

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2003

☐ **TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transaction period from \_\_\_\_\_ to \_\_\_\_\_

*Commission File Number: 0-22140*

**FIRST MIDWEST FINANCIAL, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

42-1406262  
(IRS Employer Identification No.)

Fifth at Erie, Storm Lake, Iowa 50588  
(Address of principal executive offices)

(712) 732-4117  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class:  
Common Stock, \$.01 par value

Outstanding at May 12, 2003:  
2,493,949 Common Shares

Transitional Small Business Disclosure Format: Yes ☐; No ☒

**FIRST MIDWEST FINANCIAL, INC.**

**FORM 10-Q**

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## Part I. Financial Information

### Item 1. Financial Statements

#### FIRST MIDWEST FINANCIAL, INC. AND SUBSIDIARIES Consolidated Balance Sheets (Unaudited)

|  | March 31, 2003 | September 30, 2002 |
|--|----------------|--------------------|
|  | -----          | -----              |
| <b>Assets</b>  |                |                    |
| Cash and due from banks  | \$ 1,319,165   | \$ 1,325,139       |
| Interest-bearing deposits in other financial institutions - short-term (cost approximates market value)  | 20,981,110     | 6,051,295          |
|  | -----          | -----              |
| Total cash and cash equivalents  | 22,300,275     | 7,376,434          |
| Securities available for sale, amortized cost of \$333,364,069 at March 31, 2003 and \$217,460,796 at September 30, 2002   | 333,440,820    | 218,247,310        |
| Loans held for sale  | 1,460,236      | 1,254,962          |
| Loans receivable - net of allowance for loan losses of \$4,899,036 at March 31, 2003 and \$4,692,988 at September 30, 2002   | 338,804,181    | 341,937,408        |
| Foreclosed real estate, net  | 1,629,037      | 1,327,802          |
| Accrued interest receivable  | 3,983,236      | 4,320,514          |
| Federal Home Loan Bank stock, at cost  | 10,004,800     | 6,842,600          |
| Premises and equipment, net  | 11,313,956     | 11,054,243         |
| Other assets   | 16,418,751     | 15,287,187         |
|  | -----          | -----              |
| Total Assets   | \$ 739,355,292 | \$ 607,648,460     |
|  | =====          | =====              |
| <b>Liabilities and Shareholders' Equity</b>  |                |                    |
| <b>Liabilities</b>   |                |                    |
| Deposits   | \$ 409,376,152 | \$ 355,779,753     |
| Advances from Federal Home Loan Bank   | 180,695,130    | 125,089,999        |
| Securities sold under agreements to repurchase   | 91,618,703     | 70,176,228         |
| 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  | 354,954        | 355,884            |
| Accrued interest payable   | 540,983        | 671,033            |
| Other liabilities  | 1,473,546      | 987,797            |
|  | -----          | -----              |
| Total Liabilities  | 694,059,468    | 563,060,694        |
|  | -----          | -----              |
| <b>Shareholders' Equity</b>  |                |                    |
| Preferred stock, 800,000 shares authorized, no shares issued or outstanding  | --             | --                 |
| Common stock, \$.01 par value, 5,200,000 shares authorized, 2,957,999 shares issued and 2,493,949 shares outstanding at March 31, 2003; 2,957,999 shares issued and 2,468,804 shares outstanding at September 30, 2002 | 29,580         | 29,580             |
| Additional paid-in capital   | 20,496,202     | 20,593,768         |
| Retained earnings - substantially restricted   | 33,054,932     | 31,940,648         |
| Accumulated other comprehensive income   | 49,173         | 494,834            |
| Unearned Employee Stock Ownership Plan shares  | (169,100)      | (46,142)           |
| Treasury stock, 464,050 and 489,195 common shares, at cost, at March 31, 2003 and September 30, 2002, respectively   | (8,164,963)    | (8,424,922)        |
|  | -----          | -----              |
| Total Shareholders' Equity   | 45,295,824     | 44,587,766         |
|  | -----          | -----              |
| Total Liabilities and Shareholders' Equity   | \$ 739,355,292 | \$ 607,648,460     |
|  | =====          | =====              |

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

**FIRST MIDWEST FINANCIAL, INC.  
AND SUBSIDIARIES  
Consolidated Statements of Income (Unaudited)**

|   | Three Months Ended<br>March 31, |              | Six Months Ended<br>March 31, |               |
|---|---------------------------------|--------------|-------------------------------|---------------|
|   | 2003                            | 2002         | 2003                          | 2002          |
| Interest and Dividend Income:                       |                                 |              |                               |               |
| Loans receivable, including fees                    | \$ 5,982,126                    | \$ 6,283,460 | \$ 12,275,762                 | \$ 12,869,786 |
| Securities available for sale                       | 2,973,549                       | 2,299,163    | 5,578,546                     | 4,633,413     |
| Dividends on Federal Home Loan Bank stock           | 46,008                          | 51,265       | 100,124                       | 121,487       |
|   | -----                           | -----        | -----                         | -----         |
| Total interest and dividend income                  | 9,001,683                       | 8,633,888    | 17,954,432                    | 17,624,686    |
| Interest Expense:                                   |                                 |              |                               |               |
| Deposits  | 2,621,701                       | 3,404,532    | 5,422,568                     | 7,208,537     |
| FHLB advances and other borrowings                  | 2,233,038                       | 2,024,664    | 4,459,355                     | 4,148,694     |
|   | -----                           | -----        | -----                         | -----         |
| Total interest expense                              | 4,854,739                       | 5,429,196    | 9,881,923                     | 11,357,231    |
|   | -----                           | -----        | -----                         | -----         |
| Net interest income                                 | 4,146,944                       | 3,204,692    | 8,072,509                     | 6,267,455     |
| Provision for loan losses                           | 108,000                         | 136,000      | 283,000                       | 435,000       |
|   | -----                           | -----        | -----                         | -----         |
| Net interest income after provision for loan losses | 4,038,944                       | 3,068,692    | 7,789,509                     | 5,832,455     |
| Noninterest income:                                 |                                 |              |                               |               |
| Deposit service charges and other fees              | 299,399                         | 253,819      | 611,863                       | 549,971       |
| Loan fees on sold loans                             | 224,335                         | 126,252      | 510,184                       | 334,739       |
| Gain on sales of securities available for sale, net | 6,530                           | 32,552       | 196,390                       | 39,431        |
| Gain (loss) on sales of foreclosed real estate, net | 1,970                           | (8,102)      | (580)                         | (9,806)       |
| Brokerage commissions                               | 26,208                          | 43,507       | 44,273                        | 119,163       |
| Other income  | 334,044                         | 193,544      | 543,694                       | 386,239       |
|   | -----                           | -----        | -----                         | -----         |
| Total noninterest income                            | 892,486                         | 641,572      | 1,905,824                     | 1,419,737     |
| Noninterest expense:                                |                                 |              |                               |               |
| Employee compensation and benefits                  | 2,023,322                       | 1,919,380    | 4,119,773                     | 3,770,787     |
| Occupancy and equipment expense                     | 590,127                         | 488,959      | 1,086,936                     | 943,426       |
| Federal deposit insurance premium                   | 14,929                          | 15,273       | 30,303                        | 31,054        |
| Data processing expense                             | 165,984                         | 139,712      | 307,036                       | 279,457       |
| Prepayment fee on FHLB advances                     | 274,398                         | --           | 500,674                       | --            |
| Other expense                                       | 496,381                         | 463,324      | 1,035,615                     | 938,169       |
|   | -----                           | -----        | -----                         | -----         |
| Total noninterest expense                           | 3,565,141                       | 3,026,648    | 7,080,337                     | 5,962,893     |
|   | -----                           | -----        | -----                         | -----         |
| Income before income taxes                          | 1,366,289                       | 683,616      | 2,614,996                     | 1,289,299     |
| Income tax expense                                  | 451,103                         | 235,493      | 855,555                       | 404,391       |
|   | -----                           | -----        | -----                         | -----         |
| Net income  | \$ 915,186                      | \$ 448,123   | \$ 1,759,441                  | \$ 884,908    |
|   | =====                           | =====        | =====                         | =====         |
| Earnings per common share:                          |                                 |              |                               |               |
| Basic   | \$ 0.37                         | \$ 0.18      | \$ 0.71                       | \$ 0.36       |
|   | -----                           | -----        | -----                         | -----         |
| Diluted   | \$ 0.37                         | \$ 0.18      | \$ 0.71                       | \$ 0.36       |
|   | -----                           | -----        | -----                         | -----         |

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

**FIRST MIDWEST FINANCIAL, INC.  
AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income (Loss) (Unaudited)**

|  | Three Months Ended<br>March 31, |              | Six Months Ended<br>March 31, |              |
|--|---------------------------------|--------------|-------------------------------|--------------|
|  | 2003                            | 2002         | 2003                          | 2002         |
| Net income   | \$ 915,186                      | \$ 448,123   | \$ 1,759,441                  | \$ 884,908   |
| Other comprehensive income (loss):   |                                 |              |                               |              |
| Net change in net unrealized gains and losses on securities available for sale | (99,571)                        | (1,277,492)  | (709,763)                     | (2,325,430)  |
| Deferred income tax benefit  | (37,052)                        | (475,354)    | (264,102)                     | (863,054)    |
|  | -----                           | -----        | -----                         | -----        |
| Total other comprehensive loss   | (62,519)                        | (802,138)    | (445,661)                     | (1,462,376)  |
|  | -----                           | -----        | -----                         | -----        |
| Total comprehensive income (loss)  | \$ 852,667                      | \$ (354,015) | \$ 1,313,780                  | \$ (577,468) |
|  | =====                           | =====        | =====                         | =====        |

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

**FIRST MIDWEST FINANCIAL, INC.  
AND SUBSIDIARIES**

**Consolidated Statement of Changes in Shareholders' Equity (Unaudited) For the Six Months Ended March 31, 2003**

|  | Common<br>Stock            | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss),<br>Net of Tax | Unearned<br>Employee<br>Stock<br>Ownership<br>Plan Shares | Treasury<br>Stock |
|--|----------------------------|----------------------------------|----------------------|---|---|-------------------|
| Balance at September 30, 2002  | \$ 29,580                  | \$ 20,593,768                    | \$ 31,940,648        | \$ 494,834  | \$ (46,142)   | \$ (8,424,922)    |
| Cash dividends declared on common stock (\$0.26 per share)   | --                         | --                               | (645,157)            | --  | --  | --                |
| Purchase of 10,147 shares of treasury stock  | --                         | --                               | --                   | --  | --  | (165,092)         |
| Purchase of 19,574 common shares for ESOP  | --                         | --                               | --                   | --  | (311,934)   | --                |
| 12,402 common shares committed to be released under the ESOP   | --                         | 4,656                            | --                   | --  | 188,976   | --                |
| Issuance of 35,292 common shares from treasury stock due to exercise of stock options                              | --                         | (189,770)                        | --                   | --  | --  | 425,051           |
| Tax benefit from exercise of stock options   | --                         | 87,548                           | --                   | --  | --  | --                |
| Net change in net unrealized losses on securities available for sale, net of effect of income taxes of \$(264,102) | --                         | --                               | --                   | (445,661)   | --  | --                |
| Net income for the six months ended March 31, 2003   | --                         | --                               | 1,759,441            | --  | --  | --                |
| Balance at March 31, 2003  | \$ 29,580                  | \$ 20,496,202                    | \$ 33,054,932        | \$ 49,173   | \$ (169,100)  | \$ (8,164,963)    |
|  | =====                      | =====                            | =====                | =====   | =====   | =====             |
|  | Total Shareholders' Equity |                                  |                      |   |   |                   |
|  | -----                      |                                  |                      |   |   |                   |
| Balance at September 30, 2002  | \$ 44,587,766              |                                  |                      |   |   |                   |
| Cash dividends declared on common stock (\$0.26 per share)   | (645,157)                  |                                  |                      |   |   |                   |
| Purchase of 10,147 shares of treasury stock  | (165,092)                  |                                  |                      |   |   |                   |
| Purchase of 19,574 common shares for ESOP  | (311,934)                  |                                  |                      |   |   |                   |
| 12,402 common shares committed to be released under the ESOP   | 193,632                    |                                  |                      |   |   |                   |
| Issuance of 35,292 common shares from treasury stock due to exercise of stock options                              | 235,281                    |                                  |                      |   |   |                   |
| Tax benefit from exercise of stock options   | 87,548                     |                                  |                      |   |   |                   |
| Net change in net unrealized losses on securities available for sale, net of effect of income taxes of \$(264,102) | (445,661)                  |                                  |                      |   |   |                   |
| Net income for the six months ended March 31, 2003   | 1,759,441                  |                                  |                      |   |   |                   |
|  | -----                      |                                  |                      |   |   |                   |
| Balance at March 31, 2003  | \$ 45,295,824              |                                  |                      |   |   |                   |
|  | =====                      |                                  |                      |   |   |                   |

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

**FIRST MIDWEST FINANCIAL, INC.  
AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows (Unaudited)**

|  | Six Months Ended March 31,<br>2003 | 2002          |
|--|------------------------------------|---------------|
|  | -----                              | -----         |
| Cash flows from operating activities:  |                                    |               |
| Net income   | \$ 1,759,441                       | \$ 884,908    |
| Adjustments to reconcile net income to net cash from operating activities:               |                                    |               |
| Depreciation, amortization and accretion, net  | 2,315,133                          | 798,847       |
| Provision for loan losses  | 283,000                            | 435,000       |
| (Gain)/loss on sales of foreclosed real estate, net                                      | 580                                | 9,806         |
| (Gain)/loss on sales of securities available for sale, net                               | (196,390)                          | (39,431)      |
| (Gain)/loss on sales of office property, net   | (134,700)                          | --            |
| Loss on early extinguishment of FHLB advances  | 500,674                            | --            |
| Proceeds from sales of loans held for sale   | 43,062,897                         | 16,547,407    |
| Originations of loans held for sale  | (43,268,171)                       | (16,547,407)  |
| Net change in accrued interest receivable  | 337,278                            | 723,564       |
| Net change in other assets   | (867,461)                          | (333,122)     |
| Net change in accrued interest payable   | (130,050)                          | (129,871)     |
| Net change in accrued expenses and other liabilities                                     | 485,748                            | 132,047       |
|  | -----                              | -----         |
| Net cash from operating activities   | 4,147,979                          | 2,481,748     |
| Cash flows from investing activities:  |                                    |               |
| Purchase of securities available for sale  | (215,306,727)                      | (60,484,078)  |
| Proceeds from sale of securities available for sale                                      | 20,648,999                         | 1,391,023     |
| Proceeds from maturities and principal repayments of securities available for sale       | 77,223,576                         | 18,213,576    |
| Net change in loans receivable   | 14,783,213                         | 11,773,893    |
| Loans purchased  | (12,280,134)                       | (15,015,994)  |
| Proceeds from sales of foreclosed real estate  | 84,032                             | 174,144       |
| Proceeds from sales of office building   | 197,169                            | --            |
| Purchase of shares by ESOP   | (311,934)                          | --            |
| Purchase of FHLB stock   | (3,162,200)                        | (443,700)     |
| Purchase of premises and equipment, net  | (755,113)                          | (509,494)     |
|  | -----                              | -----         |
| Net cash from investing activities   | (118,879,119)                      | (44,900,630)  |
| Cash flows from financing activities:  |                                    |               |
| Net change in noninterest-bearing demand, savings, NOW, and money market demand deposits | 26,551,166                         | 9,384,074     |
| Net change in other time deposits  | 27,045,233                         | 10,716,925    |
| Proceeds from advances from Federal Home Loan Bank                                       | 369,550,000                        | 155,420,000   |
| Repayments of advances from Federal Home Loan Bank                                       | (314,445,543)                      | (167,343,221) |
| Net change in securities sold under agreements to repurchase                             | 21,442,475                         | 36,336,830    |
| Net change in advances from borrowers for taxes and insurance                            | (930)                              | (297,124)     |
| Cash dividends paid  | (645,157)                          | (641,307)     |
| Proceeds from the exercise of stock options  | 322,829                            | 195,088       |
| Purchase of treasury stock   | (165,092)                          | (622,216)     |
|  | -----                              | -----         |
| Net cash from financing activities   | 129,654,981                        | 43,149,049    |
|  | -----                              | -----         |
| Net change in cash and cash equivalents  | 14,923,841                         | 730,167       |
| Cash and cash equivalents at beginning of period   | 7,376,434                          | 8,766,305     |
|  | -----                              | -----         |
| Cash and cash equivalents at end of period   | \$ 22,300,275                      | \$ 9,496,472  |
|  | =====                              | =====         |
| Supplemental disclosure of cash flow information   |                                    |               |
| Cash paid during the period for:   |                                    |               |
| Interest   | \$ 10,011,973                      | \$ 11,487,102 |
| Income taxes   | 731,688                            | 229,768       |
| Supplemental schedule of non-cash investing and financing activities:                    |                                    |               |
| Loans transferred to foreclosed real estate  | \$ 385,846                         | \$ 305,477    |

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

**FIRST MIDWEST FINANCIAL, INC.  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Unaudited)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies followed by First Midwest Financial, Inc. ("First Midwest" or the "Company") and its consolidated subsidiaries, First Federal Savings Bank of the Midwest ("First Federal"), Security State Bank ("Security"), First Services Trust Company, First Services Financial Limited and Brookings Service Corporation, for interim reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. The accompanying financial statements do not purport to contain all the necessary financial disclosures required by generally accepted accounting principles that might otherwise be necessary in the circumstances and should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2002.

**2. EARNINGS PER SHARE**

Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share shows the dilutive effect of additional common shares issuable under stock options.

A reconciliation of the numerators and denominators used in the basic earnings per common share and the diluted earnings per common share computations for the three months and six months ended March 31, 2003 and 2002 is presented below.

|   | Three Months Ended<br>March 31,<br>----- |              | Six Months Ended<br>March 31,<br>----- |              |
|---|--|--------------|--|--------------|
|   | 2003<br>----                             | 2002<br>---- | 2003<br>----                           | 2002<br>---- |
| Basic Earnings Per Common Share:  |  |              |  |              |
| Numerator:  |  |              |  |              |
| Net Income  | \$ 915,186                               | \$ 448,123   | \$ 1,759,441                           | \$ 884,908   |
|   | =====                                    | =====        | =====                                  | =====        |
| Denominator:  |  |              |  |              |
| Weighted average common<br>shares outstanding                                 | 2,483,715                                | 2,456,872    | 2,476,178                              | 2,461,809    |
| Less: Weighted average<br>unallocated ESOP shares                             | (11,193)                                 | (10,000)     | (7,601)                                | (11,895)     |
|   | -----                                    | -----        | -----                                  | -----        |
| Weighted average common<br>shares outstanding for<br>basic earnings per share | 2,472,522                                | 2,446,872    | 2,468,577                              | 2,449,914    |
|   | =====                                    | =====        | =====                                  | =====        |
| Basic earnings per common share   | \$ 0.37                                  | \$ 0.18      | \$ 0.71                                | \$ 0.36      |
|   | =====                                    | =====        | =====                                  | =====        |



|   | Three Months Ended<br>March 31, |            | Six Months Ended<br>March 31, |            |
|---|---------------------------------|------------|-------------------------------|------------|
|   | 2003                            | 2002       | 2003                          | 2002       |
| Diluted Earnings Per Common Share:  |                                 |            |                               |            |
| Numerator:  |                                 |            |                               |            |
| Net Income  | \$ 915,186                      | \$ 448,123 | \$ 1,759,441                  | \$ 884,908 |
| Denominator:  |                                 |            |                               |            |
| Weighted average common shares outstanding for basic earnings per common share  | 2,472,522                       | 2,446,872  | 2,468,577                     | 2,449,914  |
| Add: Dilutive effects of assumed exercise of stock options, net of tax benefits | 27,692                          | 38,556     | 27,056                        | 38,909     |
| Weighted average common and dilutive potential common shares outstanding        | 2,500,214                       | 2,485,428  | 2,495,633                     | 2,488,823  |
| Diluted earnings per common share   | \$ 0.37                         | \$ 0.18    | \$ 0.71                       | \$ 0.36    |

### 3. COMMITMENTS

At March 31, 2003 and September 30, 2002, the Company had outstanding commitments to originate and purchase loans totaling \$45.2 million and \$35.6 million, respectively, excluding undisbursed portions of loans in process. It is expected that outstanding loan commitments will be funded with existing liquid assets.

### 4. INTANGIBLE ASSETS

As of March 31, 2003 and September 30, 2002 the Company had intangible assets of \$3,403,019, all of which has been determined to be goodwill. There was no goodwill impairment loss or amortization related to goodwill during the three-month periods ended March 31, 2003 and 2002.

### 5. CURRENT ACCOUNTING DEVELOPMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 ("FIN 46"), "Consolidated Variable Interest Entities." The objective of this Interpretation is to provide guidance on how to identify a variable interest entity and determine when the assets, liabilities, non-controlling interests, and results of operations of a variable interest in an entity need to be included in a company's consolidated financial statements. A company that holds variable interests in an entity will need to consolidate the entity if the company's interest in the variable interest entity is such that the company will absorb a majority of the variable interest entity's losses and/or receive a majority of the entity's expected residual returns, if they occur. FIN 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The provisions of this interpretation are effective upon issuance. The Company does not expect the provisions of FIN 46 to have material impact on its financial position or results of operations.

In December 2002, the FASB issued SFAS No, 148, "Accounting for Stock-Based Compensation - Transition and Disclosures - an amendment of SFAS 123" ("SFAS 148"). SFAS 148 permits two

additional transition methods for entities that adopt the fair value based method of accounting for stock-based employee compensation. The disclosure provisions of this Statement are effective for this quarter ended March 31, 2003 and are included herein. The Company does not currently use the provisions of Statement No. 123 and therefore SFAS No. 148 does not effect the Company's financial position or results of operations.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement No. 133, Accounting for Derivative Instruments and Hedging Activities." This statement clarifies the definition of a derivative and incorporates certain decisions made by the Board as part of the Derivatives Implementation Group process. This statement is effective for contracts entered into or modified, and for hedging relationships designated after June 30, 2003 and should be applied prospectively. Adoption of this standard is not expected to have a significant impact on the Corporation's financial condition or results of operations.

## 6. STOCK OPTION PLAN

FASB Statement No. 123, Accounting for Stock-Based Compensation, establishes a fair value based method for financial accounting and reporting for stock-based employee compensation plans and for transactions in which an entity issues its equity instruments to acquire goods and services from nonemployees. However, the standard allows compensation to continue to be measured by using the intrinsic value based method of accounting prescribed by APB No. 25, Accounting for Stock Issued to Employees, but requires expanded disclosures. The Company has elected to apply the intrinsic value based method of accounting for stock options issued to employees. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company stock at the date of grant over the amount an employee must pay to acquire the stock.

Had compensation cost for the Plan been determined based on the grant date fair values of awards (the method described in FASB Statement No. 123), the approximate reported income and earnings per common share would have been decreased to the pro forma amounts shown below:

|   | Three Months Ended<br>March 31,<br>----- |                     | Six Months Ended<br>March 31,<br>----- |                     |
|---|--|---------------------|--|---------------------|
|   | 2003<br>----                             | 2002<br>----        | 2003<br>----                           | 2002<br>----        |
| Net income, as reported   | \$ 915,186                               | \$ 448,123          | \$ 1,759,442                           | \$ 884,908          |
| Deduct: Total stock-based<br>employee compensation expense<br>determined under fair value<br>based method for all awards,<br>net of related tax effects | (3,281)                                  | (3,738)             | (6,561)                                | (7,477)             |
| Pro forma net income  | \$ 911,905<br>=====                      | \$ 444,385<br>===== | \$ 1,752,881<br>=====                  | \$ 877,431<br>===== |
| Earnings per common share - basic:  |  |                     |  |                     |
| As reported   | \$ .37                                   | \$ .18              | \$ .71                                 | \$ .36              |
| Pro forma   | \$ .37                                   | \$ .18              | \$ .71                                 | \$ .36              |
| Earnings per common share - diluted:  |  |                     |  |                     |
| As reported   | \$ .37                                   | \$ .18              | \$ .71                                 | \$ .36              |
| Pro forma   | \$ .36                                   | \$ .18              | \$ .70                                 | \$ .35              |

## **Part I. Financial Information**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **FIRST MIDWEST FINANCIAL, INC. AND SUBSIDIARIES**

##### **GENERAL**

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

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at March 31, 2003, compared to September 30, 2002, and the consolidated results of operations for the three months and six months ended March 31, 2003, compared to the same periods in 2002. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2002.

##### **FINANCIAL CONDITION**

Total assets increased by \$131.8 million, or 21.7%, to \$739.4 million at March 31, 2003, from \$607.6 million at September 30, 2002. As described below, the increase was due primarily to increases in total cash and cash equivalents and securities available for sale.

Total cash and cash equivalents increased by \$14.9 million, rising to \$22.3 million at March 31, 2003 from \$7.4 million at September 30, 2002. The increase was almost entirely due to an increase in interest-bearing deposits in other financial institutions.

The portfolio of securities available for sale increased \$115.2 million, or 52.8%, to \$333.4 million at March 31, 2003, from \$218.2 million at September 30, 2002. The increase reflects the purchase of mortgage-backed securities, primarily with balloon maturities, which have relatively short expected average lives and limited maturity extension.

The increases in cash and cash equivalents and securities available for sale were funded primarily by increases in deposits, advances from the Federal Home Loan Bank of Des Moines (FHLB), and securities sold under agreements to repurchase.

The portfolio of net loans receivable decreased by \$3.1 million, or 0.90%, to \$338.8 million at March 31, 2003, from \$341.9 million at September 30, 2002. The decrease reflects a reduction in conventional one to four family residential mortgage loans as existing originated and purchased loans were repaid in amounts greater than new originations retained in portfolio during the period. The decrease was partially offset by the increased origination of commercial and multi-family real estate loans on existing and newly constructed properties and by the increased origination of commercial business loans.

Deposit balances increased by \$53.6 million, or 15.1%, to \$409.4 million at March 31, 2003, from \$355.8 million at September 30, 2002. The increase in deposit balances resulted from increases in checking

accounts, money market demand accounts, savings accounts and certificates of deposit in the amounts of \$8.6 million, \$15.9 million, \$2.1 million, and \$27.0 million, respectively.

The balance in advances from the FHLB increased by \$55.6 million, or 44.4%, to \$180.7 million at March 31, 2003, from \$125.1 million at September 30, 2002. The balance in securities sold under agreements to repurchase increased by \$21.4 million, or 30.5%, to \$91.6 million at March 31, 2003, from \$70.2 million at September 30, 2002. The increases in FHLB advances and securities sold under agreements to repurchase were used to fund balance sheet growth during the period.

Total shareholders' equity increased \$700,000, or 1.6%, to \$45.3 million at March 31, 2003, from \$44.6 million at September 30, 2002. The increase in shareholders' equity reflects earnings during the period, which were partially offset by the payment of a cash dividend to shareholders and a decrease in unrealized gain on securities available for sale in accordance with SFAS 115.

## **NON-PERFORMING ASSETS AND ALLOWANCE FOR LOAN LOSSES**

Generally, when a loan becomes delinquent 90 days or more, or when the collection of principal or interest becomes doubtful, the Company will place the loan on non-accrual status and, as a result of this action, previously accrued interest income on the loan is taken out of current income. The loan will remain on non-accrual status until the loan has been brought current, or until other circumstances occur that provide adequate assurance of full repayment of interest and principal.

At March 31, 2003, the Company had loans delinquent 30 days and over totaling \$2.9 million, or 0.8% of total loans compared to \$6.7 million, or 1.9% of total loans at September 30, 2002. The decrease is due primarily to three commercial and multi-family real estate loans totaling \$3.5 million that were brought current during the period.

At March 31, 2003, commercial and multi-family real estate loans delinquent 30 days and over totaled \$417,000, or 0.1% of the total loan portfolio as compared to \$3.9 million, or 1.1% of total loans at September 30, 2002. Multi-family and commercial real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. These loans are being closely monitored by management, however, there can be no assurance that all loans will be fully collectible.

At March 31, 2003, agricultural operating loans delinquent 30 days and over totaled \$1.5 million, or 0.4% of the total loan portfolio as compared to \$1.5 million, or 0.4% of total loans at September 30, 2002. Agricultural lending involves a greater degree of risk than one- to four-family residential mortgage loans because of the typically larger loan amounts. In addition, payments on loans are dependent on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. The success of the loan may also be affected by factors outside the control of the agricultural borrower, such as the weather and grain and livestock prices. Although management believes the Company's portfolio of agricultural real estate and operating loans is well structured and adequately secured, there can be no assurance that all loans will be fully collectible.

The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. The Company's restructured loans (which involved forgiving a portion of the interest or principal on the loan or making loans at a rate materially less than market rates) are included in the table and were performing as agreed at the date shown. Foreclosed assets include assets acquired in settlement of loans.

|   | March 31, 2003         | September 30, 2002 |
|---|------------------------|--------------------|
|   | -----                  | -----              |
|   | (Dollars in Thousands) |                    |
| Non-accruing loans:                       |                        |                    |
| One-to four family                        | \$ 156                 | \$ 51              |
| Commercial and multi-family               | 417                    | 417                |
| Agricultural real estate                  | --                     | 41                 |
| Consumer                                  | 75                     | --                 |
| Agricultural operating                    | 294                    | 394                |
| Commercial business                       | 195                    | 408                |
|   | -----                  | -----              |
| Total non-accruing loans                  | 1,137                  | 1,311              |
| Accruing loans delinquent 90 days or more | 804                    | 819                |
|   | -----                  | -----              |
| Total non-performing loans                | 1,941                  | 2,130              |
|   | -----                  | -----              |
| Restructured loans:                       |                        |                    |
| Consumer                                  | --                     | --                 |
| Agricultural operating                    | 43                     | 9                  |
| Commercial business                       | 33                     | 71                 |
|   | -----                  | -----              |
| Total restructured loans                  | 76                     | 80                 |
|   | -----                  | -----              |
| Foreclosed assets:                        |                        |                    |
| One-to four family                        | 213                    | --                 |
| Commercial real estate                    | 1,209                  | 1,310              |
| Consumer                                  | 7                      | 18                 |
| Agricultural operating                    | 7                      | --                 |
| Commercial business                       | 193                    | --                 |
|   | -----                  | -----              |
| Total foreclosed assets                   | 1,629                  | 1,328              |
| Less: Allowance for losses                | --                     | --                 |
|   | -----                  | -----              |
| Total foreclosed assets, net              | 1,629                  | 1,328              |
|   | -----                  | -----              |
| Total non-performing assets               | \$3,646                | \$3,538            |
|   | =====                  | =====              |
| Total as a percentage of total assets     | 0.49%                  | 0.58%              |
|   | =====                  | =====              |

Classified Assets. Federal regulations provide for the classification of loans and other assets as "substandard", "doubtful" or "loss", based on the level of weakness determined to be inherent in the collection of the principal and interest. When loans are classified as either substandard or doubtful, the Company may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem loans. When assets are classified as loss, the Company is required either to establish a specific allowance for loan losses equal to 100% of that portion of the loan so classified, or to charge-off such amount. The Company's determination as to the classification of its loans and the amount of its valuation allowances are subject to review by its regulatory authorities, whom may require the establishment of additional general or specific loss allowances.

On the basis of management's review of its loans and other assets, at March 31, 2003, the Company had classified a total of \$12.9 million of its assets as substandard, \$69,000 as doubtful and none as loss as compared to classifications at September 30, 2002 of \$13.5 million substandard, \$114,000 doubtful and none as loss.

Allowance for Loan Losses. The Company establishes its provision for loan losses, and evaluates the adequacy of its allowance for loan losses based upon a systematic methodology consisting of a number of factors including, among others, historic loss experience, the overall level of non-performing loans, the composition of its loan portfolio and the general economic environment within which the Bank and its borrowers operate.

Current economic conditions in the agricultural sector of the Company's market area are stable due to generally higher commodity prices. Price levels for grain crops and livestock have improved in recent months and are currently at levels that present minimal concern. The agricultural economy is accustomed to commodity price fluctuations and is generally able to handle such fluctuations without significant problem.

Although the Company underwrites its agricultural loans based on normal expectations for commodity prices and yields, an extended period of low commodity prices or adverse growing conditions could result in weakness in the agricultural loan portfolio and could create a need for the Company to increase its allowance for loan losses through increased charges to the provision for loan losses.

At March 31, 2003, the Company has established an allowance for loan losses totaling \$4.9 million. The allowance represents approximately 252% of the total non-performing loans at March 31, 2003 as compared to approximately 220% of the total non-performing loans at September 30, 2002.

The following table sets forth an analysis of the activity in the Company's allowance for loan losses for the six-month periods ended March 31, 2003 and 2002:

|                                 | 2003           | 2002     |
|---------------------------------|----------------|----------|
|                                 | ----           | ----     |
|                                 | (In Thousands) |          |
| Balance, September 30,          | \$ 4,693       | \$ 3,869 |
| Charge-offs                     | (97)           | (87)     |
| Recoveries                      | 20             | 32       |
| Additions charged to operations | 283            | 435      |
|                                 | -----          | -----    |
| Balance, March 31,              | \$ 4,899       | \$ 4,249 |
|                                 | =====          | =====    |

The allowance for loan losses reflects management's best estimate of probable losses inherent in the portfolio based on currently available information. Future additions to the allowance for loan losses may become necessary based upon changing economic conditions, increased loan balances, changes in the underlying collateral of the loan portfolio, or regulatory comment.

## CRITICAL ACCOUNTING POLICY

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for loan losses. The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest and in particular, the state of certain industries. Size and

complexity of individual credits in relation to loan structure, existing loan policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan portfolio, it will enhance its methodology accordingly. Management may report a materially different amount for the provision for loan losses in the statement of operations to change the allowance for loan losses if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion of this Management's Discussion and Analysis section entitled "Nonperforming Assets and Allowance for Loan Losses." Although management believes the levels of the allowance as of both March 31, 2003 and September 30, 2002 were adequate to absorb losses inherent in the loan portfolio, a decline in local economic conditions, or other factors, could result in increasing losses.

## **RESULTS OF OPERATIONS**

**General.** For the three months ended March 31, 2003, the Company recorded net income of \$915,000 compared to net income of \$448,000 for the same period in 2002. For the six months ended March 31, 2003, net income was \$1,759,000 compared to \$885,000 for the same period in 2002. Both periods reflect increases in net interest income and noninterest income, a decrease in provision for loan losses, an increase in noninterest income, offset in part by increases in noninterest expense and tax expense.

**Net Interest Income.** Net interest income increased by \$942,000, or 29.4%, to \$4,147,000 for the three months ended March 31, 2003 from \$3,205,000 for the same period in 2002. For the six months ended March 31, 2003, net interest income increased \$1,806,000, or 28.8%, to \$8,073,000 from \$6,267,000 for the same period in 2002. The increase in net interest income reflects increases in the average balance of interest-earning assets of \$153.2 million and \$125.4 million for the three-month and six-month periods, respectively. In addition, the increase in net interest income reflects an increase in the net yield on average earning assets between the comparable periods. For the three months ended March 31, 2003, the net yield on average earning assets was 2.44% compared to 2.43% for the same period in 2002. For the six months ended March 31, 2003, the net yield on average earning assets was 2.50% compared to 2.41% for the same period in 2002.

**Provision for Loan Losses.** For the three months ended March 31, 2003, the provision for loan losses was \$108,000 compared to \$136,000 for the same period in 2002. For the six months ended March 31, 2003, the provision for loan losses was \$283,000 compared to \$435,000 for the same period in 2002. Management believes that, based on a detail review of the loan portfolio, historic loan losses, current economic conditions, and other factors, the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate allowance against probable losses from the loan portfolio. See "Non-Performing Assets and Allowance for Loan Losses."

**Noninterest Income.** Noninterest income increased \$250,000, or 38.9%, to \$892,000 for the three months ended March 31, 2003 from \$642,000 for the same period in 2002. For the six months ended March 31, 2003, noninterest income increased \$486,000, or 34.2%, to \$1,906,000 from \$1,420,000 for the same period in 2002. The increase in noninterest income for both periods reflects increases in service charges collected on deposit accounts and loan fees on sold loans. In addition, other non-interest income increased for both periods due to a \$134,000 gain on the sale of a drive-up branch facility. The increases were partially offset by a decrease in commissions received through the Company's brokerage subsidiary.

**Noninterest Expense.** Noninterest expense increased \$538,000, or 17.8%, to \$3,565,000 for the three months ended March 31, 2003, from \$3,027,000 for the same period in 2002. For the six months ended March 31, 2003, noninterest expense increased \$1,117,000, or 18.7%, to \$7,080,000 from \$5,963,000 for the same period in 2002. The increase in noninterest expense reflects the costs associated with opening new offices

during the period. In November 2001, the Company opened its third Des Moines, Iowa, location and in November 2002, the Company opened its newly constructed facility in Urbandale, Iowa, which serves as the Company's Des Moines area main office. Noninterest expense also increased by \$274,000 and \$501,000 during the three months and six months ended March 31, 2003 due to prepayment penalties associated with the early extinguishment of FHLB advances, which were repaid in conjunction with the sale of securities available for sale and early repayments received on loans.

**Income Tax Expense.** Income tax expense was \$451,000 for the three months ended March 31, 2003 compared to \$235,000 for the same period in 2002. For the six months ended March 31, 2003, income tax expense was \$856,000 compared to \$404,000 for the same period in 2002. The increase for both periods reflects the increase in the level of taxable income between the comparable periods.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

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

The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity, and to meet operating expenses. At March 31, 2003, the Company had commitments to originate and purchase loans totaling \$45.2 million. The Company believes that loan repayment and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

Regulations require First Federal and Security to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and a leverage ratio consisting of Tier 1 capital to average assets. The following table sets forth First Federal's and Security's actual capital and required capital amounts and ratios at March 31, 2003 which, at that date, exceeded the capital adequacy requirements:



| At March 31, 2003                                 | 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)                            |           |       |   |       |  |       |
| Total Capital (to risk weighted assets):          |           |       |   |       |  |       |
| First Federal                                     | \$ 49,822 | 12.3% | \$ 32,394   | 8.0%  | \$ 40,492  | 10.0% |
| Security  | 4,537     | 15.8  | 2,303   | 8.0   | 2,878  | 10.0  |
| Tier 1 (Core) Capital (to risk weighted assets):  |           |       |   |       |  |       |
| First Federal                                     | 45,185    | 11.2  | 16,197  | 4.0   | 24,295   | 6.0   |
| Security  | 4,217     | 14.7  | 1,151   | 4.0   | 1,727  | 6.0   |
| Tier 1 (Core) Capital (to adjusted total assets): |           |       |   |       |  |       |
| First Federal                                     | 45,185    | 6.7   | 27,020  | 4.0   | 33,774   | 5.0   |
| Security  | 4,217     | 7.1   | 2,392   | 4.0   | 2,990  | 5.0   |
| Tier 1 (Core) Capital (to average assets):        |           |       |   |       |  |       |
| First Federal                                     | 45,185    | 7.4   | 24,557  | 4.0   | 30,696   | 5.0   |

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established five regulatory capital categories and authorized the banking regulators to take prompt corrective action with respect to institutions in an undercapitalized category. At March 31, 2003, First Federal and Security exceeded minimum requirements for the well-capitalized category, and are considered to be "well capitalized."

### Forward-Looking Statements

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

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

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

## Part I. Financial Information

### Item 3. Quantitative and Qualitative Disclosure About Market Risk

#### Market Risk

The Company is exposed to the impact of interest rate changes and changes in the market value of its investments.

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

The Company's primary objective for its investment portfolio is to provide the liquidity necessary to meet loan funding needs. This portfolio is used in the ongoing management of changes to the Company's asset/liability mix, while contributing to profitability through earnings flow. The investment policy generally calls for funds to be invested among various categories of security types and maturities based upon the Company's need for liquidity, desire to achieve a proper balance between risk and 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 from its primary market area. The savings and NOW accounts tend to be less susceptible to rapid changes in interest rates.

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

**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 March 31, 2003 and September 30, 2002, is an analysis of the Company's interest

rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points. As illustrated in the table, the Company's NPV at March 31, 2003 and September 30, 2002 was more sensitive to declining interest rates than to increasing interest rates. This reflects management's effort to manage 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 March 31, 2003 and September 30, 2002; however, the Board considers this to be acceptable given the interest rate environment.

| Change in Interest Rates<br>(Basis Points) | Board Limit<br>% Change | At March 31, 2003      |          | At September 30, 2002 |          |
|--|-------------------------|------------------------|----------|-----------------------|----------|
|  |                         | \$ Change              | % Change | \$ Change             | % Change |
|  |                         | (Dollars in Thousands) |          |                       |          |
| +200 bp                                    | (40)%                   | \$(1,009)              | (3)%     | \$ 1,543              | 4%       |
| +100 bp                                    | (25)                    | 434                    | 1        | 1,898                 | 5        |
| 0 bp                                       | --                      | --                     | --       | --                    | --       |
| -100 bp                                    | (10)                    | (1,990)                | (6)      | (4,362)               | (12)     |
| -200 bp                                    | (15)                    | (6,217)                | (17)     | (8,873)               | (25)     |

Certain shortcomings are inherent in the method of analysis presented in the foregoing 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 which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayments and early withdrawal levels would likely deviate from those assumed in calculating the tables. Finally, the ability of some borrowers to service their debt may decrease in the event of an interest rate increase. The Company considers all of these factors in monitoring its exposure to interest rate risk.

## **Part I. Financial Information**

### **Item 4. Disclosure Controls and Procedures**

#### **Disclosure Controls and Procedures**

With the participation and under the supervision of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, and within 90 days of the filing date of this quarterly report, the Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15(d)-14(c)) and, based on their evaluation, have concluded that the disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective action with regard to significant deficiencies and material weaknesses.

**FIRST MIDWEST FINANCIAL, INC.**

**PART II - OTHER INFORMATION**

**FORM 10-Q**

**Item 4. Submission of Matters to a Vote of Security Holders**

The Company held its Annual Meeting of Shareholders on January 27, 2003. At the meeting, shareholders of the Company considered and voted upon the following matters:

1. The election of the following individuals as directors for a three-year term:

James S. Haahr  
G. Mark Mickelson  
Jeanne Partlow

The results of the election of directors are as follows:

|                   | Votes     |          |
|-------------------|-----------|----------|
|                   | -----     |          |
|                   | In Favor  | Withheld |
|                   | -----     | -----    |
| James S. Haahr    | 2,025,563 | 284,006  |
| G. Mark Mickelson | 2,030,966 | 278,603  |
| Jeanne Partlow    | 2,033,666 | 275,903  |

There were no broker non-votes or abstentions on this proposal.

The following directors' terms of office continued after the meeting:

E. Wayne Cooley  
J. Tyler Haahr  
E. Thurman Gaskill  
Rodney G. Muilenburg  
John Thune

2. The approval of the 2002 Omnibus Incentive Plan. The results of the voting are as follows:

|                  | Votes     |
|------------------|-----------|
|                  | -----     |
| For              | 1,251,214 |
| Against          | 374,667   |
| Abstain          | 70,400    |
| Broker Non-Votes | 613,288   |

## **Item 6. Exhibits and Reports on Form 8-K**

### **(a) Exhibits:**

- 99.1 Certification of Chief Executive Officer.
- 99.2 Certification of Chief Financial Officer.

### **(b) Reports on Form 8-K:**

During the three month period ended March 31, 2003, the Registrant filed a current report on Form 8-K dated January 27, 2003 to report the issuance of a press release announcing the appointment of former South Dakota Congressman John Thune to its Board of Directors.

All other items have been omitted as not required or not applicable under the instructions.

**FIRST MIDWEST FINANCIAL, INC.**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**FIRST MIDWEST FINANCIAL, INC.**

*Date: May 15, 2003*

*By: /s/ James S. Haahr*

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*James S. Haahr, Chairman of the Board,  
President and Chief Executive Officer*

*Date: May 15, 2003*

*By: /s/ Donald J. Winchell*

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*Donald J. Winchell, Senior Vice President,  
Treasurer and Chief Financial Officer*

## CERTIFICATION

I, James S. Haahr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Midwest Financial, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

*Date: May 15, 2003*

*/s/ James S. Haahr*  
-----  
*Chief Executive Officer*



## CERTIFICATION

I, Donald J. Winchell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Midwest Financial, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

*Date: May 15, 2003*

*/s/ Donald J. Winchell*  
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*Chief Financial Officer*

**CERTIFICATION PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of First Midwest Financial, Inc. (the "Company") for the quarterly period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James S. Haahr, Chief Executive Officer of the Company, certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

*By: /s/ James S. Haahr*

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*Name: James S. Haahr  
Chief Executive Officer  
May 15, 2003*

A signed original of this written statement required by Section 906 has been provided to First Midwest Financial, Inc. and will be retained by First Midwest Financial, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of First Midwest Financial, Inc. (the "Company") for the quarterly period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald J. Winchell, Chief Financial Officer of the Company, certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

*By: /s/ Donald J. Winchell*

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*Name: Donald J. Winchell*

*Chief Financial Officer*

*May 15, 2003*

A signed original of this written statement required by Section 906 has been provided to First Midwest Financial, Inc. and will be retained by First Midwest Financial, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.