PEOPLE HELPING PEOPLE

WE MAKE BANKING EASY

FIRST MIDWEST FINANCIAL, INC. 2002 ANNUAL REPORT

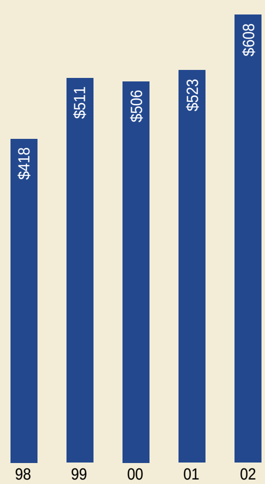
WE ARE A COMPANY OF PEOPLE HELPING PEOPLE.

TOGETHER, WE WORK HARD TO MAKE BANKING EASY FOR YOU.

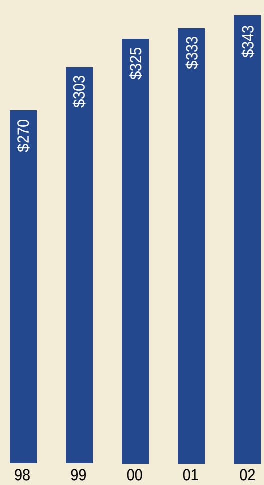
EASY FOR YOUR BUSINESS. EASY FOR OUR COMMUNITIES.

CONTENTS

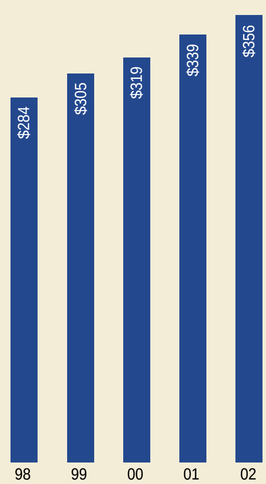
(Dollars in Thousands except Per Share Data)	2002	2001	2000	1999	1998
AT SEPTEMBER 30					
Total assets	$607,648	$523,183	$505,590	$511,213	$418,380
Total loans, net	343,192	333,062	324,703	303,079	270,286
Total deposits	355,780	338,782	318,654	304,780	283,858
Shareholders' equity	44,588	43,727	40,035	39,771	42,286
Book value per common share	$ 18.06	$ 17.71	$ 16.48	$ 15.86	$ 16.56
Total equity to assets	7.34%	8.36%	7.93%	7.78%	10.11%
FOR THE FISCAL YEAR					
Net interest income	$ 14,321	$ 13,033	$ 14,177	$ 13,559	$ 13,050
Net income	2,157	1,910	2,328	2,641	2,785
Diluted earnings per share	$ 0.87	$ 0.78	$ 0.93	$ 1.04	$ 1.03
Return on average assets	.38%	.37%	.46%	.54%	.68%
Return on average equity	4.95%	4.57%	5.98%	6.35%	6.43%
Net yield on interest-earning assets	2.68%	2.64%	2.86%	2.91%	3.32%



TOTAL ASSETS
In millions



TOTAL LOANS, NET
In millions



TOTAL DEPOSITS
In millions

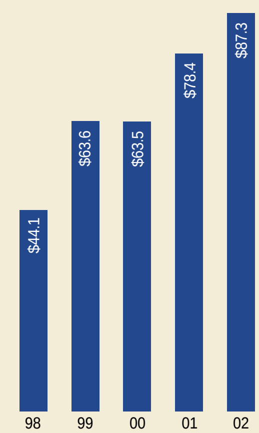
The Company and its subsidiaries exceed regulatory capital requirements.

Banks are Members FDIC and Equal Housing Lenders.

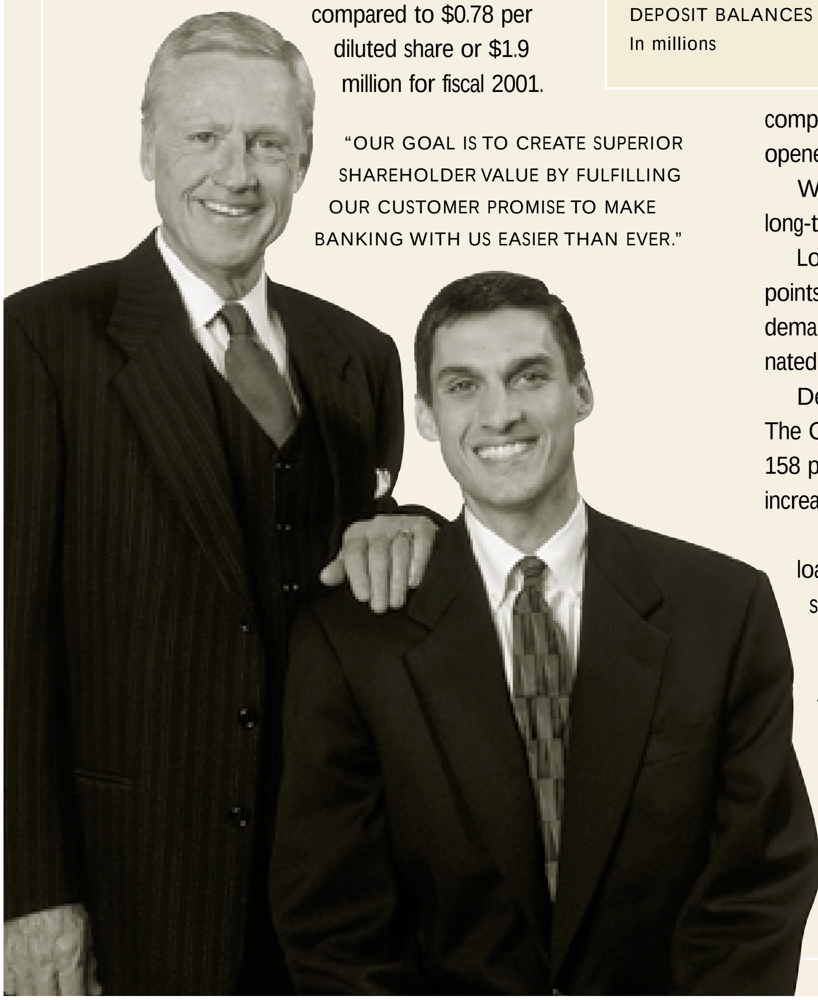
TO OUR SHAREHOLDERS

FIRST MIDWEST FINANCIAL REACHED A TURNING POINT IN 2002. For the past five years, we invested considerable resources to align our internal capabilities with long-term strategies for high performance and growth. We hired additional expertise, embraced technology, implemented best practices and procedures, and launched new services and new locations to make banking with us easier than ever. All the while, earnings did not reflect the intrinsic value building within the Company.

This year's earnings begin to reveal the added value. Net income rose 13 percent to $0.87 per diluted share or $2.2 million compared to $0.78 per diluted share or $1.9 million for fiscal 2001.



DEMAND DEPOSIT BALANCES
In millions



"OUR GOAL IS TO CREATE SUPERIOR SHAREHOLDER VALUE BY FULFILLING OUR CUSTOMER PROMISE TO MAKE BANKING WITH US EASIER THAN EVER."

Fourth quarter earnings per share jumped 67 percent to $0.30 from $0.18 compared to the same period in 2001.

While we are pleased with the improved 2002 earnings, we are most optimistic about how our strong foundation positions us for better performance in years to come.

The Company opened its first retail location in Sioux Falls, South Dakota in April 2001. After one year, the new office reached profitability and finished the fiscal year with positive earnings. It grew deposits to $30 million during fiscal 2002. Lower-costing demand deposits reached $8.3 million. Total loans doubled, exceeding $45 million.

The Company's third Des Moines location opened in November 2001 and is moving quickly toward profitability. Construction was completed on time and on budget for the fourth facility, which opened in November 2002.

We are confident that these and future sites will enhance long-term earnings.

Loan-to-deposit interest rate spreads increased 55 basis points during fiscal 2002. Both an increase in lower-costing demand deposit balances and a higher concentration of originated commercial loans contributed to the wider spreads.

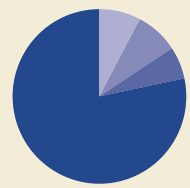
Demand deposits increased 13 percent during fiscal 2002. The Company's five-year deposit trends are most telling: a 158 percent increase in demand deposits and a 45 percent increase in total deposits.

Improvements in the mix and management of our loan portfolio also contributed to wider loan-to-deposit spreads. Net loans rose to a record $343 million, a 35 percent increase during the past five years. Originated commercial lending increased 68 percent in 2002 alone. The percentage of commercial loans in the portfolio increased from 32 percent to 55 percent of total loans since 1998.

With credit quality always top of mind, we continue to make sound decisions.

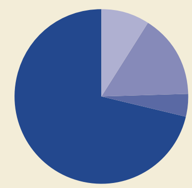
Growth in commercial lending makes the Company less reliant on fixed-rate home mortgages and less sensitive to interest rate risk. We have found that hiring good people, with proven results in our new markets, is an effective strategy to quickly build quality business relationships. This strategy also holds true for our new trust company.

First Services Trust Company was established in April 2002 and is based in Sioux Falls, South Dakota. Thanks to its South Dakota charter, we are able to offer customers some of the most favorable trust laws in the nation.



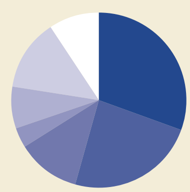
1998 DEPOSITS

- Checking 7.7%
- Money Market 8.0%
- Savings 6.0%
- Certificates of Deposit 78.3%



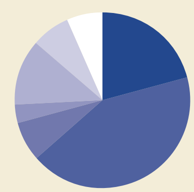
2002 DEPOSITS

- Checking 9.0%
- Money Market 15.5%
- Savings 4.2%
- Certificates of Deposit 71.3%



1998 LOANS

- Residential Real Estate 30.5%
- Commercial/Multi-Family Real Estate 23.8%
- Construction 11.7%
- Ag Real Estate 3.8%
- Commercial Non Real Estate 7.7%
- Ag Operating 13.2%
- Consumer 9.3%



2002 LOANS

- Residential Real Estate 20.8%
- Commercial/Multi-Family Real Estate 42.7%
- Construction 7.3%
- Ag Real Estate 3.4%
- Commercial Non Real Estate 12.1%
- Ag Operating 7.1%
- Consumer 6.6%

LOOKING AHEAD

In many ways, First Midwest is just beginning to tap its potential. We have successfully merged tradition with new capabilities, and we are prepared for the next challenges. Our goal is to create superior shareholder value by fulfilling our customer promise to make banking with us easier than ever.

To accomplish this goal, we will embrace initiatives such as:

1. Explore branch expansion opportunities.
2. Maintain superior credit quality through wise decision making and proactive monitoring systems.
3. Aggressively attract and retain demand deposit accounts.
4. Develop full-service commercial relationships.
5. Utilize technology to better understand and respond to customer needs.

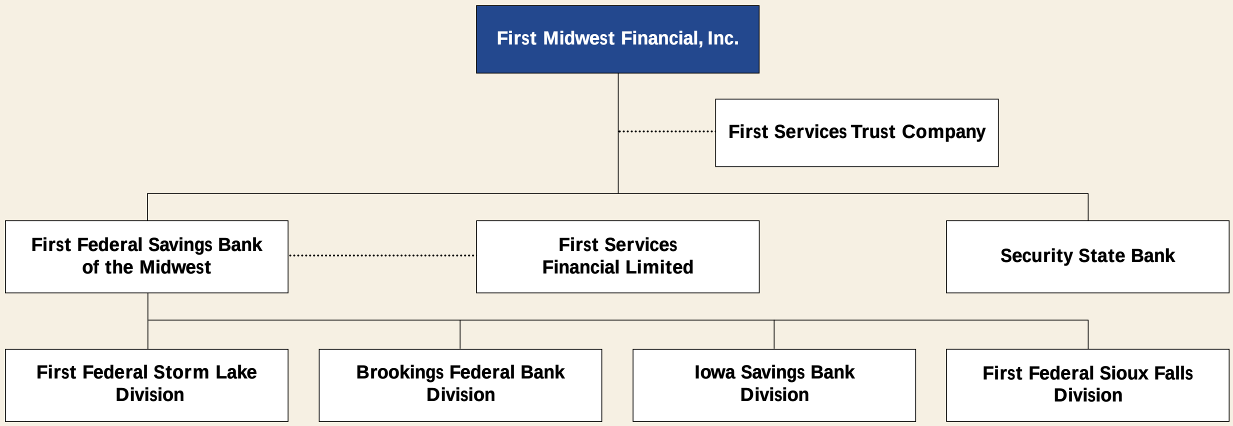
While the economy is weaker today than in recent years, our company is dedicated to working with individuals, businesses, and farmers to make our communities stronger. On September 11, 2001, a group of terrorists thought they could break our spirit and change our way of life when they attacked America. They were profoundly wrong. While they silenced the voices of our friends, they discovered that instead of destroying us, their actions brought us closer together and increased our resolve.

Our stock price was $13.50 per share on September 30, 2001. As we write this letter more than a year later, our stock price closed at $15.41 on November 21, 2002. That is a 12 percent annualized increase. Factor in First Midwest's 13 cent per share quarterly dividend and our shareholders earned a 16 percent annualized return on investment.

Our team remains dedicated to increasing shareholder value and enhancing your return. Thank you for your investment in First Midwest Financial.

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

J. TYLER HAAHR
Senior Vice President,
Secretary & COO



COMPANY PROFILE

First Midwest Financial, Inc. is a $608 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 Trust Company, a subsidiary of First Midwest Financial, Inc. established in April 2002, provides a full range of trust services. First Services Financial Limited, a subsidiary of First Federal Savings Bank of the Midwest, is a full-service brokerage operation that offers a wide range of 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.

BANKING MADE EASY FOR YOU

TIME IS PRICELESS. WHETHER YOU ARE AT A SOCCER GAME OR A HIGH-POWERED MEETING, WE KNOW YOU WANT TO MAKE THE MOST OF YOUR TIME. THAT IS WHY WE OFFER INNOVATIVE FINANCIAL PRODUCTS AND SERVICES DESIGNED TO FIT YOUR LIFESTYLE.

Our people are dedicated to making your banking experience with us a good one. We sit down and really get to know you and your financial needs. What we learn helps us recommend the right products and services to help you succeed. Better yet, our Switch Kit makes it easier than ever to open your accounts with us.

From banking in person to online bill payment, we have choices to make banking simple. Our new Privileged Status membership gives you surcharge-free access to over 2,400 ATMs across the country. And that is just one way to access your free or benefit-packed checking account. Just stop by one of our offices or visit our award-winning bank web sites to see how easy banking can be.

ONLINE SERVICE

www.efirstfed.com
www.brookingsfed.com
www.iowasavings.com
www.esecuritystate.com
www.firstfedsf.com

From a first home to a dream home, our home mortgage loans help people, like the VanHaaften family, fulfill their dreams. Barb, Brian and Courtney VanHaaften are pictured on their front porch.

PERSONAL FINANCIAL SERVICES

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

INVESTMENT AND INSURANCE SERVICES[1]

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

TRUST SERVICES

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

[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.

BANKING MADE EASY FOR YOUR BUSINESS

WE BELIEVE A GOOD BUSINESS BANK DOES MORE THAN JUST OFFER THE PRODUCTS AND SERVICES YOU NEED. OUR EXPERIENCED BUSINESS BANKERS REALLY GET TO KNOW YOUR BUSINESS, INSIDE AND OUT, SO WE CAN RECOMMEND SERVICES TO HELP YOU GET AHEAD.

Whether you are starting a new business or want to expand your current operation, we have solutions to help you succeed. From real estate to equipment financing, our hometown know-how and big bank resources can provide you with the financial backing your business may need to reach its true potential. Plus, our new online cash management service helps you accelerate collections, streamline payments, and improve control over your day-to-day business cash flow. You have instant access to your business accounts with just the click of a mouse – any time of the day or night.

We know you have a business to run. That is why we push up our sleeves and go to work for you. Our job is to keep it simple so you can get down to business.

Silk Screen Ink, a custom embroidery, screen printing, and promotional item business, was honored as Iowa's 2001 Small Business of the Year. We are proud to provide checking, lending, retirement, trust, and cash management services to help Jay Butterfield manage and grow his business.

Banking is as easy as 1-2-click. For you or your business, our award-winning web sites give you instant access to your accounts.

BUSINESS SERVICES

FINANCING

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

CASH MANAGEMENT

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

OTHER SERVICES

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

BANKING MADE EASY FOR OUR COMMUNITIES

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

We at First Midwest actively participate in the federal Community Reinvestment Act (CRA) to safely and consistently meet the credit needs in our communities. Your investments with us are reinvested right back into our neighborhoods to make them a better place to live, work and play.

Through our partnerships with the American Bankers Association and America's Promise, each of our banks is recognized as a Bank of Promise. That means we are dedicated to building the character and competence of our youth by fulfilling the Five Promises: Caring adults, Safe places, Healthy start and future, Marketable skills, and Opportunities to serve.

Over one hundred employees donate their time and talents each year to make a difference in the lives of others. Whether it is providing annual scholarships, teaching students the importance of good credit, or hosting our annual Charity Cookout, we dedicate financial resources and thousands of employee hours to make our communities stronger.

James Hemmer (center), his sons Brad, Jeff, Steve, and Mike, and grandson Brandon are pictured on their 4,500 acre family farm. We are pleased to provide financing for the Hemmers and other family farms in our communities.

SCHOOL
Iowa Savings Bank President Troy Moore talks to children about the importance of saving money. Every year our employee volunteers dedicate more than 5,000 hours to youth-related activities.

CHARITY
Sue Jesse welcomes guests to our annual Charity Cookout in Manson. The Company has donated over $40,000 to local charities since initiating the event five years ago.

OUR PEOPLE MAKE IT HAPPEN

WHEN YOU GET RIGHT DOWN TO IT, WE ARE IN THE BUSINESS OF HELPING PEOPLE. OUR SUCCESS COMES FROM THE EFFORTS OF TALENTED PEOPLE WORKING TOGETHER TO DO THE RIGHT THINGS RIGHT–FOR OUR CUSTOMERS AND FOR EACH OTHER.

Each year we review our past performance, update strategies, and develop specific action plans to achieve our goals. Together, we share best practices and challenge the status quo to enhance earnings and to make banking easier for our customers.

We believe the implementation of innovative ideas fosters healthy growth. From Integrity Selling to industry seminars, our people are encouraged to expand their financial knowledge and professional skills. It is what cultivates employee-driven initiatives that makes our organization better. Now that is rewarding.

After all, good service comes from good people. Customers can talk with a real person and get answers. That is what keeps our customers coming back. It is what being a super-community bank is all about – neighborhood service with the resources of a larger bank.

Our people make the difference. From left to right, Brandy Rudy, Josh Luther, Jamie Larson, Lisa Binder, Matt Janssen, and Kathy Thorson.

"The best part of the bank is our people. Together, we make the Company stronger one relationship at a time."

— SANDY HEGLAND
VICE PRESIDENT OF HUMAN RESOURCES

FINANCIAL CONTENTS

SELECTED CONSOLIDATED FINANCIAL INFORMATION

SEPTEMBER 30,	2002	2001	2000	1999	1998
SELECTED FINANCIAL CONDITION DATA					
(In Thousands)					
Total assets	$ 607,648	$ 523,183	$ 505,590	$ 511,213	$ 418,380
Loans receivable, net	343,192	333,062	324,703	303,079	270,286
Securities available for sale	218,247	145,374	147,479	178,489	120,610
Excess of cost over net assets acquired, net	3,403	3,403	3,768	4,133	4,498
Deposits	355,780	338,782	318,654	304,780	283,858
Total borrowings	205,266	138,344	143,993	164,369	89,888
Shareholders' equity	44,588	43,727	40,035	39,771	42,286

YEAR ENDED SEPTEMBER 30,					
SELECTED OPERATIONS DATA					
(In Thousands, Except Per Share Data)					
Total interest income	$ 36,055	$ 38,424	$ 38,755	$ 35,735	$ 32,280
Total interest expense	21,734	25,391	24,578	22,176	19,230
Net interest income	14,321	13,033	14,177	13,559	13,050
Provision for loan losses	1,090	710	1,640	1,992	1,663
Net interest income after provision for loan losses	13,231	12,323	12,537	11,567	11,387
Total noninterest income	2,160	1,292	782	1,556	1,654
Total noninterest expense	12,268	10,695	9,408	8,645	8,253
Income before income taxes	3,123	2,920	3,911	4,478	4,788
Income tax expense	966	1,010	1,583	1,837	2,003
Net income	$ 2,157	$ 1,910	$ 2,328	$ 2,641	$ 2,785
Earnings per common and common equivalent share:					
Basic earnings per share	$ 0.88	$ 0.79	$ 0.95	$ 1.07	$ 1.08
Diluted earnings per share	$ 0.87	$ 0.78	$ 0.93	$ 1.04	$ 1.03

YEAR ENDED SEPTEMBER 30,					
SELECTED FINANCIAL RATIOS AND OTHER DATA					
PERFORMANCE RATIOS					
Return on average assets	0.38%	0.37%	0.46%	0.54%	0.68%
Return on average shareholders' equity	4.95	4.57	5.98	6.35	6.43
Interest rate spread information:					
Average during the year	2.48	2.28	2.46	2.51	2.81
End of year	2.53	2.21	2.32	2.40	2.74
Net yield on average interest-earning assets	2.68	2.64	2.86	2.91	3.32
Ratio of operating expense to average total assets	2.16	2.09	1.85	1.80	2.00
QUALITY RATIOS					
Non-performing assets to total assets at end of year	0.63	0.49	0.15	0.47	1.94
Allowance for loan losses to non-performing loans	220.33	240.02	1,156.13	137.16	41.15
CAPITAL RATIOS					
Shareholders' equity to total assets at end of period	7.34	8.36	7.93	7.78	10.11
Average shareholders' equity to average assets	7.68	8.17	7.67	8.65	10.51
Ratio of average interest-earning assets to average interest-bearing liabilities.	104.86	106.90	108.02	108.39	110.22
OTHER DATA					
Book value per common share outstanding	$ 18.06	$ 17.71	$ 16.48	$ 15.86	$ 16.56
Dividends declared per share	$ 0.52	$ 0.52	$ 0.52	$ 0.52	$ 0.48
Dividend payout ratio	59%	65%	55%	48%	44%
Number of full-service offices	15	14	14	13	13

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

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

The Company focuses on establishing and maintaining long-term relationships with customers, and is committed to serving the financial service needs of the communities in its market area. The Company's primary market area includes the following counties: Adair, Buena Vista, Calhoun, 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, 2002 were $607.6 million, an increase of $84.4 million, or 16.1%, from $523.2 million at September 30, 2001. The increase in assets was due primarily to an increase in securities available for sale and to a lesser extent in net loans receivable, and was funded primarily by an increase in securities sold under agreements to repurchase.

The Company's portfolio of securities available for sale increased $72.8 million, or 50.1%, to $218.2 million at September 30, 2002 from $145.4 million at September 30, 2001. The increase reflects the purchase of mortgage-backed securities, primarily with balloon maturities, which have relatively short expected average lives and limited maturity extension. (See Notes 1 and 3 of Notes to Consolidated Financial Statements.)

The Company's portfolio of net loans receivable increased by $10.1 million, or 3.0%, to $343.2 million at September 30, 2002 from $333.1 million at September 30, 2001. Net loans receivable increased as a result of the increased origination of commercial and multi-family real estate loans on existing and newly constructed properties and the increased origination of commercial business loans. In addition, the increase reflects increased origination of agricultural real estate and business loans. Conventional one to four family residential mortgage loans and consumer loans declined as existing originated and purchased loans were repaid in amounts greater than new originations retained in portfolio during the period. (See Notes 1 and 4 of Notes to Consolidated Financial Statements.)

The Company's investment in premises and equipment increased $1.8 million, or 19.4%, to $11.1 million at September 30, 2002 from $9.3 million at September 30, 2001. The increase is due to the construction of a new office facility in Urbandale, Iowa, which opened for business in November 2002.

Customer deposit balances increased by $17.0 million, or 5.0%, to $355.8 million at September 30, 2002 from $338.8 million at September 30, 2001. The increase in deposits resulted from the full-year operation of our new office in Sioux Falls, South Dakota, and the opening of a new office in Des Moines, Iowa. In addition, the increase reflects management's continued efforts to enhance deposit product design and marketing programs. Deposit balances increased for non-interest-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 $4.2 million, $7.5 million, and $5.3 million, respectively. Included in the increase in time certificates of deposit is a $12.9 million increase in jumbo certificates of deposit. (See Note 7 of Notes to Consolidated Financial Statements.)

The Company's borrowings from the Federal Home Loan Bank decreased by $1.3 million, or 1.0%, to $125.1 million at September 30, 2002 from $126.4 million at September 30, 2001. The balance in securities sold under agreements to repurchase increased to $70.2 million at September 30, 2002 from $2.0 million at September 30, 2001. The increase in securities sold under agreements to repurchase reflects the use of this alternative borrowing source at a comparatively lower cost and was used to fund balance sheet growth during the period. (See Notes 1 and 9 of Notes to Consolidated Financial Statements.)

Shareholders' equity increased $900,000, or 2.1%, to $44.6 million at September 30, 2002 from $43.7 million at September 30, 2001. The increase in shareholders' equity is the result of net earnings during the period, which was partially offset by the repurchase of common shares held as Treasury stock and by cash dividends paid to shareholders.

RESULTS OF OPERATIONS

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

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

The Company's noninterest income consists primarily of fees charged on transaction accounts, which help offset the costs associated with establishing and maintaining these deposit accounts. In addition, noninterest income is derived from the activities of First Federal's wholly-owned subsidiary, First Services Financial Limited, which is engaged in the sale of various non-insured investment products. During fiscal year 2002, the Company established First Services Trust Company, a wholly-owned subsidiary of First Midwest that provides a variety of professional trust services.

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, 2002 AND SEPTEMBER 30, 2001

GENERAL

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

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,

	2002	2001	2000
WEIGHTED AVERAGE YIELD ON			
Loans receivable	7.02%	7.93%	8.47%
Mortgage-backed securities available for sale	5.29	6.46	6.66
Securities available for sale	2.85	4.61	6.92
FHLB stock	3.00	4.08	7.10
Combined weighted average yield on interest-earning assets	6.16	7.27	7.91
WEIGHTED AVERAGE RATE PAID ON			
Demand, NOW and money market demand deposits	1.27	2.06	3.50
Savings deposits	1.46	1.69	3.05
Time deposits	4.07	5.73	6.02
FHLB advances	5.46	5.76	5.99
Other borrowed money	2.36	7.07	6.32
Combined weighted average rate paid on interest-bearing liabilities	3.63	5.06	5.59
Spread	2.53	2.21	2.32

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,

	2002 VS. 2001			2001 VS. 2000		
(In Thousands)	Increase (Decrease) Due to Volume	Increase (Decrease) Due to Rate	Total Increase (Decrease)	Increase (Decrease) Due to Volume	Increase (Decrease) Due to Rate	Total Increase (Decrease)
INTEREST-EARNING ASSETS						
Loans receivable	$ 896	$ (2,913)	$ (2,017)	$ 1,476	$ (137)	$ 1,339
Mortgage-backed securities available for sale	2,427	(860)	1,567	(1,423)	25	(1,398)
Securities available for sale	(471)	(1,248)	(1,719)	161	(308)	(147)
FHLB stock	(42)	(158)	(200)	(4)	(121)	(125)
Total interest-earning assets	$ 2,810	$ (5,179)	$ (2,369)	$ 210	$ (541)	$ (331)
INTEREST-BEARING LIABILITIES						
Demand, NOW and money market deposits	$ 168	$ (904)	$ (736)	$ 170	$ (318)	$ (148)
Savings deposits	57	(108)	(51)	(127)	(61)	(188)
Time deposits	26	(3,327)	(3,301)	1,282	964	2,246
FHLB advances	(453)	(29)	(482)	(1,384)	22	(1,362)
Other borrowed money	1,128	(215)	913	302	(37)	265
Total interest-bearing liabilities	$ 926	$ (4,583)	$ (3,657)	$ 243	$ 570	$ 813
Net effect on net interest income	$ 1,884	$ (596)	$ 1,288	$ (33)	$ (1,111)	$ (1,144)

AVERAGE BALANCES, INTEREST RATES AND YIELDS

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

YEAR ENDED SEPTEMBER 30,

	2002			2001			2000		
(Dollars in Thousands)	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate
INTEREST-EARNING ASSETS									
Loans receivable[1]	$ 338,736	$ 25,935	7.66%	$ 327,036	$ 27,952	8.55%	$ 309,768	$ 26,613	8.59%
Mortgage-backed securities available for sale	146,435	8,379	5.72	104,012	6,812	6.55	125,749	8,210	6.53
Securities available for sale	42,273	1,513	3.58	55,442	3,232	5.83	52,672	3,379	6.42
FHLB stock	6,861	228	3.32	8,118	428	5.27	8,190	553	6.75
Total interest-earning assets	534,305	$ 36,055	6.75%	494,608	$ 38,424	7.77%	496,379	$ 38,755	7.81%
Noninterest-earning assets	32,374			18,251			10,879		
Total assets	$ 566,679			$ 512,859			$ 507,258		
INTEREST-BEARING LIABILITIES									
Demand, NOW and money market demand deposits	$ 74,656	$ 1,261	1.69%	$ 64,711	$ 1,997	3.09%	$ 59,199	$ 2,145	3.62%
Savings deposits	14,582	238	1.63	11,115	289	2.60	15,986	477	2.98
Time deposits	252,606	11,960	4.73	252,171	15,261	6.05	230,992	13,015	5.63
FHLB advances	118,415	6,891	5.82	126,208	7,373	5.84	149,896	8,735	5.83
Other borrowed money	49,288	1,384	2.81	8,471	471	5.56	3,460	206	5.95
Total interest-bearing liabilities	509,547	$ 21,734	4.27%	462,676	$ 25,391	5.49%	459,533	$ 24,578	5.35%
Noninterest-bearing:									
Deposits	10,105			6,551			5,639		
Liabilities	3,501			1,751			3,178		
Total liabilities	523,153			470,978			468,350		
Shareholders' equity	43,526			41,881			38,908		
Total liabilities and shareholders' equity	$ 566,679			$ 512,859			$ 507,258		
Net interest-earning assets	$ 24,758			$ 31,932			$ 36,846		
Net interest income		$ 14,321			$ 13,033			$ 14,177	
Net interest rate spread			2.48%			2.28%			2.46%
Net yield on average interest-earning assets			2.68%			2.64%			2.86%
Average interest-earning assets to average interest-bearing liabilities	104.86%			106.90%			108.02%		

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

NET INTEREST INCOME

Net interest income for the year ended September 30, 2002 increased by $1,288,000, or 9.9%, to $14,321,000 compared to $13,033,000 for the period ended September 30, 2001. The increase in net interest income reflects a $39.7 million increase in the average balance of interest-earning assets combined with an increase in the net yield on average earning assets. The net yield on average earning assets increased to 2.68% for the period ended September 30, 2002 from 2.64% for the same period in 2001. The increase in net yield on average earning assets was the result of an increase in the net interest rate spread between interest-earning assets and interest-bearing liabilities. The average interest rate spread increased to 2.48% for the fiscal year ended September 30, 2002 from 2.28% for the previous year. This increase reflects a reduction in the average cost of deposits due to an increase in the level of transactional deposit accounts and an increased percentage of originated commercial loans at relatively higher yields during the period.

INTEREST AND DIVIDEND INCOME

Interest and dividend income for the year ended September 30, 2002 decreased $2,369,000, or 6.2%, to $36,055,000 from $38,424,000 for the same period in 2001. The decrease is due primarily to a $2,017,000 decline in interest income from loans receivable as a result of a decrease in the average yield on these assets during the period. In addition, dividend income from FHLB stock decreased by $200,000 due primarily to a decline in average yield received.

INTEREST EXPENSE

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

PROVISION FOR LOAN LOSSES

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

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

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

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

NONINTEREST INCOME

Noninterest income increased by $867,000, or 67.1%, to $2,159,000 for the year ended September 30, 2002 from $1,292,000 for the same period in 2001. The increase in noninterest income reflects a $78,000 increase in service charges collected on deposit accounts, an $84,000 increase in commissions received through the Company's brokerage subsidiary, and a $566,000 increase in the accretion of income from bank owned life insurance, which was purchased in August 2001. In addition, the increase reflects a gain on sale of securities available for sale in the amount of $86,000 during fiscal 2002 compared to a loss on sale of $60,000 in the previous year.

NONINTEREST EXPENSE

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

INCOME TAX EXPENSE

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

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, fiscal year 2000 included a gain on the transfer of Federal Home Loan Bank advances.

NET INTEREST INCOME

Net interest income for the year ended September 30, 2001 decreased by $1,144,000, or 8.1%, to $13,033,000 compared to $14,177,000 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 2.28% for the fiscal year ended September 30, 2001 from 2.46% 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 net yield on average earning assets decreased to 2.64% for the period ended September 30, 2001 from 2.86% for the same period in 2000. The decrease in net yield is due to the decrease in net interest rate spread and a decrease in net earning assets.

INTEREST AND DIVIDEND INCOME

Interest and dividend income for the year ended September 30, 2001 decreased $331,000, or 0.85%, to $38,424,000 from $38,755,000 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 $1,339,000 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 allowance against probable losses from the loan portfolio.

NONINTEREST INCOME

Noninterest income increased by $511,000, or 65.4%, to $1,292,000 for the year ended September 30, 2001 from $781,000 for the same period in 2000. The increase in noninterest income reflects a $114,000 increase in 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 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, which yielded a gain of $561,000.

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 $572,000, or 36.1%, to $1,011,000 for the year ended September 30, 2001 from $1,583,000 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 $139,000.

ASSET/LIABILITY MANAGEMENT AND MARKET RISK

QUALITATIVE ASPECTS OF MARKET RISK

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

QUANTITATIVE ASPECTS OF MARKET RISK

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

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

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

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

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

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

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

NET PORTFOLIO VALUE

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

Presented below, as of September 30, 2002 and 2001, 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, 2002 and September 30, 2001 was more sensitive to declining interest rates than to increasing interest rates. This reflects management's effort to maintain the Company's interest rate sensitivity in light of the significant decline in interest rates during the periods. 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 exceeded the established limits at September 30, 2002 and September 30, 2001; however, the Board considers this to be acceptable given the 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 quarterly basis. In addition to monitoring selected measures of NPV, management also monitors the effects on net interest income resulting from increases or decreases in interest rates. This measure is used in conjunction with NPV measures to identify excessive interest rate risk.

ASSET QUALITY

It is management's belief, based on information available at fiscal year end, that the Company's current asset quality is satisfactory. At September 30, 2002, non-performing assets, consisting of non-accruing loans, accruing loans delinquent 90 days or more, restructured loans, foreclosed real estate, and repossessed consumer property, totaled $3,836,000, or 0.63% of total assets, compared to $2,567,000, or 0.49% of total assets, for the fiscal year ended 2001.

Change in Interest Rate	Board Limit	At September 30, 2002		At September 30, 2001	
(Basis Points)	% Change	$ Change	% Change	$ Change	% Change
Dollars In Thousands					
+200 bp	(40)%	$ 1,543	4%	$ (2,472)	(6)%
+100 bp	(25)	1,898	5	(698)	(2)
0	–	—	–	—	–
- 100 bp	(10)	(4,362)	(12)	(4,336)	(11)
- 200 bp	(15)	(8,873)	(25)	(11,377)	(29)

Non-accruing loans at September 30, 2002 include, among others, a commercial real estate loan in the amount of $417,000 secured by a casino, an agricultural operating loan in the amount of $298,000 secured by agricultural land, and a commercial business loan in the amount of $181,000 secured by proceeds from the sale of a marina and residential real estate. Accruing loans delinquent 90 days or more includes an agricultural loan in the amount of $804,000 secured by farm machinery, crops and agricultural land. Foreclosed real estate at September 30, 2002 consists primarily of a nursing home in the amount of $889,000, a condominium project in the amount of $296,000, and a car wash facility in the amount of $125,000.

The Company maintains an allowance for loan losses because of the potential that some loans may not be repaid in full. (See Note 1 of Notes to Consolidated Financial Statements.) At September 30, 2002, the Company had an allowance for loan losses in the amount of $4,693,000 as compared to $3,869,000 at September 30, 2001. 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, 2002, $304,000 of the allowance for loan losses was allocated to impaired loans (See Note 4 of Notes to Consolidated Financial Statements), $1,701,000 was allocated to identified problem loan situations, and $2,688,000 was allocated as a reserve against losses from the overall loan portfolio based on historical loss experience and general economic conditions. At September 30, 2001, $168,000 of the allowance for loan losses was allocated to impaired loans, $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 based on historical loss experience and general economic conditions.

The September 30, 2002 allowance for loan losses that was allocated to impaired loans was $304,000, which is 25.6% of impaired loans as of that date. The September 30, 2001 allowance allocated to impaired loans was $168,000, which is 12.4% of impaired loans at that date. The increase in the dollar amount and percentage of the allocated allowance is a result of the specific analysis performed on a loan-by-loan basis as described above.

The September 30, 2002 allowance allocated to other identified problem loan situations was $1,701,000 as compared to $1,048,000 at September 30, 2001, an increase of $653,000. The increase in the dollar amount of the allocated allowance is due to a 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, 2002 allowance that was not specifically allocated to individual loans was $2,688,000 as compared to $2,653,000 at September 30, 2001, an increase of $35,000. The increase primarily reflects a change in the composition of the loan portfolio, which reduced one to four family residential mortgage loans and increased commercial and multi-family real estate loans.

LIQUIDITY AND SOURCES OF FUNDS

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

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

Liquidity management is both a daily and long-term function of the Company's management strategy. The Company adjusts its investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) the projected availability of purchased loan products, (iii) expected deposit flows, (iv) yields available on interest-bearing deposits, and (v) the objectives of its asset/liability management program. Excess liquidity is generally invested in interest-earning overnight deposits and other short-term government agency obligations. If the Company requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the 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, 2002, 2001 and 2000, the Company originated loans totaling $299.9 million, $159.6 million and $104.3 million, respectively. Purchases of loans totaled $27.1 million, $32.8 million and $55.6 million during the years ended September 30, 2002, 2001 and 2000, respectively. During the years ended September 30, 2002, 2001 and 2000, the Company purchased mortgage-backed securities and other securities available for sale in the amount of $135.5 million, $22.9 million and $515,000, respectively.

At September 30, 2002, the Company had outstanding commitments to originate and purchase loans of $35.6 million. (See Note 14 of Notes to Consolidated Financial Statements.) Certificates of deposit scheduled to mature in one year or less from September 30, 2002 total $164.0 million. Based on its historical experience, management believes that a significant portion of such deposits will remain with the Company, however, there can be no assurance that the Company can retain all such deposits. Management believes that loan repayment and other sources of funds will be adequate to meet the Company's foreseeable short- and long-term liquidity needs.

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

During fiscal year 2002, the Company initiated construction of a new office facility in Urbandale, Iowa. Construction was completed in October 2002 and the facility opened as a branch office in November 2002. The source of funds for capital improvements of this type is from the normal operations of the Company.

On September 20, 1993, the Bank converted from a federally chartered mutual savings and loan association to a federally chartered stock savings bank. At that time, a liquidation account was established for the benefit of eligible account holders who continue to maintain their account with the Bank after the conversion. The liquidation account is reduced annually to the extent that eligible account holders have reduced their qualifying deposits. At September 30, 2002, the liquidation account approximated $2.6 million.

The Company, First Federal and Security are in compliance with their capital requirements and are considered "well capitalized" under current regulatory guidelines. (See Note 13 of Notes to Consolidated Financial Statements.)

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 April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, which rescinds prior accounting guidance that required gains and losses from extinguishment of debt to be classified as extraordinary items. As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB Opinion No. 30.

The Company has determined that its transfer of FHLB advances in fiscal 2000, as discussed in Note 8, does not meet the criteria in APB No. 30 for extraordinary reporting. Accordingly, the gain, net of applicable taxes, of $351,995, which was previously reported as an extraordinary item has been reclassified to noninterest income of $560,595 and income tax expense of $208,600, with no effect on net income or earnings per common share.

In October 2002, the FASB issued SFAS No. 147, which addresses the financial accounting and reporting for the acquisition of all or part of a financial institution, except for a transaction between two or more mutual enterprises. Transaction provisions for previously recognized unidentifiable intangible assets are effective on October 1, 2002, with earlier application permitted. The carrying amount of an unidentifiable intangible asset shall continue to be amortized after October 1, 2002, unless the transaction in which the asset arose was a business combination. If the transaction that gave rise to the unidentifiable intangible asset was a business combination, the carrying amount of the asset shall be reclassified to goodwill as of the later of the date of acquisition or the date SFAS No. 142 was applied in its entirety. The Company has no unidentifiable intangible assets recorded as of September 30, 2002, and therefore believes SFAS No. 147 has no effect on the accompanying consolidated financial statements.

FORWARD-LOOKING STATEMENTS

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

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

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

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, 2002 and 2001, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended September 30, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Midwest Financial, Inc. and Subsidiaries as of September 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Des Moines, Iowa
October 24, 2002

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2002 AND 2001

	2002	2001
ASSETS		
Cash and due from banks	$ 1,325,139	$ 1,016,111
Interest-bearing deposits in other financial institutions	6,051,295	7,750,194
Total cash and cash equivalents	7,376,434	8,766,305
Securities available for sale	218,247,310	145,374,339
Loans receivable, net of allowance for loan losses of $4,692,988 in 2002 and $3,868,664 in 2001	343,192,370	333,062,025
Federal Home Loan Bank (FHLB) stock, at cost	6,842,600	6,398,900
Accrued interest receivable	4,320,514	4,750,792
Premises and equipment, net	11,054,243	9,346,788
Foreclosed real estate	1,327,802	940,143
Other assets	15,287,187	14,543,771
Total assets	$ 607,648,460	$ 523,183,063
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Noninterest-bearing demand deposits	$ 11,934,712	$ 7,733,294
Savings, NOW and money market demand deposits	90,413,488	82,916,804
Time certificates of deposit	253,431,553	248,131,780
Total deposits	355,779,753	338,781,878
Advances from FHLB	125,089,999	126,351,761
Securities sold under agreements to repurchase	70,176,228	1,992,720
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures	10,000,000	10,000,000
Advances from borrowers for taxes and insurance	355,884	446,397
Accrued interest payable	671,033	868,281
Accrued expenses and other liabilities	987,797	1,014,816
Total liabilities	563,060,694	479,455,853
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 2,468,804 shares outstanding at September 30, 2002; 2,957,999 shares issued and 2,469,727 shares outstanding at September 30, 2001	29,580	29,580
Additional paid-in capital	20,593,768	20,863,379
Retained earnings - substantially restricted	31,940,648	31,066,643
Accumulated other comprehensive income	494,834	338,427
Unearned Employee Stock Ownership Plan shares	(46,142)	(180,000)
Treasury stock, 489,195 and 488,272 common shares, at cost, at September 30, 2002 and 2001, respectively	(8,424,922)	(8,390,819)
Total shareholders' equity	44,587,766	43,727,210
Total liabilities and shareholders' equity	$ 607,648,460	$ 523,183,063

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 30, 2002, 2001 AND 2000

	2002	2001	2000
Interest and dividend income:			
Loans receivable, including fees	$ 25,935,319	$ 27,951,901	$ 26,613,094
Securities available for sale	9,891,529	10,043,154	11,589,221
Dividends on FHLB stock	228,137	428,472	553,165
	36,054,985	38,423,527	38,755,480
Interest expense:			
Deposits	13,458,794	17,546,621	15,636,793
FHLB advances and other borrowings	8,275,256	7,843,978	8,941,569
	21,734,050	25,390,599	24,578,362
Net interest income	14,320,935	13,032,928	14,177,118
Provision for loan losses	1,090,000	710,000	1,640,000
Net interest income after provision for loan losses	13,230,935	12,322,928	12,537,118
Noninterest income:			
Deposit service charges and other fees	1,157,217	1,078,904	965,186
Bank owned life insurance	671,136	105,000	-
Gain (loss) on sales of securities available for sale, net	86,194	(60,275)	(1,020,885)
Gain on transfer of FHLB advances	-	-	560,595
Gain (loss) on sales of foreclosed real estate, net	(42,866)	27,017	(12,033)
Brokerage commissions	181,296	96,808	131,801
Other income	106,481	44,745	156,707
	2,159,458	1,292,199	781,371
Noninterest expense:			
Employee compensation and benefits	7,528,999	6,552,712	5,830,791
Occupancy and equipment expense	2,077,885	1,569,387	1,301,495
Deposit insurance premium	61,508	63,944	89,990
Data processing expense	563,485	457,766	410,645
Other expense	2,036,006	2,051,029	1,775,122
	12,267,883	10,694,838	9,408,043
Net income before income tax expense	3,122,510	2,920,289	3,910,446
Income tax expense	965,882	1,010,546	1,582,820
Net income	$ 2,156,628	$ 1,909,743	$ 2,327,626
Earnings per common and common equivalent share:			
Basic earnings per common share	$ 0.88	$ 0.79	$ 0.95
Diluted earnings per common share	$ 0.87	$ 0.78	$ 0.93

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

YEARS ENDED SEPTEMBER 30, 2002, 2001 AND 2000

	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, 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
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

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

YEARS ENDED SEPTEMBER 30, 2002, 2001 AND 2000

	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, 2001	$ 29,580	$ 20,863,379	$ 31,066,643	$ 338,427	$ (180,000)	$ (8,390,819)	$ 43,727,210
Comprehensive income:							
Net income for the year ended September 30, 2002	-	-	2,156,628	-	-	-	2,156,628
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	-	-	-	156,407	-	-	156,407
Total comprehensive income							2,313,035
Purchase of 62,447 common shares of treasury stock	-	-	-	-	-	(843,327)	(843,327)
Purchase of 10,238 common shares for ESOP	-	-	-	-	(145,892)	-	(145,892)
22,000 common shares committed to be released under the ESOP	-	24,718	-	-	279,750	-	304,468
Issuance of 61,524 common shares from treasury stock due to exercise of stock options	-	(369,364)	-	-	-	809,224	439,860
Tax benefit from exercise of stock options	-	75,035	-	-	-	-	75,035
Cash dividends declared on common stock ($.52 per share)	-	-	(1,282,623)	-	-	-	(1,282,623)
Balance, September 30, 2002	$ 29,580	$ 20,593,768	$ 31,940,648	$ 494,834	$ (46,142)	$ (8,424,922)	$ 44,587,766

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2002, 2001 AND 2000

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,156,628	$ 1,909,743	$ 2,327,626
Adjustments to reconcile net income to			
net cash provided by operating activities:			
Depreciation, amortization and accretion, net	2,186,335	849,695	1,522,239
Provision for loan losses	1,090,000	710,000	1,640,000
Gain on transfer of FHLB advances	-	-	(560,595)
(Gain) loss on sales of securities available for sale, net	(86,194)	60,275	1,020,885
Proceeds from the sales of loans held for sale	21,486,387	14,084,818	1,435,581
Originations of loans held for sale	(21,486,387)	(14,084,818)	(1,435,581)
(Gain) loss on sales of foreclosed real estate, net	42,866	(27,017)	12,033
Net change in:			
Accrued interest receivable	430,278	466,137	(170,695)
Other assets	(836,105)	88,031	(505,918)
Accrued interest payable	(197,248)	(138,060)	130,976
Accrued expenses and other liabilities	48,015	(425,537)	445,250
Net cash provided by operating activities	4,834,575	3,493,267	5,861,801
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities available for sale	(135,493,814)	(22,886,271)	(515,000)
Proceeds from sales of securities available for sale	7,464,706	795,000	20,275,060
Proceeds from maturities and principal repayments			
of securities available for sale	54,277,854	28,670,713	9,822,708
Loans purchased	(27,104,383)	(32,754,225)	(55,565,541)
Net change in loans	15,147,415	22,830,506	31,437,629
Proceeds from sales of foreclosed real estate	317,000	521,074	498,316
Purchase of FHLB stock	(443,700)	(71,300)	(201,800)
Proceeds from redemption of FHLB stock	-	2,000,000	-
Purchase of other investment	-	(10,000,000)	-
Purchase of premises and equipment	(2,532,542)	(3,914,687)	(1,770,906)
Net cash provided by (used in) investing activities	(88,367,464)	(14,809,190)	3,980,466
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in noninterest-bearing demand, savings,			
NOW and money market demand deposits	11,698,102	12,100,577	(2,134,430)
Net change in time deposits	5,299,773	8,027,580	16,008,230
Proceeds from advances from FHLB	275,520,000	133,265,000	789,920,595
Repayments of advances from FHLB	(276,781,762)	(146,651,690)	(810,969,620)
Net change in securities sold under agreements to repurchase	68,183,508	(2,262,245)	1,234,014
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	(90,513)	(15,117)	38,921
Debt issuance costs incurred	-	(305,812)	-
Cash dividends paid	(1,282,623)	(1,247,486)	(1,276,183)
Proceeds from exercise of stock options	439,860	266,667	363,335
Purchase of treasury stock	(843,327)	(17,777)	(1,478,509)
Net cash provided by (used in) financing activities	82,143,018	13,159,697	(8,293,647)
Net change in cash and cash equivalents	(1,389,871)	1,843,774	1,548,620
CASH AND CASH EQUIVALENTS			
Beginning of year	8,766,305	6,922,531	5,373,911
End of year	$ 7,376,434	$ 8,766,305	$ 6,922,531
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 21,931,298	$ 25,528,659	$ 24,447,386
Income taxes	889,568	926,543	2,038,500
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES			
Loans transferred to foreclosed real estate	$ 747,525	$ 989,067	$ 812,581

See Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of First Midwest Financial, Inc. (the Company), a bank holding company located in Storm Lake, Iowa, and its wholly-owned subsidiaries which include First Federal Savings Bank of the Midwest (the Bank or First Federal), a federally chartered savings bank whose primary regulator is the Office of Thrift Supervision, Security State Bank (Security), a state chartered commercial bank whose primary regulator is the Federal Reserve, First Services Financial Limited and Brookings Service Corporation, which offer brokerage services and non-insured investment products, First Services Trust Company, which offers various trust services, and First Midwest Financial Capital Trust I, which was capitalized in July 2001, for the purpose of issuing 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, 2002 and 2001, trust assets totaled approximately $13,842,000 and $13,213,000, respectively.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CERTAIN SIGNIFICANT ESTIMATES

The allowance for loan losses and fair values of securities and other financial instruments involve certain significant estimates made by management. These estimates are reviewed by management routinely and it is reasonably possible that circumstances that exist at September 30, 2002, 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 income as earned.

LOANS HELD FOR SALE

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

LOANS RECEIVABLE

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances reduced by the allowance for loan losses and any deferred fees or costs on originated loans.

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

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

LOAN ORIGINATION FEES, COMMITMENT FEES, AND RELATED COSTS

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

ALLOWANCE FOR LOAN LOSSES

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

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

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

FORECLOSED REAL ESTATE

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

INCOME TAXES

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

PREMISES AND EQUIPMENT

Land is carried at cost. Buildings, furniture, fixtures and equipment are carried at cost, less accumulated depreciation and amortization computed principally by using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. These assets are reviewed for impairment under Statement of Financial Accounting Standards (SFAS) No. 144 when events indicate the carrying amount may not be recoverable.

EMPLOYEE STOCK OWNERSHIP PLAN

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

FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company, in the normal course of business, makes commitments to make loans which are not reflected in the consolidated financial statements. A summary of these commitments is disclosed in Note 14.

INTANGIBLE ASSETS

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

As of October 1, 2001, the Company has undertaken to identify those intangible assets that remain separable under the provisions of the new standard and those that are to be included in goodwill and has concluded that all amounts should be included in goodwill. In the year of adoption, SFAS 142 requires the first step of the goodwill impairment test to be completed within the first six months and the final step to be completed within 12 months of adoption. The Company has completed the goodwill impairment test and has determined that there has been no impairment of goodwill.

Had the provisions of SFAS 141 and 142 been applied in fiscal years 2001 and 2000, the Company's net income and net income per share would have been as follows:

	Year Ended September 30, 2001			Year Ended September 30, 2000		
	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share
Net income:						
As reported	$ 1,909,743	$ 0.79	$ 0.78	$ 2,327,626	$ 0.95	$ 0.93
Add: Goodwill amortization	364,932	0.15	0.15	364,932	0.15	0.15
Pro forma net income	$ 2,274,675	$ 0.94	$ 0.93	$ 2,692,558	$ 1.10	$ 1.08

As of September 30, 2002 and 2001, the Company had intangible assets of $3,403,019, all of which has been determined to be goodwill. There was no goodwill impairment loss or amortization related to goodwill during the year ended September 30, 2002.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company enters into sales of securities under agreements to repurchase with primary dealers only, which provide for the repurchase of the same security. Securities sold under agreements to purchase identical securities are collateralized by assets which are held in 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 April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, which rescinds prior accounting guidance that required gains and losses from extinguishments of debt to be classified as extraordinary items. As a result, gains and losses from extinguishments of debt should be classified as extraordinary items only if they meet the criteria in APB Opinion No. 30.

The Company has determined that its transfer of FHLB advances in fiscal 2000, as discussed in Note 8, does not meet the criteria in APB No. 30 for extraordinary reporting. Accordingly, the gain, net of applicable taxes, of $351,995, which was previously reported as an extraordinary item has been reclassified to noninterest income of $560,595 and income tax expense of $208,600, with no effect on net income or earnings per common share.

In October 2002, the FASB issued SFAS No. 147, which addressees the financial accounting and reporting for the acquisition of all or part of a financial institution, except for a transaction between two or more mutual enterprises. Transaction provisions for previously recognized unidentifiable intangible assets are effective on October 1, 2002, with earlier application permitted. The carrying amount of an unidentifiable intangible asset shall continue to be amortized after October 1, 2002, unless the transaction in which the asset arose was a business combination. If the transaction that gave rise to the unidentifiable intangible asset was a business combination, the carrying amount of the asset shall be reclassified to goodwill as of the later of the date of acquisition or the date SFAS No. 142 was applied in its entirety. The Company has no unidentifiable intangible assets recorded as of September 30, 2002 and, therefore, believes SFAS No. 147 has no effect on the accompanying consolidated financial statements.

RECLASSIFICATION OF CERTAIN ITEMS

Certain items on the consolidated statements of income for the years ended September 30, 2001 and 2000, have been reclassified, with no effect on net income or earnings per common share, to be consistent with the classifications adopted for the year ended September 30, 2002.

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:

	2002	2001	2000
Basic earnings per common share:			
Numerator, net income	$ 2,156,628	$ 1,909,743	$ 2,327,626
Denominator, weighted average common shares outstanding	2,461,402	2,433,453	2,464,829
Less weighted average unallocated ESOP shares	(8,294)	(13,353)	(11,535)
Weighted average common shares outstanding for basic earnings per common share	2,453,108	2,420,100	2,453,294
Basic earnings per common share	$ 0.88	$ 0.79	$ 0.95
Diluted earnings per common share:			
Numerator, net income	$ 2,156,628	$ 1,909,743	$ 2,327,626
Denominator, weighted average common shares outstanding for basic earnings per common share	2,453,108	2,420,100	2,453,294
Add dilutive effects of assumed exercises of stock options and average nonvested MRRP shares, net of tax benefits	31,428	42,973	40,661
Weighted average common and dilutive potential common shares outstanding	2,484,536	2,463,073	2,493,955
Diluted earnings per common share	$ 0.87	$ 0.78	$ 0.93

Stock options totaling 136,464, 171,416 and 171,096 shares were not considered in computing diluted earnings per common share for the years ended September 30, 2002, 2001 and 2000, respectively, because they were not dilutive.

NOTE 3. SECURITIES

Year end securities available for sale were as follows:

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

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

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, 2002	Amortized Cost	Fair Value
Due in one year or less	$ 140,000	$ 144,223
Due after one year through five years	585,000	619,755
Due after five years through ten years	-	-
Due after ten years	26,730,670	24,127,980
	27,455,670	24,891,958
Mortgage-backed securities	189,343,213	192,348,190
	$ 216,798,883	$ 217,240,148

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

	2002	2001	2000
Proceeds from sales	$ 7,464,706	$ 795,000	$ 20,275,060
Gross gains on sales	86,194	76,874	-
Gross (losses) on sales	-	(137,149)	(1,020,885)

NOTE 4. LOANS RECEIVABLE, NET

Year end loans receivable were as follows:

	2002	2001
One to four family residential mortgage loans	$ 73,933,828	$ 95,611,927
Construction	25,744,856	21,883,909
Commercial and multi-family real estate loans	151,805,753	123,636,351
Agricultural real estate loans	12,066,776	11,729,027
Commercial business loans	42,844,163	36,773,258
Agricultural business loans	25,308,066	25,253,174
Consumer loans	23,592,634	28,169,202
	355,296,076	343,056,848
Less:		
Allowance for loan losses	(4,692,988)	(3,868,664)
Undistributed portion of loans in process	(7,155,273)	(5,859,813)
Net deferred loan origination fees	(255,445)	(266,346)
	$ 343,192,370	$ 333,062,025

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

	2002	2001	2000
Beginning balance	$ 3,868,664	$ 3,589,873	$ 3,092,628
Provision for loan losses	1,090,000	710,000	1,640,000
Recoveries	54,240	51,331	126,887
Charge-offs	(319,916)	(482,540)	(1,269,642)
Ending balance	$ 4,692,988	$ 3,868,664	$ 3,589,873

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 $107,279,000 at September 30, 2002, and were secured by properties located, as a percentage of total loans, as follows: 12% in Washington, 2% in North Carolina, 2% in Minnesota, 2% in Iowa, 2% in Wisconsin, 2% in California, 3% in South Dakota, 2% in Arizona and the remaining 3% in 6 other states. 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 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 $28,470,000 and $28,141,000 of loans secured by hotel properties, $27,369,000 and $20,702,000 of loans secured by multi-family properties and $22,416,000 and $19,953,000 of loans secured by assisted living facilities at September 30, 2002 and 2001, respectively. The remainder of the commercial real estate portfolio is diversified by industry. The Company's policy for requiring collateral and guarantees varies with the credit-worthiness of each borrower.

Impaired loans were as follows:

	2002	2001
Year-end loans with no allowance for loan losses allocated	$ -	$ -
Year-end loans with allowance for loan losses allocated	1,186,739	1,347,574
Amount of the allowance allocated	303,730	167,693
Average of impaired loans during the year	4,676,344	4,770,909
Interest income recognized during impairment	-	255,002

Cash interest collected on impaired loans was not material during the years ended September 30, 2002, 2001 and 2000.

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:

	2002	2001
Mortgage loan portfolios serviced for FNMA	$ 18,164,000	$ 12,058,000
Other	22,170,000	20,450,000
	$ 40,334,000	$ 32,508,000

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $168,000 and $11,000 at September 30, 2002 and 2001, respectively.

NOTE 6. PREMISES AND EQUIPMENT, NET

Year end premises and equipment were as follows:

	2002	2001
Land	$ 2,049,135	$ 2,043,370
Buildings	9,535,699	7,850,052
Furniture, fixtures and equipment	4,545,443	4,448,902
	16,130,277	14,342,324
Less accumulated depreciation	(5,076,034)	(4,995,536)
	$ 11,054,243	$ 9,346,788

Depreciation of premises and equipment included in occupancy and equipment expense was approximately $825,000, $660,000 and $449,000 for the years ended September 30, 2002, 2001 and 2000, respectively.

NOTE 7. DEPOSITS

Jumbo certificates of deposit in denominations of $100,000 or more were approximately $48,416,000 and $35,475,000 at year end 2002 and 2001, respectively.

At September 30, 2002, the scheduled maturities of certificates of deposit were as follows for the years ended September 30:

2003	$ 163,992,457
2004	39,782,225
2005	24,313,996
2006	7,240,837
2007	17,989,517
Thereafter	112,521
	$ 253,431,553

NOTE 8. ADVANCES FROM FEDERAL HOME LOAN BANK

At September 30, 2002 advances from the FHLB of Des Moines with fixed rates ranging from 2.08% to 7.21% (weighted-average rate of 5.46%) are required to be repaid in the year ending September 30 as presented below. Advances totaling $49,700,000 contain call features which allow the FHLB to call for the prepayment of the borrowing prior to maturity.

2003	$ 5,205,605
2004	11,735,778
2005	13,884,475
2006	5,601,886
2007	10,188,213
Thereafter	78,474,042
	$ 125,089,999

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 2002 and 2001, First Federal and Security collectively pledged securities with amortized costs of $75,975,000 and $67,678,000 and fair values of approximately $77,641,000 and $72,428,000 against specific FHLB advances. In addition, qualifying mortgage loans of approximately $70,258,000 and $85,895,000 were pledged as collateral at year end 2002 and 2001.

During fiscal 2000, the Company recognized a gain totaling $560,595 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 $70,176,228 and $1,992,720 for 2002 and 2001, respectively.

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

	2002	2001
Highest month-end balance	$70,176,228	$20,239,242
Average balance	39,288,209	6,490,431
Weighted average interest rate during the period	2.01%	4.78%
Weighted average interest rate at end of period	1.90%	4.57%

At year end 2002, securities sold under agreements to repurchase had maturities ranging from 1 to 3 months with a weighted average maturity of 1 month.

The Company pledged securities with amortized costs of approximately $79,548,000 and $2,084,000 and fair values of approximately $80,950,000 and $2,154,000, respectively, at year end 2002 and 2001 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 12.5%. The Company may, at one or more times, defer interest payments on the capital securities for up to 10 consecutive semi-annual periods, but not beyond July 25, 2031. At the end of any deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on July 25, 2031; however, the Company has the option to shorten the maturity date to a date not earlier than July 25, 2006. The redemption price is $1,000 per capital security plus any accrued and unpaid distributions to the date of redemption plus, if redeemed prior to July 25, 2011, a redemption premium as defined in the Indenture agreement.

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

The debentures are included on the balance sheet as a liability.

NOTE 11. EMPLOYEE BENEFITS

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

The Company maintains an ESOP for eligible employees who have 1,000 hours of employment with the Bank, have worked one year at the Bank and who have attained age 21. In 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. In 2002, the ESOP borrowed $145,892 from the Company to purchase 10,238 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 $304,468, $174,660 and $270,864 was recorded for the years ended September 30, 2002, 2001 and 2000, respectively. Contributions of $279,750, $180,000 and $167,200 were made to the ESOP during the years ended September 30, 2002, 2001 and 2000, 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, 2002, 2001 and 2000, 22,000, 15,000 and 25,080 shares with an average fair value of $13.84, $11.64 and $10.80 per share, respectively, were committed to be released. Also for the years ended September 30, 2002, 2001 and 2000, allocated shares and total ESOP shares reflect 12,629, 5,514 and 1,287 shares, respectively, withdrawn from the ESOP by participants who are no longer with the Company and 7,760, 9,312 and 7,434 shares, respectively, purchased for dividend reinvestment.

Year-end ESOP shares are as follows:

	2002	2001	2000
Allocated shares	235,744	218,613	199,815
Unearned shares	3,238	15,000	-
Total ESOP shares	238,982	233,613	199,815
Fair value of unearned shares	$ 46,142	$ 202,500	$ -

STOCK OPTIONS AND INCENTIVE PLANS

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

SFAS No. l23, which became effective for stock-based compensation during fiscal years beginning after December l5, 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 2002, 2001 or 2000.

The fair value of options granted during 2002, 2001 and 2000 is estimated using the following weighted-average information: risk-free interest rate of 3.57%, 4.52% and 5.99%, expected life of 7.0 years, expected dividends of 3.68%, 3.85% and 5.30% per year and expected stock price volatility of 21.4%, 22.4%, and 22.3% per year, respectively.

	2002	2001	2000
Net income as reported	$ 2,156,628	$ 1,909,743	$ 2,327,626
Proforma net income	2,091,222	1,836,857	2,261,234
Reported earnings per common and common equivalent share:			
Basic	$ 0.88	$ 0.79	$ 0.95
Diluted	0.87	0.78	0.93
Proforma earnings per common and common equivalent share:			
Basic	$ 0.85	$ 0.76	$ 0.92
Diluted	0.84	0.75	0.91

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, 2002, 41,985 shares were authorized for future grants. Information about option grants follows:

	Number of Options	Weighted-Average Exercise Price
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
Outstanding, September 30, 2001	288,056	12.40
Granted	27,641	14.27
Exercised	(61,524)	7.14
Forfeited	(3,000)	13.22
Outstanding, September 30, 2002	251,173	$ 13.88

The weighted-average fair value per option for options granted in 2002, 2001 and 2000 was $2.41, $2.61 and $1.72. At September 30, 2002, options outstanding were as follows:

Exercise Price	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Options
$ 6.67 - $ 9.99	$ 7.80	3.62	57,116
$10.00 - $14.99	13.68	8.63	81,234
$15.00 - $19.99	16.80	4.43	102,383
$20.00 - $20.13	20.13	5.00	10,440
	$ 13.88	5.63	251,173

Options exercisable at year end are as follows:

	Number of Options	Weighted-Average Exercise Price
2000	270,443	$11.17
2001	270,556	12.38
2002	237,048	13.95

MANAGEMENT RECOGNITION AND RETENTION PLANS

The Company granted 10,424, 7,191 and 106,428 (8,986 of which have been forfeited under terms of the Plan due to termination of service) shares of the Company's common stock on September 30, 1999, May 23, 1994 and September 20, 1993, respectively, to certain officers of the Bank pursuant to a management recognition and retention plan (the Plan). The holders of the restricted stock have all of the rights of a shareholder, except that they cannot sell, assign, pledge or transfer any of the restricted stock during the restricted period. The stock granted in 1999 under the Plan vests as follows: 5,212 shares vested at the date of grant on September 30, 1999 and 5,212 shares vests on September 30, 2000. Previously granted restricted stock vests at a rate of 25% on each anniversary of the grant date. Expense of $0, $0 and $33,878 was recorded for these plans for the years ended 2002, 2001 and 2000.

PROFIT SHARING PLAN

The Company has a profit sharing plan covering substantially all full-time employees. Contribution expense for the years ended September 30, 2002, 2001 and 2000, was $244,927, $315,773 and $329,108, 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 l996 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.

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, 2002 and 2001. 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.

The provision for income taxes consists of:

	2002	2001	2000
Federal:			
Current	$ 904,539	$ 1,170,302	$ 1,644,698
Deferred	(64,787)	(105,167)	(258,085)
	839,752	1,065,135	1,386,613
State:			
Current	153,170	(27,756)	236,122
Deferred	(27,040)	(26,833)	(39,915)
	126,130	(54,589)	196,207
Income tax expense	$ 965,882	$ 1,010,546	$ 1,582,820

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

	2002	2001	2000
Income taxes at 34% federal tax rate	$ 1,062,000	$ 993,000	$ 1,330,000
Increase (decrease) resulting from:			
State income taxes - net of federal benefit	97,000	113,000	147,000
Nondeductible goodwill	-	124,000	124,000
Nontaxable buildup in cash surrender value	(217,000)	-	-
Resolution of a tax contingency	-	(139,000)	-
Other, net	23,882	(80,454)	(18,180)
Total income tax expense	$ 965,882	$ 1,010,546	$ 1,582,820

Year end deferred tax assets and liabilities consist of:

	2002	2001
Deferred tax assets:		
Bad debts	$ 1,447,000	$ 1,047,000
Other items	54,000	112,000
	1,501,000	1,159,000
Deferred tax liabilities:		
Federal Home Loan Bank stock dividend	(452,000)	(452,000)
Accrual to cash basis	-	(44,000)
Premises and equipment	(204,000)	(108,000)
Deferred loan fees	(97,000)	(77,000)
Net unrealized gains on securities available for sale	(291,680)	(198,993)
Other	(178,173)	-
	(1,222,853)	(879,993)
Net deferred tax assets	$ 278,147	$ 279,007

NOTE 13. CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

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

Quantitative measures established by regulation to ensure capital adequacy require First Federal and Security to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2002, that First Federal and Security meet the capital adequacy requirements.

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

	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
AS OF SEPTEMBER 30, 2002:						
Total capital (to risk-weighted assets):						
First Federal	$ 47,800	12.9%	$ 29,603	8.0%	$ 37,004	10.0%
Security	4,773	15.0	2,543	8.0	3,179	10.0
Tier 1 (Core) capital (to risk-weighted assets):						
First Federal	43,327	11.7	14,801	4.0	22,202	6.0
Security	4,448	14.0	1,272	4.0	1,907	6.0
Tier 1 (Core) capital (to average total assets):						
First Federal	43,327	8.5	20,372	4.0	25,465	5.0
Security	4,448	8.3	2,142	4.0	2,677	5.0
Tier 1 (Core) capital (to total assets),						
First Federal	43,327	7.9	21,822	4.0	27,277	5.0
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

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, 2002, approximately $2,449,000 of First Federal's retained earnings and $324,000 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, 2002 and 2001, loan commitments approximated $35,562,000 and $29,650,000, respectively, excluding undisbursed portions of loans in process. Loan commitments at September 30, 2002 included commitments to originate fixed-rate loans with interest rates ranging from 4.6% to 10% totaling $13,070,000 and adjustable-rate loan commitments with interest rates ranging from 2.1% to 18% totaling $18,492,000. The Company also had commitments to purchase adjustable rate loans of $3,000,000 with interest rates of 6.63% and fixed-rate loans of $1,000,000 with interest rates of 6.75%. 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-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%. Commitments, which are disbursed subject to certain limitations, extend over various periods of time. Generally, unused commitments are canceled upon expiration of the commitment term as outlined in each individual contract.

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

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

Securities with amortized costs of approximately $31,381,000 and $14,234,000 and fair values of approximately $28,954,000 and $14,562,000 at September 30, 2002 and 2001, respectively, were pledged as collateral for public funds on deposit.

Securities with amortized costs of approximately $7,280,000 and $5,808,000 and fair values of approximately $7,568,000 and $6,057,000 at September 30, 2002 and 2001, 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 $2,417,000 as of September 30, 2002.

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:

	2002	2001	2000
Net change in net unrealized gains and losses on securities available for sale:			
Unrealized gains (losses) arising during the year	$ 335,288	$ 4,546,133	$ (1,075,235)
Reclassification adjustment for (gains) losses included in net income	(86,194)	60,275	1,020,885
Net change in unrealized gains and losses on securities available for sale	249,094	4,606,408	(54,350)
Tax effects	(92,687)	(1,714,090)	21,092
Other comprehensive income (loss)	$ 156,407	$ 2,892,318	$ (33,258)

NOTE 16. LEASE COMMITMENT

The Company has leased property under various noncancelable operating lease agreements which expire at various times through December 2009, and require annual rentals ranging from $6,000 to $41,000 plus the payment of the property taxes, normal maintenance and insurance on the property.

The total minimum rental commitment at September 30, 2002, under the leases is as follows:

2003	$ 52,300
2004	46,600
2005	42,100
2006	40,600
2007	40,600
Thereafter	91,350
	$ 313,550

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, 2002 AND 2001

	2002	2001
ASSETS		
Cash and cash equivalents	$ 57,651	$ 60,973
Securities available for sale	2,609,357	2,863,251
Investment in subsidiary banks	51,975,306	48,940,931
Loan receivable from ESOP	46,142	180,000
Loan receivable	1,349,543	899,313
Other assets	350,302	827,772
Total assets	$ 56,388,301	$ 53,772,240
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Loan payable to subsidiary banks	$ 1,755,000	$ -
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures	10,000,000	10,000,000
Accrued expenses and other liabilities	45,535	45,030
Total liabilities	11,800,535	10,045,030
SHAREHOLDERS' EQUITY		
Common stock	29,580	29,580
Additional paid-in capital	20,593,768	20,863,379
Retained earnings, substantially restricted	31,940,648	31,066,643
Accumulated other comprehensive income	494,834	338,427
Unearned employee stock ownership plan shares	(46,142)	(180,000)
Treasury stock, at cost	(8,424,922)	(8,390,819)
Total shareholders' equity	44,587,766	43,727,210
Total liabilities and shareholders' equity	$ 56,388,301	$ 53,772,240

CONDENSED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 30, 2002, 2001 AND 2000

	2002	2001	2000
Dividend income from subsidiary banks	$ 245,000	$ 1,550,000	$ 2,525,000
Interest income	322,345	309,054	280,351
Gain (loss) on sales of securities available for sale, net	48,064	(60,275)	(37,206)
	615,409	1,798,779	2,768,145
Interest expense	682,134	332,250	205,863
Operation expenses	618,578	550,038	388,023
	1,300,712	882,288	593,886
Income (loss) before income taxes and equity in undistributed net income of subsidiaries	(685,303)	916,491	2,174,259
Income tax expense (benefit)	(304,000)	(247,000)	(142,000)
Income (loss) before equity in undistributed net income of subsidiaries	(381,303)	1,163,491	2,316,259
Equity in undistributed net income of subsidiary banks	2,537,931	746,252	11,367
Net income	$ 2,156,628	$ 1,909,743	$ 2,327,626

CONDENSED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2002, 2001 AND 2000

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,156,628	$ 1,909,743	$ 2,327,626
Adjustments to reconcile net income to net cash from operating activities:			
Equity in undistributed net income of subsidiary banks	(2,537,931)	(746,252)	(11,367)
Amortization of recognition and retention plan	-	-	33,878
(Gain) loss on sales of securities available for sale, net	(48,064)	60,275	37,206
Change in other assets	436,856	(364,088)	(9,817)
Change in accrued expenses and other liabilities	75,539	(61,205)	7,771
Net cash provided by operating activities	83,028	798,473	2,385,297
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiary	(250,000)	(7,000,000)	-
Repayment of securities	342	3,806	5,409
Purchase of securities available for sale	(1,000,000)	-	(500,000)
Proceeds from sales of securities available for sale	1,410,770	795,000	495,000
Loan to ESOP	(145,893)	(360,000)	-
Loans purchased, net	(450,230)	(574,134)	(325,179)
Repayments on loan receivable from ESOP	279,751	180,000	167,200
Net cash provided by (used in) investment activities	(155,260)	(6,955,328)	(157,570)
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	1,755,000	-	-
Repayments on loan payable to subsidiary banks	-	(2,550,000)	(200,000)
Debt issuance costs incurred	-	(305,812)	-
Cash dividends paid	(1,282,623)	(1,247,486)	(1,276,183)
Proceeds from exercise of stock options	439,860	266,667	363,335
Purchase of treasury stock	(843,327)	(17,777)	(1,478,509)
Net cash provided by (used in) financing activities	68,910	6,145,592	(2,591,357)
Net change in cash and cash equivalents	(3,322)	(11,263)	(363,630)
CASH AND CASH EQUIVALENTS			
Beginning of year	60,973	72,236	435,866
End of year	$ 57,651	$ 60,973	$ 72,236
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest	$ 682,134	$ 332,250	$ 209,447

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 2002:				
Total interest income	$ 9,199,285	$ 8,760,140	$ 8,952,869	$ 9,142,691
Total interest expense	5,928,035	5,429,196	5,293,508	5,083,311
Net interest income	3,271,250	3,330,944	3,659,361	4,059,380
Provision for loan losses	299,000	136,000	280,000	375,000
Net income	436,785	448,123	528,458	743,262
Earnings per common and common equivalent share:				
Basic	$ 0.18	$ 0.18	$ 0.22	$ 0.30
Diluted	0.18	0.18	0.21	0.30
FISCAL YEAR 2001:				
Total interest income	$ 9,882,061	$ 9,550,950	$ 9,487,807	$ 9,502,709
Total interest expense	6,545,052	6,349,019	6,250,738	6,245,790
Net interest income	3,337,009	3,201,931	3,237,069	3,256,919
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	$ 9,456,855	$ 9,594,633	$ 9,807,421	$ 9,896,571
Total interest expense	5,911,477	5,991,817	6,264,173	6,410,895
Net interest income	3,545,378	3,602,816	3,543,248	3,485,676
Provision for loan losses	325,000	270,000	400,000	645,000
Net income	764,680	760,747	354,050	448,149
Earnings per common and common equivalent share:				
Basic	$ 0.31	$ 0.31	$ 0.15	$ 0.18
Diluted	0.30	0.30	0.14	0.18

NOTE 19. FAIR VALUES OF FINANCIAL INSTRUMENTS
SFAS No. 107, Disclosures About Fair Value of Financial Instruments, requires that the Company disclose estimated fair value amounts of its financial instruments. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of September 30, 2002 and 2001, as more fully described below. It should be noted that the operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the subsidiary banks' capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at September 30, 2002 and 2001. This information is presented solely for compliance with SFAS No. 107 and is subject to change over time based on a variety of factors.

	2002		2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Selected assets				
Cash and cash equivalents	$ 7,376,434	$ 7,376,000	$ 8,766,305	$ 8,766,000
Securities available for sale	218,247,310	218,247,000	145,374,339	145,374,000
Loans receivable, net	343,192,370	346,728,000	333,062,025	335,953,000
FHLB stock	6,842,600	6,843,000	6,398,900	6,399,000
Accrued interest receivable	4,320,514	4,321,000	4,750,792	4,751,000
Selected liabilities:				
Noninterest bearing demand deposits	(11,934,712)	(11,935,000)	(7,733,294)	(7,733,000)
Savings, NOW and money market demand deposits	(90,413,488)	(90,413,000)	(82,916,804)	(82,917,000)
Other time certificates of deposit	(253,431,553)	(257,688,000)	(248,131,780)	(253,180,000)
Total deposits	(355,779,753)	(360,036,000)	(338,781,878)	(343,830,000)
Advances from FHLB	(125,089,999)	(138,495,000)	(126,351,761)	(134,530,000)
Securities sold under agreements to repurchase	(70,176,228)	(70,180,000)	(1,992,720)	(2,008,000)
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures	(10,000,000)	(10,008,000)	(10,000,000)	(10,078,000)
Advances from borrowers for taxes and insurance	(355,884)	(356,000)	(446,397)	(446,000)
Accrued interest payable	(671,033)	(671,000)	(868,281)	(868,000)
Off-balance-sheet instruments, loan commitments	35,562,000	-	29,650,000	-

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 2002 and 2001.

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, 2002 and 2001. 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, 2002 and 2001, 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, 2002 and 2001, 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, 2002 and 2001, 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.

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

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

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

J. TYLER HAAHR
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; Vice President and Secretary of First Services Financial Limited; and President of First Services Trust Company

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

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

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

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515.226.8474
515.226.8475 fax

iowasavings.com

SECURITY STATE BANK

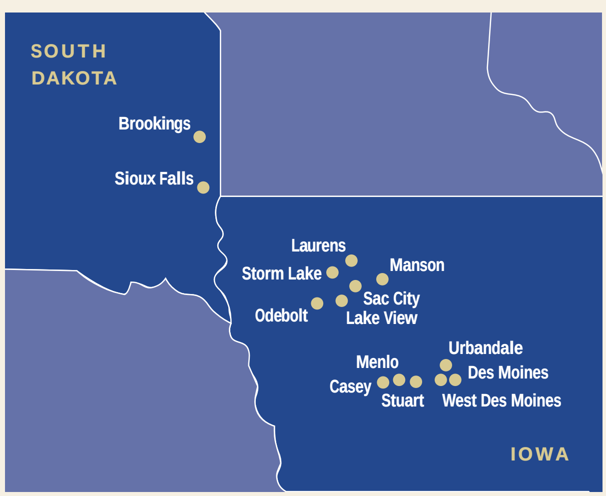
Security State Bank, Main Office

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

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

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

esecuritystate.com



ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will convene at 1:00 pm on Monday, January 27, 2003. The meeting will be held in the Board Room of First Federal Savings Bank, Fifth at Erie, Storm Lake, Iowa. Further information with regard to this meeting can be found in the proxy statement.

GENERAL COUNSEL

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

SPECIAL COUNSEL

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

INDEPENDENT AUDITORS

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

SHAREHOLDER SERVICES AND INVESTOR RELATIONS

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

REGISTRAR & TRANSFER COMPANY
10 Commerce Drive
Cranford, New Jersey 07016
Telephone: 800.368.5948
Email: invrelations@rtco.com
Web site: www.rtco.com

FORM 10-K

Copies of the Company's Annual Report on Form 10-K for the year ended September 30, 2002 (excluding exhibits thereto) may be obtained without charge by contacting:

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

DIVIDEND AND STOCK MARKET INFORMATION

First Midwest Financial, Inc.'s common stock trades on the Nasdaq National Market under the symbol "CASH." *The Wall Street Journal* publishes daily trading information for the stock under the abbreviation, "FstMidwFnl," in the National Market Listing. Quarterly dividends for 2001 and 2002 were $0.13. The price range of the common stock, as reported on the Nasdaq System, was as follows:

	FISCAL YEAR 2002		FISCAL YEAR 2001	
	LOW	HIGH	LOW	HIGH
FIRST QUARTER	$12.90	$14.10	$ 8.81	$11.25
SECOND QUARTER	12.95	14.25	10.81	12.75
THIRD QUARTER	13.44	14.50	11.40	12.75
FOURTH QUARTER	12.90	15.45	12.31	14.25

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

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

As of September 30, 2002, First Midwest had 2,468,804 shares of common stock outstanding, which were held by 259 shareholders of record, and 251,173 shares subject to outstanding options. The shareholders of record number does not reflect approximately 447 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, 2002: AnPac Securities Group, Inc.; Cincinnati Stock Exchange; First Tennessee Securities; Friedman Billings Ramsey & Co.; Goldman, Sachs & Co.; Herzog, Heine, Geduld, Inc.; Howe Barnes Investments, Inc.; Knight Securities L.P.; Sandler O'Neill & Partners; and Spear, Leeds & Kellogg.

First Midwest Financial, Inc.

People helping people

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

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