
Thereafter	204,547
	<u>\$248,131,780</u>

NOTE 8. ADVANCES FROM FEDERAL HOME LOAN BANK

At September 30, 2001, advances from the FHLB of Des Moines with fixed and variable rates ranging from 3.15% to 7.82% (weighted-average rate of 5.76%) are required to be repaid in the year ending September 30 as presented below. Certain advances contain call features which allow the FHLB to call for the prepayment of the borrowing prior to maturity.

2002	\$ 21,661,763
2003	5,105,605
2004	6,485,778
2005	10,134,474
2006	1,801,886
Thereafter	81,162,255
	<u>\$126,351,761</u>

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 2001 and 2000, First Federal and Security collectively pledged securities with amortized costs of \$67,678,000 and \$87,376,000 and fair values of approximately \$72,428,000 and \$85,104,000 against specific FHLB advances. In addition, qualifying mortgage loans of approximately \$85,895,000 and \$103,338,000 were pledged as collateral at year end 2001 and 2000.

During fiscal 2000, the Company recognized a gain totaling \$351,995, net of related income taxes, on the

transfer of \$15,000,000 of FHLB advances. The transfer of FHLB advances was in conjunction with a restructuring of the balance sheet wherein lower yielding securities were sold with the proceeds reinvested in higher yielding loans and used to repay borrowings.

NOTE 9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Year end securities sold under agreements to repurchase totaled \$1,992,720 and \$4,254,965 for 2001 and 2000, respectively.

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

	2001	2000
Highest month-end balance	\$20,239,242	\$4,920,423
Average balance	6,490,431	3,460,390
Weighted average interest rate during the period	4.78%	5.95%
Weighted average interest rate at end of period	4.57%	6.43%

At year end 2001, securities sold under agreements to repurchase had maturities ranging from 1 to 15 months with a weighted average maturity of 6 months.

The Company pledged securities with amortized costs of approximately \$2,084,000 and \$4,323,000 and fair values of approximately \$2,154,000 and \$4,221,000, respectively, at year end 2001 and 2000 as collateral for securities sold under agreements to repurchase.

NOTE 10. COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY SUBORDINATED DEBENTURES

The Company issued all of the 10,000 authorized shares of Company Obligated Mandatorily Redeemable (COMR) 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%, not to exceed 12.50%. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2001 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 and who have attained age 21. In 1993, the ESOP borrowed \$1,534,100 from the Company to purchase 230,115 shares of the Company's common stock. Final payment of this loan was received during the year ended September 30, 2000. In 2001, the ESOP borrowed \$360,000 from the Company to purchase 30,000 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 \$174,660, \$270,864 and \$455,220 was recorded for the years ended September 30, 2001, 2000 and 1999, respectively. Contributions of \$180,000, \$167,200 and \$200,000 were made to the ESOP during the years ended

September 30, 2001, 2000 and 1999, 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, 2001, 2000 and 1999, 15,000, 25,080 and 30,000 shares with an average fair value of \$11.64, \$10.80 and \$15.17 per share, respectively, were committed to be released. Also for the years ended September 30, 2001, 2000 and 1999, allocated shares and total ESOP shares reflect 5,514, 1,287 and 23,275 shares, respectively, withdrawn from the ESOP by participants who are no longer with the Company and 9,312, 7,434 and 4,735 shares, respectively, purchased for dividend reinvestment.

Year-end ESOP shares are as follows:

	2001	2000	1999
Allocated shares	218,613	199,815	168,588
Unearned shares	15,000	-	25,080
Total ESOP shares	233,613	199,815	193,668
Fair value of unearned shares	\$ 202,500	\$ -	\$ 319,770

Stock options and incentive plans

Certain officers and directors of the Company have been granted options to purchase common stock of the Company pursuant to stock option plans.

SFAS No. 123, which became effective for stock-based compensation during fiscal years beginning after December 15, 1995, requires proforma disclosures for companies that do not adopt its fair value accounting method for stock-based employee compensation for awards granted in the first fiscal year beginning after December 15, 1994. Accordingly, the following proforma information presents net income and earnings per share had the fair value

method been used to measure compensation cost for stock option plans. The exercise price of options granted is equivalent to the market value of underlying stock at the grant date. Accordingly, no compensation cost was actually recognized for stock options during 2001, 2000 or 1999.

The fair value of options granted during 2001, 2000 and 1999 is estimated using the following weighted-average information: risk-free interest rate of 4.52%, 5.99% and 6.17%, expected life of 7.0 years, expected dividends of 3.85%, 5.30% and 4.00% per year and expected stock price volatility of 22% per year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2001	2000	1999
Net income as reported	\$ 1,909,743	\$ 2,327,626	\$ 2,641,132
Proforma net income	1,876,780	2,287,501	2,569,635
Reported earnings per common and common equivalent share:			
Basic	\$ 0.79	\$ 0.95	\$ 1.07
Diluted	0.78	0.93	1.04
Proforma earnings per common and common equivalent share:			
Basic	\$ 0.78	\$ 0.93	\$ 1.04
Diluted	0.76	0.92	1.01

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

Stock option plans are used to reward directors, officers and employees and provide them with an additional equity

interest. Options are issued for 10 year periods, with 100% vesting generally occurring either at grant date or 48 months after grant date. At September 30, 2001, 66,626 shares were authorized for future grants. Information about option grants follows:

	Number of Options	Weighted- Average Exercise Price
Outstanding, September 30, 1998	331,116	\$ 10.62
Granted	26,335	13.00
Exercised	(23,051)	7.37
Forfeited	(9,000)	17.59
Outstanding, September 30, 1999	325,400	10.85
Granted	29,418	9.88
Exercised	(54,500)	6.67
Forfeited	-	-
Outstanding, September 30, 2000	300,318	11.51
Granted	31,738	13.61
Exercised	(40,000)	6.67
Forfeited	(4,000)	13.00
<u>Outstanding, September 30, 2001</u>	<u>288,056</u>	<u>\$ 12.40</u>

The weighted-average fair value per option for options granted in 2001, 2000 and 1999 was \$.97, \$.66, and \$1.54. At September 30, 2001, options outstanding were as follows:

Exercise Price	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Options
\$6.67 - \$9.99	\$ 7.36	3.58	116,640
\$10.00 - \$14.99	13.35	8.92	58,593
\$15.00 - \$19.99	16.80	5.43	102,383
\$20.00 - \$20.13	20.13	6.00	10,440
	\$ 12.40	5.41	<u>288,056</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Options exercisable at year end are as follows:

	Number of Options	Weighted- Average Exercise Price
1999	286,650	\$ 10.09
2000	270,443	11.17
2001	270,556	12.38

Management recognition and retention plans

The Company granted 10,424, 7,191 and 106,428 (8,986 of which have been forfeited under terms of the Plan due to termination of service) shares of the Company's common stock on September 30, 1999, May 23, 1994 and September 20, 1993, respectively, to certain officers of the Bank pursuant to a management recognition and retention plan (the Plan). The holders of the restricted stock have all of the rights of a shareholder, except that they cannot sell, assign, pledge or transfer any of the restricted stock during the restricted period. The stock granted in 1999 under the Plan vested as follows: 5,212 shares vested at the date of grant on September 30, 1999 and 5,212 shares vested on September 30, 2000. Previously granted restricted stock vested at a rate of 25% on each anniversary of the grant date. Expense of \$0, \$33,878 and \$101,634

was recorded for these plans for the years ended 2001, 2000 and 1999.

Profit sharing plan

The Company has a profit sharing plan covering substantially all full-time employees. Contribution expense for the years ended September 30, 2001, 2000 and 1999, was \$315,773, \$329,108 and \$0, 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 recapture the excess bad debt reserve accumulated in tax years beginning after September 30, 1987. The related amount of deferred tax liability which must be recaptured is approximately \$554,000 and is payable over a 6-year period beginning with the tax year ending September 30, 1999.

The provision for income taxes consists of:

	2001	2000	1999
Federal:			
Current	\$ 1,170,302	\$ 1,644,698	\$ 1,690,170
Deferred	(105,167)	(258,085)	(90,137)
	1,065,135	1,386,613	1,600,033
State:			
Current	(27,756)	236,122	250,616
Deferred	(26,833)	(39,915)	(13,863)
	(54,589)	196,207	236,753
Income tax expense	\$ 1,010,546	\$ 1,582,820	\$ 1,836,786

Income tax expense for the year ended September 30, 2000, includes \$208,600 related to a gain on an extraordinary item.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2001	2000	1999
Income taxes at 34% federal tax rate	\$ 993,000	\$ 1,139,000	\$ 1,522,000
Increase (decrease) resulting from:			
State income taxes - net of federal benefit	113,000	129,000	156,000
Nondeductible goodwill	— 124,000	124,000	124,000
Resolution of a tax contingency	(139,000)	-	-
Other, net	(80,454)	(17,780)	34,786
Total income tax expense	\$ 1,010,546	\$ 1,374,220	\$ 1,836,786

Year end deferred tax assets and liabilities consist of:

	2001	2000
Deferred tax assets:		
Bad debts	\$ 1,047,000	\$ 861,000
Deferred loan fees	—	44,000
Net unrealized losses on securities available for sale	-	1,514,054
Other items	40,000	84,000
	1,087,000	2,503,054
Deferred tax liabilities:		
Federal Home Loan Bank stock dividend	(452,000)	(452,000)
Accrual to cash basis	(44,000)	(89,000)
Premises and equipment	(108,000)	(72,000)
Net unrealized gains on securities available for sale	(198,993)	-
Other	(5,000)	(30,000)
	(807,993)	(643,000)
Net deferred tax assets	\$ 279,007	\$ 1,860,054

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, 2001 and 2000. 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 state-

ments. 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, 2001, that First Federal and Security meet the capital adequacy requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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
<i>(Dollars in thousands)</i>						
As of September 30, 2001:						
Total capital (to risk-weighted assets):						
First Federal	\$ 44,393	13.8%	\$ 25,681	8.0%	\$ 32,101	10.0%
Security	4,514	15.2	2,380	8.0	2,975	10.0
Tier 1 (Core) capital (to risk-weighted assets):						
First Federal	40,832	12.7	12,840	4.0	19,261	6.0
Security	4,179	14.0	1,190	4.0	1,785	6.0
Tier 1 (Core) capital (to average total assets):						
First Federal	40,832	8.8	18,565	4.0	23,206	5.0
Security	4,179	9.1	1,837	4.0	2,296	5.0
Tier 1 (Core) capital (to total assets),						
First Federal	40,832	8.7	18,828	4.0	23,535	5.0
As of September 30, 2000:						
Total capital (to risk-weighted assets):						
First Federal	\$ 35,898	11.8%	\$ 24,291	8.0%	\$ 30,364	10.0%
Security	4,144	13.3	2,490	8.0	3,113	10.0
Tier 1 (Core) capital (to risk-weighted assets):						
First Federal	32,541	10.7	12,146	4.0	18,218	6.0
Security	3,848	12.4	1,245	4.0	1,868	6.0
Tier 1 (Core) capital (to average total assets):						
First Federal	32,541	7.1	18,423	4.0	23,028	5.0
Security	3,848	8.2	1,876	4.0	2,345	5.0
Tier 1 (Core) capital (to total assets),						
First Federal	32,541	7.1	18,227	4.0	22,784	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, 2001, approximately \$1,671,000 of

First Federal's retained earnings and \$96,000 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, 2001 and 2000, loan commitments approximated \$29,650,000 and \$14,810,000, respectively, excluding undisbursed portions of loans in process. Loan commitments at September 30, 2001 included commitments to originate fixed-rate loans with interest rates ranging from 5.5% to 8.5% totaling \$7,730,000 and adjustable-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

rate loan commitments with interest rates ranging from 5.25% to 18% totaling \$13,070,000. The Company also had commitments to purchase adjustable rate loans of \$7,100,000 with interest rates ranging from 5.5% to 6.5% and fixed-rate loans of \$1,750,000 with interest rates of 8.45%. Loan commitments at September 30, 2000 included commitments to originate fixed-rate loans with interest rates ranging from 8% to 8.875% totaling \$530,000 and adjustable-rate loan commitments with interest rates ranging from 6.25% to 19% totaling \$13,280,000. The Company also had commitments to purchase adjustable rate loans of \$1,000,000 with interest rates of 11.25%. 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 \$14,234,000 and \$11,190,000 and fair values of approximately \$14,562,000 and \$10,831,000 at September 30, 2001 and 2000, respectively, were pledged as collateral for public funds on deposit.

Securities with amortized costs of approximately \$5,808,000 and \$6,135,000 and fair values of approximately \$6,057,000 and \$6,096,000 at September 30, 2001 and 2000, 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 \$2,524,000 as of September 30, 2001.

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:

	2001	2000	1999
Net change in net unrealized gains and losses on securities available for sale:			
Unrealized gains (losses) arising during the year	\$ 4,546,133	\$ (1,075,235)	\$ (4,956,193)
Reclassification adjustment for (gains) losses included in net income	60,275	1,020,885	(331,611)
Net change in unrealized gains and losses on securities available for sale	4,606,408	(54,350)	(5,287,804)
Tax effects	(1,714,090)	21,092	1,968,351
Other comprehensive income (loss)	\$ 2,892,318	\$ (33,258)	\$ (3,319,453)

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 of \$52,600 plus the payment of the property taxes, normal maintenance and insurance on the property.

The total minimum rental commitment at September 30, 2001, under the leases is as follows:

2002	\$ 52,900
2003	52,375
2004	46,600
2005	42,100
2006	40,600
Thereafter	131,950
	<u>\$ 366,525</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2001 and 2000

	2001	2000
ASSETS		
Cash and cash equivalents	\$ 60,973	\$ 72,236
Securities available for sale	2,863,251	3,380,496
Investment in subsidiary banks	48,940,931	38,702,338
Loan receivable from ESOP	180,000	-
Loan receivable	899,313	325,179
Other assets	827,772	211,071
Total assets	\$ 53,772,240	\$ 42,691,320
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Loan payable to subsidiary banks	\$ -	\$ 2,550,000
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely	-	-
Subordinated Debentures	10,000,000	-
Accrued expenses and other liabilities	45,030	106,235
Total liabilities	10,045,030	2,656,235
SHAREHOLDERS' EQUITY		
Common stock	29,580	29,580
Additional paid-in capital	20,863,379	20,976,108
Retained earnings, substantially restricted	31,066,643	30,404,386
Accumulated other comprehensive income	338,427	(2,553,891)
Unearned employee stock ownership plan shares	(180,000)	-
Treasury stock, at cost	(8,390,819)	(8,821,098)
Total shareholders' equity	43,727,210	40,035,084
Total liabilities and shareholders' equity	\$ 53,772,240	\$ 42,691,320

First Midwest Financial, Inc.
and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME

Years Ended September 30, 2001, 2000 and 1999

	2001	2000	1999
Dividend income from subsidiary banks	\$ 1,550,000	\$ 2,525,000	\$ 2,350,000
Interest income	309,054	280,351	297,447
Gain (loss) on sales of securities available for sale, net	(60,275)	(37,206)	62,466
	1,798,779	2,768,145	2,709,913
Interest expense	332,250	205,863	210,444
Operation expenses	550,038	388,023	405,076
	882,288	593,886	615,520
 Income before income taxes and equity in undistributed net income of subsidiaries	 916,491	 2,174,259	 2,094,393
Income tax expense (benefit)	(247,000)	(142,000)	(106,000)
 Income before equity in undistributed net income of subsidiaries	 1,163,491	 2,316,259	 2,200,393
Equity in undistributed net income of subsidiary banks	746,252	11,367	440,739
 Net income	 \$ 1,909,743	 \$ 2,327,626	 \$ 2,641,132

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2001, 2000 and 1999

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,909,743	\$ 2,327,626	\$ 2,641,132
Adjustments to reconcile net income to net cash from operating activities:			
Equity in undistributed net income of subsidiary banks	(746,252)	(11,367)	(440,739)
Amortization of recognition and retention plan	-	33,878	101,634
(Gain) loss on sales of securities available for sale, net	60,275	37,206	(62,466)
Change in other assets	(364,088)	(9,817)	(38,470)
Change in accrued expenses and other liabilities	(61,205)	7,771	94,617
Net cash provided by operating activities	798,473	2,385,297	2,295,708
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiary	(7,000,000)	-	-
Repayment of securities	3,806	5,409	-
Purchase of securities available for sale	-	(500,000)	(1,626,721)
Proceeds from sales of securities available for sale	795,000	495,000	2,155,709
Loan to ESOP	(360,000)	-	-
Loans purchased, net	(574,134)	(325,179)	-
Repayments on loan receivable from ESOP	180,000	167,200	200,000
Net cash provided by (used in) investment activities	(6,955,328)	(157,570)	728,988
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures	10,000,000	-	-
Proceeds from loan payable to subsidiary banks	-	-	1,150,000
Repayments on loan payable to subsidiary banks	(2,550,000)	(200,000)	(1,450,000)
Debt issuance costs incurred	(305,812)	-	-
Cash dividends paid	(1,247,486)	(1,276,183)	(1,274,003)
Proceeds from exercise of stock options	266,667	363,335	169,841
Purchase of treasury stock	(17,777)	(1,478,509)	(1,289,186)
Net cash provided by (used in) financing activities	6,145,592	(2,591,357)	(2,693,348)
Net change in cash and cash equivalents	(11,263)	(363,630)	331,348
CASH AND CASH EQUIVALENTS			
Beginning of year	72,236	435,866	104,518
End of year	\$ 60,973	\$ 72,236	\$ 435,866
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest	\$ 332,250	\$ 209,447	\$ 210,444

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 2001:				
Total interest income	\$ 9,833,184	\$ 9,457,877	\$ 9,303,140	\$ 9,332,425
Total interest expense	6,545,052	6,349,019	6,250,738	6,245,790
Net interest income	3,288,132	3,108,858	3,052,402	3,086,635
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
FISCAL YEAR 2000:				
Total interest income	\$ 9,404,770	\$ 9,545,028	\$ 9,672,083	\$ 9,788,143
Total interest expense	5,911,477	5,991,817	6,264,173	6,410,895
Net interest income	3,493,293	3,553,211	3,407,910	3,377,248
Provision for loan losses	325,000	270,000	400,000	645,000
Net income before extraordinary item	764,680	760,747	2,055	448,149
Extraordinary item	-	-	351,995	-
Net income	764,680	760,747	354,050	448,149
Earnings per common and common equivalent share:				
Basic:				
Net income before extraordinary item	\$ 0.31	\$ 0.31	\$ -	\$ 0.18
Extraordinary item	-	-	0.15	-
Net income	0.31	0.31	0.15	0.18
Diluted:				
Net income before extraordinary item	\$ 0.30	\$ 0.30	\$ -	\$ 0.18
Extraordinary item	-	-	0.14	-
Net income	0.30	0.30	0.14	0.18
FISCAL YEAR 1999:				
Total interest income	\$ 8,761,124	\$ 8,585,259	\$ 8,842,903	\$ 9,183,445
Total interest expense	5,342,257	5,472,837	5,577,855	5,782,931
Net interest income	3,418,867	3,112,422	3,265,048	3,400,514
Provision for loan losses	243,000	358,000	299,000	1,092,000
Net income	908,517	759,500	756,673	216,442
Earnings per common and common equivalent share:				
Basic	\$ 0.37	\$ 0.31	\$ 0.31	\$ 0.09
Diluted	0.36	0.30	0.30	0.09

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2001 and 2000, 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 pre-

sented 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, 2001 and 2000. This information is presented solely for compliance with SFAS No. 107 and is subject to change over time based on a variety of factors.

	2001		2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Selected assets:				
Cash and cash equivalents	\$ 8,766,305	\$ 8,766,000	\$ 6,922,531	\$ 6,923,000
Securities available for sale	145,374,339	145,374,000	147,478,931	147,479,000
Loans receivable, net	333,062,025	335,953,000	324,702,629	321,192,000
FHLB stock	6,398,900	6,399,000	8,327,600	8,328,000
Accrued interest receivable	4,750,792	4,751,000	5,216,929	5,217,000
Selected liabilities:				
Noninterest bearing demand deposits	(7,733,294)	(7,733,000)	(6,040,991)	(6,041,000)
Savings, NOW and money market demand deposits	(82,916,804)	(82,917,000)	(72,508,530)	(72,509,000)
Other time certificates of deposit	(248,131,780)	(253,180,000)	(240,104,200)	(239,698,000)
Total deposits	(338,781,878)	(343,830,000)	(318,653,721)	(318,248,000)
Advances from FHLB	(126,351,761)	(134,530,000)	(139,738,451)	(137,078,000)
Securities sold under agreements to repurchase	(1,992,720)	(2,008,000)	(4,254,965)	(4,250,000)
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures	(10,000,000)	(10,078,000)	-	-
Advances from borrowers for taxes and insurance	(446,397)	(446,000)	(461,514)	(462,000)
Accrued interest payable	(868,281)	(868,000)	(1,006,341)	(1,006,000)
Off-balance-sheet instruments, loan commitments	(29,650,000)	-	(14,810,000)	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 2001 and 2000.

Cash and cash equivalents

The carrying amount of cash and short-term investments is assumed to approximate the fair value.

Securities available for sale

Quoted market prices or dealer quotes were used to determine the fair value of securities available for sale.

Loans receivable, net

The fair value of loans receivable, net was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for similar remaining maturities. When using the discounting method to determine fair value, loans were gathered by homogeneous groups with similar terms and conditions and discounted at a target rate at which similar loans would be made to borrowers as of September 30, 2001 and 2000. 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, 2001 and 2000, 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, 2001 and 2000, for advances with similar terms and remaining maturities.

Securities sold under agreements to repurchase, other borrowings and company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures

The fair value of securities sold under agreements to repurchase, other borrowings and company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures was estimated by discounting the expected future cash flows using derived interest rates approximating market as of September 30, 2001 and 2000, 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.

BOARD of DIRECTORS

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

E. WAYNE COOLEY
Executive Secretary 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
Senior Vice President, Secretary and Chief Operating Officer for First Midwest Financial, Inc.; Executive Vice President, Secretary, and Chief Operating Officer for First Federal Savings Bank of the Midwest; Chief Executive Officer of Security State Bank; and Vice President and Secretary of First Services Financial Limited

G. MARK MICKELSON
Vice President of Blue Dot Services, a subsidiary of Northwestern Corporation

RODNEY G. MUILENBURG
Dairy Specialist with Purina Mills, Inc.

JEANNE PARTLOW
Retired President of Iowa Savings Bank

EXECUTIVE OFFICERS

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Chairman of the Board, President and Chief Executive Officer for First Midwest Financial, Inc. and First Federal Savings Bank of the Midwest; and Chairman of the Board for Security State Bank

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

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

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

TIM D. HARVEY
President for Brookings Federal Bank Division

TROY MOORE
President for Iowa Savings Bank Division

TONY TRUSSELL
President for First Federal Sioux Falls Division

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

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

BANK DIRECTORS

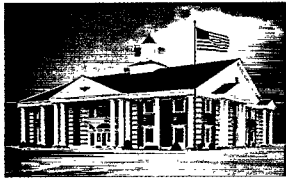
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FIRST FEDERAL SAVINGS BANK
OF THE MIDWEST**
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E. Wayne Cooley
E. Thurman Gaskill
J. Tyler Haahr
G. Mark Mickelson
Rodney G. Muilenburg
Jeanne Partlow

**DIRECTORS OF
SECURITY STATE BANK**
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Jeffrey N. Bump
E. Wayne Cooley
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J. Tyler Haahr
G. Mark Mickelson
Rodney G. Muilenburg
Jeanne Partlow
I. Eugene Richardson, Jr.

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BROOKINGS FEDERAL BANK**
Fred J. Rittershaus, Chairman
Virgil G. Ellerbruch
J. Tyler Haahr
Tim D. Harvey
O. Dale Larson
Earl R. Rue

OFFICE LOCATIONS

First Federal Savings Bank of the Midwest



First Federal Storm Lake, Main Office

FIRST FEDERAL STORM LAKE DIVISION

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518 Audubon Street
Sac City, IA 50583
712.662.7195
712.662.7196 fax



Brookings Federal Bank, Main Office

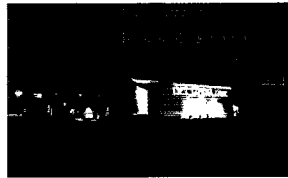
BROOKINGS FEDERAL BANK DIVISION

Main Office

600 Main Avenue
P.O. Box 98
Brookings, SD 57006
605.692.2314
800.842.7452
605.692.7059 fax

Eastbrook

425 22nd Avenue South
Brookings, SD 57006
605.692.2314



Iowa Savings Bank, Main Office

IOWA SAVINGS BANK DIVISION

Main Office

3448 Westown Parkway
West Des Moines, IA 50266
515.226.8474
515.226.8475 fax

Highland Park

3624 Sixth Avenue
Des Moines, IA 50313
515.288.4866
515.288.3104 fax

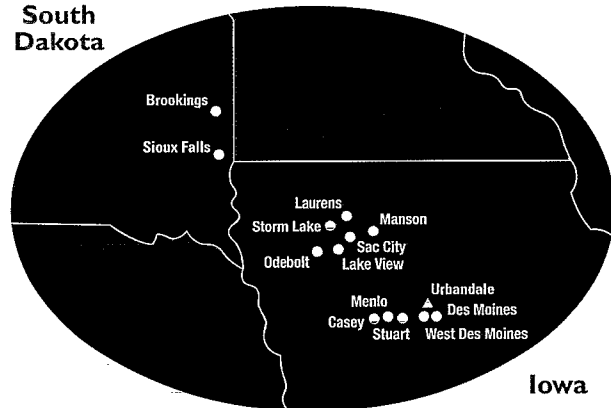
Ingersoll

3401 Ingersoll Avenue
Des Moines, IA 50312
515.274.9674
515.274.9675 fax

Urbandale (coming soon)

4848 86th Street
Urbandale, IA 50322

South Dakota



▲ = New building location.



First Federal Sioux Falls, Main Office

FIRST FEDERAL SIOUX FALLS DIVISION

Main Office

2500 South Minnesota Avenue
Sioux Falls, SD 57105
605.977.7500
605.977.7501 fax

Security State Bank



Security State Bank, Main Office

Main Office

615 South Division
P.O. Box 606
Stuart, IA 50250
515.523.2203
800.523.8003
515.523.2460 fax

Casey Office

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

Menlo Office

501 Sherman
P.O. Box 36
Menlo, IA 50164
641.524.4521

INVESTOR INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will convene at 1:00 pm on Monday, January 28, 2002. 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
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
Website: www.rtco.com

FORM 10-K

Copies of the Company's annual report on Form 10-K for the year ended September 30, 2001 (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
Website: www.fmficash.com

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 2000 and 2001 were \$0.13. The price range of the common stock, as reported on the Nasdaq System, was as follows:

	FISCAL YEAR 2001		FISCAL YEAR 2000	
	LOW	HIGH	LOW	HIGH
FIRST QUARTER	\$8.81	\$11.25	\$9.00	\$13.63
SECOND QUARTER	\$10.81	\$12.75	\$9.50	\$12.50
THIRD QUARTER	\$11.40	\$12.75	\$8.75	\$11.25
FOURTH QUARTER	\$12.31	\$14.25	\$9.00	\$10.81

Prices disclose inter-dealer quotations without retail markup, mark-down or commissions, and do not necessarily represent actual transactions.

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

As of September 30, 2001, First Midwest had 2,469,727 shares of common stock outstanding, which were held by

276 shareholders of record, and 288,056 shares subject to outstanding options. The shareholders of record number does not reflect approximately 440 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, 2001: AnPac Securities Group, Inc.; Herzog, Heine, Geduld, Inc.; Howe Barnes Investments, Inc.; Midwest Res. First Tennessee; Spear, Leeds & Kellogg; and Tucker Anthony Incorporated.

Tribute We would like to pay a special tribute to our friends at Sandler O'Neill & Partners and others affected by the September 11th tragedy.

THE BEST PART *of the* BANK
IS ITS PEOPLE.

— Judy Arnfelt, First Federal Savings Bank customer





First Midwest Financial, Inc.

People helping people

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