META FINANCIAL GROUP INC

FORM 10-K
(Annual Report)

Filed 12/28/2000 For Period Ending 9/30/2000

Address	121 EAST FIFTH STREET P O BOX 1307
	STORM LAKE, Iowa 50588
Telephone	712-732-4117
CIK	0000907471
Industry	S&Ls/Savings Banks
Sector	Financial
Fiscal Year	09/30

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

Commission file number 0-22140.

FIRST MIDWEST FINANCIAL, INC.

(Name of registrant as specified in its charter)

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            Delaware                                          42-1406262
--------------------------------------------------------------------------------
(State or other jurisdiction of                             (I.R.S. Employer
incorporation or organization)                             Identification No.)

Fifth at Erie, Storm Lake, Iowa                                   50588
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(Address of principal executive offices)                        (Zip Code)
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Registrant's telephone number: (712) 732-4117

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share
(Title of Class)

Indicate by check mark whether the registrant (1) has 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 [X] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Registrant's revenues for the most recent fiscal year ended were $39.0 million.

As of December 21, 2000, the Registrant had issued and outstanding 2,429,727 shares of Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average of the closing bid and asked prices of such stock on the Nasdaq System as of December 21, 2000, was $19.1 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant.)

DOCUMENTS INCORPORATED BY REFERENCE

PARTS II and IV of Form 10-K -- Portions of the Annual Report to Shareholders for the fiscal year ended September 30, 2000. PART III of Form 10-K -- Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held during January 2001.

Forward-Looking Statements

First Midwest Financial, Inc. ("First Midwest," and with its subsidiaries, the "Company"), and its wholly-owned operating subsidiaries First Federal Savings Bank of the Midwest and Security State Bank, may from time to time make written or oral "forward-looking statements", including statements contained in its filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the Exhibits hereto and thereto), 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, plans, objectives, goals, expectations, anticipations, 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. The words "may", "could", "should", "would", "believe", "anticipate", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify forward-looking statements. The important factors we discuss below and elsewhere in this document, as well as other factors discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report to Shareholders and identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this prospectus:

o the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations;

o the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;

o inflation, interest rate, market and monetary fluctuations;

o 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, including the features, pricing and quality compared to competitors' products and services;

o the willingness of users to substitute competitors' products and services for the Company's products and services;

o the success of the Company in gaining regulatory approval of its products and services, when required;

o the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities, agriculture and insurance);

o technological changes;

o acquisitions;

o changes in consumer spending and saving habits; and

o the success of the Company at managing the risks involved in the foregoing.

The Company wishes to caution readers that such forward-looking statements speak only as of the date made. 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

Item 1. Description of Business

General

First Midwest Financial, Inc. is a Delaware corporation, the principal assets of which are First Federal Savings Bank of the Midwest ("First Federal") and Security State Bank ("Security"). First Midwest, on September 20, 1993, acquired all of the capital stock of First Federal in connection with First Federal's conversion from the mutual to stock form ownership (the "Conversion"). On September 30, 1996, First Midwest became a bank holding company upon its acquisition of Security, as discussed below.

Since the Conversion, the Company has been an active acquiror of financial institutions. On March 28, 1994, First Midwest acquired Brookings Federal Bank in Brookings, South Dakota ("Brookings"). On December 29, 1995, First Midwest acquired Iowa Savings Bank, FSB in Des Moines, Iowa ("Iowa Savings"). Brookings and Iowa Savings were both merged with, and now operate as divisions of, First Federal. On September 30, 1996, First Midwest completed the acquisition of Central West Bancorporation ("CWB"). CWB was the holding company for Security in Stuart, Iowa, which upon the merger of CWB into First Midwest resulted in Security becoming a stand-alone banking subsidiary of First Midwest. Unless the context otherwise requires, references herein to the Company include First Midwest, Security and First Federal and its subsidiaries on a consolidated basis. See "Management's Discussion and Analysis -- Acquisitions Completed" in the Annual Report to Shareholders attached hereto as Exhibit 13 (the "Annual Report").

First Federal and Security (collectively, the "Banks") are the only direct, active subsidiaries of First Midwest. The Banks are community-oriented financial institutions offering a variety of financial services to meet the needs of the communities they serve. The Company, through its subsidiary Banks, provides a full range of financial services. The principal business of First Federal historically has consisted of attracting retail deposits from the general public and investing those funds primarily in one- to four-family residential mortgage loans and, to a lesser extent, commercial and multi-family real estate, agricultural operating and real estate, construction, consumer and commercial business loans primarily in First Federal's market area. Recently, First Federal's lending activities have expanded to include an increased emphasis on originations and purchases of commercial and multi-family real estate loans, generally from outside First Federal's market area. The principal business of Security has been and continues to be attracting retail deposits from the general public and investing those funds in agricultural real estate and operating loans and, to a lesser extent, one- to four-family residential, commercial business and consumer loans. The Banks also purchase mortgage-backed securities and invest in U.S. Government and agency obligations and other permissible investments. At September 30, 2000, the Company had total assets of $505.6 million, deposits of $318.7 million, and shareholders' equity of $40.0 million.

The Company's revenues are derived primarily from interest on mortgage loans, mortgage-backed securities, investments, consumer loans, agricultural operating loans, commercial business loans, income from service charges and loan originations, loan servicing fee income, and income from the sale of mutual funds, insurance products, annuities and brokerage services through its service corporation subsidiaries.

First Federal, directly through its wholly-owned subsidiary, First Services Financial Limited ("First Services"), and indirectly through independent contractors, offers mutual funds and, in some locations, insurance products and annuities. In addition, Brookings Service Corporation, a subsidiary of First Services, offers full service brokerage services through PrimeVest Financial Services, Inc., a third party vendor.

First Midwest and the Banks are subject to comprehensive regulation. See "Regulation" herein.

The executive offices of the Company are located at Fifth at Erie, Storm Lake, Iowa 50588. Its telephone number at that address is (712) 732-4117.

Market Area

First Federal Savings Bank of the Midwest has four divisions:
First Federal Savings Bank Storm Lake, Brookings Federal Bank, Iowa Savings Bank and First Federal Savings Bank Sioux Falls. First Federal's headquarters is located on the corner of Fifth and Erie streets in Storm Lake, Iowa. First Federal Storm Lake operates a total of six branch offices in Storm Lake, Lake View, Laurens, Manson, Odebolt and Sac City, Iowa. Brookings Federal Bank operates two facilities in Brookings, South Dakota. Iowa Savings Bank has bank facilities in Des Moines and West Des Moines, Iowa. A third Iowa Savings Bank office, its new main office, is planned for construction in Urbandale, Iowa. First Federal Sioux Falls has opened a temporary facility while construction is underway for its permanent building.

Security State Bank operates its business through three full-service offices in Casey, Menlo and Stuart, Iowa.

The Company's primary market area includes the Iowa counties of Adair, Buena Vista, Calhoun, Guthrie, Ida, Pocahontas, Polk and Sac, and the South Dakota counties of Brookings, Lincoln and Minnehaha.

Storm Lake is located in northwest Iowa approximately 150 miles northwest of Des Moines and 200 miles south of Minneapolis in Buena Vista County. Like much of the State of Iowa, Storm Lake and the surrounding market area are highly dependent upon farming and agricultural markets. Major employers in the area include Buena Vista County Hospital, IBP, Inc., Bil Mar Foods of Iowa, and Buena Vista University. The world's largest electricity-generating wind farm is located in Buena Vista County. This $235 million project, completed in June 1999, provides enough electricity to serve 71,000 average-sized Midwestern households. Storm Lake is also home to Buena Vista University, which currently enrolls 1,256 full-time students at its Storm Lake campus and employs 79 full-time faculty.

Brookings is located in east central South Dakota, approximately 50 miles north of Sioux Falls and 200 miles west of Minneapolis in Brookings County. The bank's market area encompasses approximately a 30 mile radius of Brookings. The area is generally rural, and agriculture is a significant industry in the community. South Dakota State University is the largest employer in Brookings. The University had 8,540 students enrolled for the 1999 fall term and employs 504 full- time faculty. The community also has several manufacturing companies, including 3M, Larson Manufacturing, Daktronics, Falcon Plastics and Twin City Fan. The Brookings division operates from a main office located in downtown Brookings and one drive-up branch office also located in Brookings.

Des Moines, the State of Iowa's capitol, is located in central Iowa. The Des Moines market area encompasses Polk County and surrounding counties. Iowa Savings Bank Division's main office operates near a high-traffic intersection, across from a major shopping mall in West Des Moines. The Highland Park facility is located in a historical district approximately five minutes north of downtown Des Moines. Des Moines is one of the top three insurance centers in the world, with sixty-seven insurance company headquarters and over one hundred regional insurance offices. Other major businesses include Hy-Vee Food Stores, Inc., Bridgestone-Firestone, Inc., Communication Data Services, Inc., Pioneer Hi-Bred, John Deere, and Meredith Corporation. Universities in the area include Drake University, Upper Iowa University, Simpson College, Grand View College, Hamilton College and the University of Osteopathic Medicine and Health Sciences.

Sioux Falls is located at the crossroads of Interstates 29 and 90 in southeast South Dakota, 270 miles southwest of Minneapolis. The Sioux Falls market area encompasses Minnehaha and Lincoln counties. The city has ranked number two on the list of national entrepreneurial hot spots in 1999 and was among the top ten cities for new jobs and for new or expanded facilities in 1998 (Cogenetics, Inc. April 1999; Site Selection, 1998). The bank is located at a high-traffic intersection of Minnesota and 33rd in the heart of Sioux Falls. Major employers in the area include Sioux Valley Hospital, Avera McKennan Hospital, John Morrell & Company, Gateway 2000, Midwest Coast Transport, and Hy-Vee Food Stores. Sioux Falls is also home to Augustana College, enrollment 1,774, and The University of Sioux Falls, enrollment 1,107.

Security's main office operates in Stuart, which is located in west-central Iowa, approximately 40 miles west of Des Moines on the border of Adair and Guthrie counties. Security's market area is highly dependent on farming and agriculture-related businesses, such as Agri-Drain Corporation, Cardinal Glass, and Rose Acre Farms. In recent years, efforts of the West Central I-80 Development Corporation have resulted in significant development of new service-related businesses in the area, associated with the westward expansion of Des Moines and direct interstate highway access. Seven industrial parks exist in these two counties. This development provides economic diversity to Security's market area.

Many of the Company's market areas are highly dependant on agriculture-related businesses. Agriculture-related businesses in recent years have performed well due to a relatively stable agricultural environment in the Company's market area. The recent decline in grain prices has challenged area grain farmers, however, livestock prices have improved over the past year to help stabilize the agricultural economy. Although there has been minimal effect observed to date, an extended period of low commodity prices could result in a reduced demand for goods and services provided by agriculture-related businesses, which could also affect other businesses in the Company's market area.

Lending Activities

General. Historically, the Company has originated fixed-rate, one- to four-family mortgage loans. In the early 1980's, the Company began to focus on the origination of adjustable-rate mortgage ("ARM") loans and short-term loans for retention in its portfolio in order to increase the percentage of loans in its portfolio with more frequent repricing or shorter maturities, and in some cases higher yields, than fixed-rate residential mortgage loans. The Company, however, has continued to originate fixed-rate residential mortgage loans in response to consumer demand. See "Management's Discussion and Analysis -- Asset/Liability Management" in the Annual Report.

While the Company historically has focused its lending activities on the origination of loans secured by first mortgages on owner-occupied one- to four-family residences, it also originates and purchases commercial and multi-family real estate loans and originates consumer, commercial business, residential and commercial construction and agriculturally related loans. The Company originates most of its loans in its primary market area. More recently, the Company has increased its emphasis, both in absolute dollars and as a percentage of its gross loan portfolio, on these less traditional lending activities. At September 30, 2000, the Company's net loan portfolio totaled $324.7 million, or 64.2% of the Company's total assets.

Loan applications are initially considered and approved at various levels of authority, depending on the type, amount and loan-to-value ratio of the loan. The Company has loan committees for each of the Banks comprised of officers of such Banks. Loans in excess of certain amounts require the approval of at least two committee members who must also be executive officers, or by such Bank's Board of Directors, which has responsibility for the overall supervision of the loan portfolio. The Company reserves the right to discontinue, adjust or create new lending programs to respond to its needs and to competitive factors.

At September 30, 2000, the Company's largest lending relationship to a single borrower or group of related borrowers totaled $6.3 million. The Company had eleven other lending relationships in excess of $3.0 million as of September 30, 2000 with the average outstanding balance of such loans totaling approximately $4.3 million. At September 30, 2000, each of these loans was performing in accordance with its repayment terms.

Loan Portfolio Composition. The following table provides information about the composition of the Company's loan portfolio in dollar amounts and in percentages (before deductions for loans in process, deferred fees and discounts and allowances for losses) as of the dates indicated.

	September 30,									
	1996		1997		1998		1999		2000	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Real Estate Loans										
One- to four-family	$ 78,476	31.6%	$ 73,903	27.8%	$ 85,799	30.5%	$110,317	34.8%	$105,702	31.6%
Commercial and multi-family	85,157	34.2	74,870	28.1	66,845	23.8	85,793	27.1	103,595	31.0
Agricultural	11,068	4.5	11,732	4.4	10,537	3.8	9,874	3.1	10,895	3.3
Construction or development	7,819	3.1	21,264	8.0	32,990	11.7	28,379	9.0	31,301	9.4
Total real estate loans	182,520	73.4	181,769	68.3	196,171	69.8	234,363	74.0	251,493	75.3
Other Loans:										
Consumer Loans:										
Home equity	7,823	3.1	14,007	5.3	15,285	5.4	14,834	4.7	18,144	5.4
Automobile	5,356	2.2	6,106	2.3	4,445	1.6	3,861	1.3	2,596	.8
Other (1)	7,249	2.9	7,285	2.7	6,509	2.3	4,731	1.4	5,743	1.7
Total consumer loans	20,428	8.2	27,398	10.3	26,239	9.3	23,426	7.4	26,483	7.9
Agricultural operating	30,364	12.2	38,650	14.5	37,234	13.2	29,284	9.2	26,810	8.0
Commercial business	15,468	6.2	18,456	6.9	21,587	7.7	29,942	9.4	29,332	8.8
Total other loans	66,260	26.6	84,504	31.7	85,060	30.2	82,652	26.0	82,625	24.7
Total loans	248,780	100.0%	266,273	100.0%	281,231	100.0%	317,015	100.0%	334,118	100.0%
Less:										
Loans in process	2,240		8,700		7,738		10,494		5,424	
Deferred fees and discounts	650		553		298		350		401	
Allowance for losses	2,356		2,379		2,909		3,093		3,590	
Total loans receivable, net	$243,534		$254,641		$270,286		$303,078		$324,703	

(1) Consist generally of various types of secured and unsecured consumer loans.

The following table shows the composition of the Company's loan portfolio by fixed and adjustable rate at the dates indicated.

	September 30,									
	1996		1997		1998		1999		2000	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Fixed Rate Loans:										
Real estate:										
One- to four-family	$ 41,322	16.6%	$ 33,369	12.5%	$ 51,235	18.2%	$ 52,943	16.7%	50,813	15.2%
Commercial and multi-family	14,036	5.6	11,124	4.2	11,582	4.1	34,326	10.8	35,277	10.6
Agricultural	4,250	1.7	5,978	2.3	4,982	1.8	5,080	1.6	3,147	.9
Construction or development	2,938	1.2	2,997	1.1	1,829	.7	2,322	.8	4,001	1.2
Total fixed-rate real estate loans.	62,546	25.1	53,468	20.1	69,628	24.8	94,671	29.9	93,238	27.9
Consumer	19,145	7.7	26,100	9.8	24,909	8.8	21,803	6.9	25,066	7.5
Agricultural operating	14,998	6.1	16,280	6.1	18,821	6.7	14,896	4.7	10,396	3.1
Commercial business	7,200	2.9	10,462	3.9	15,108	5.4	23,206	7.3	14,215	4.3
Total fixed-rate loans	103,889	41.8	106,310	39.9	128,466	45.7	154,576	48.8	142,915	42.8
Adjustable Rate Loans:										
Real estate:										
One- to four-family	37,154	14.9	40,534	15.2	34,564	12.3	57,374	18.1	54,889	16.4
Commercial and multi-family	71,121	28.6	63,746	23.9	55,263	19.6	51,467	16.2	68,318	20.5
Agricultural	6,818	2.7	5,754	2.2	5,555	2.0	4,794	1.6	7,748	2.3
Construction or development	4,881	2.0	18,267	6.9	31,161	11.1	26,057	8.2	27,300	8.2
Total adjustable-rate real estate loans	119,974	48.2	128,301	48.2	126,543	45.0	139,692	44.1	158,255	47.4
Consumer	1,283	.5	1,298	.5	1,330	.5	1,623	.5	1,417	.4
Agricultural operating	15,366	6.2	22,370	8.4	18,413	6.5	14,388	4.5	16,414	4.9
Commercial business	8,268	3.3	7,994	3.0	6,479	2.3	6,736	2.1	15,117	4.5
Total adjustable rate loans	144,891	58.2	159,963	60.1	152,765	54.3	162,439	51.2	191,203	57.2
Total loans	248,780	100.0%	266,273	100.0%	281,231	100.0%	317,015	100.0%	334,118	100.0%
Less:										
Loans in process	2,240		8,700		7,738		10,494		5,424	
Deferred fees and discounts	650		553		298		350		401	
Allowance for loan losses	2,356		2,379		2,909		3,093		3,590	
Total loans, net	$243,534		$254,641		$270,286		$303,078		$324,703	

The following table illustrates the interest rate sensitivity of the Company's loan portfolio at September 30, 2000. Mortgages which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract reprices. The table does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

	Real Estate											
	Mortgage(1)		Construction		Consumer		Operating		Business		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)											
Due During Years Ending September 30,												
2001(2)	$89,855	8.29%	$17,342	10.10%	$ 7,949	9.34%	$21,563	10.23%	$19,657	10.15%	$156,366	9.05%
2002-2005	70,209	7.79	10,544	9.42	13,692	9.12	3,624	9.37	9,542	8.37	107,611	8.22
2005 and following	60,129	7.31	3,414	8.58	4,842	9.36	1,623	9.56	133	10.35	70,141	7.57

(1) Includes one- to four-family, multi-family, commercial and agricultural real estate loans.

(2) Includes demand loans, loans having no stated maturity and overdraft loans.

The total amount of loans due after September 30, 2000 which have predetermined interest rates is $142.9 million, while the total amount of loans due after such date which have floating or adjustable interest rates is $191.2 million.

One- to Four-Family Residential Mortgage Lending. One- to four-family residential mortgage loan originations are generated by the Company's marketing efforts, its present customers, walk-in customers and referrals from real estate agents and builders. At September 30, 2000, the Company's one- to four-family residential mortgage loan portfolio totaled $105.7 million, or 31.6% of the Company's total gross loan portfolio. Approximately 33.3% of the Company's one- to four-family mortgage loans or 10.5% of the Company's gross loans have been purchased, generally from other financial institutions. The majority of these are ARM loans. See "--Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities." At September 30, 2000, the average outstanding principal balance of a one- to four-family residential mortgage loan was $55,000.

The Company offers fixed-rate and ARM loans. During the year ended September 30, 2000, the Company originated $4.0 million of adjustable-rate loans and $11.3 million of fixed-rate loans secured by one- to four-family residential real estate. The Company's one- to four-family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas.

The Company originates one- to four-family residential mortgage loans with terms up to a maximum of 30-years and with loan-to-value ratios up to 97% of the lesser of the appraised value of the security property or the contract price. The Company generally requires that private mortgage insurance be obtained in an amount sufficient to reduce the Company's exposure to at or below the 80% loan-to-value level or the loans are sold. Residential loans generally do not include prepayment penalties.

The Company currently offers one, three and five year ARM loans with an initial interest rate margin over the yield on the corresponding U.S. Treasury Security. These loans have a fixed-rate for the stated period and, thereafter, such loans adjust annually. These loans generally provide for an annual cap of up to a 200 basis points and a lifetime cap of 600 basis points over the initial rate. As a consequence of using an initial fixed-rate and caps, the interest rates on these loans may not be as rate sensitive as is the Company's cost of funds. The Company's ARMs do not permit negative amortization of principal and are not convertible into a fixed rate loan. The Company qualifies ARM loan borrowers at the fully indexed rate. The Company's delinquency experience on its ARM loans has generally been similar to its experience on fixed rate residential loans.

Due to consumer demand, the Company also offers fixed-rate mortgage loans with terms up to 30 years, most of which conform to secondary market standards, i.e., Fannie Mae, Ginnie Mae, and Freddie Mac standards. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions. The Company currently sells most, but not all, of its fixed-rate loans with terms of 15 years or longer.

In underwriting one- to four-family residential real estate loans, the Company evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan.

Most properties securing real estate loans made by the Company are appraised by independent fee appraisers approved by the Board of Directors. The Company generally requires borrowers to obtain an attorney's title opinion, and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. Real estate loans originated by the Company generally contain a "due on sale" clause allowing the Company to declare the unpaid principal balance due and payable upon the sale of the security property.

Commercial and Multi-Family Real Estate Lending. The Company is also engaged in commercial and multi-family real estate lending in its primary market area and surrounding areas and has purchased whole loan and participation interests in loans from other financial institutions. At September 30, 2000, the Company's commercial and multi-family real estate loan portfolio totaled $103.6 million, or 31.0% of the Company's total gross loan portfolio. The purchased loans and loan participation interests are generally secured by properties located in the Midwest and Northwest. The Company, in order to supplement its loan portfolio and consistent with management's objectives to expand the Company's commercial and multi-family loan portfolio, purchased $48.9 million, $42.4 million and $16.3 million of such loans during fiscal 2000, 1999 and 1998, respectively. At September 30, 2000, none of the Company's commercial and multi-family real estate loans were non-performing. See " -- Non-Performing Assets, Other Loans of Concern and Classified Assets."

The Company's commercial and multi-family real estate loan portfolio is secured primarily by apartment buildings, nursing homes, assisted living/retirement facilities, office buildings and hotels. Commercial and multi-family real estate loans generally have terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the security property, and are typically secured by personal guarantees of the borrowers. The Company has a variety of rate adjustment features and other terms in its commercial and multi-family real estate loan portfolio. Commercial and multi-family real estate loans provide for a margin over a number of different indices. In underwriting these loans, the Company currently analyzes the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Company are performed by independent appraisers.

At September 30, 2000, the Company's largest commercial and multi-family real estate loan was a $6.3 million loan secured by a retail shopping center, a single-family residential housing development and other real estate. The Company had fourteen other commercial and/or multi-family loans in excess of $2.5 million at such date. All of these loans are currently performing in accordance with their terms. At September 30, 2000, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was $428,000.

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. Furthermore, the repayment of loans secured by multi-family and commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired.

Construction Lending. The Company makes construction loans to individuals for the construction of their residences as well as to builders for the construction of one- to four-family residences and commercial and multi-family real estate. At September 30, 2000, the Company's construction loan portfolio totaled $31.3 million, or 9.4% of the Company's total gross loan portfolio.

Construction loans to individuals for their residences are structured to be converted to permanent loans at the end of the construction phase, which typically runs up to twelve months. These construction loans have rates and terms which generally match the one- to four-family loan rates then offered by the Company, except that during the construction phase the borrower pays interest only. Generally, the maximum loan-to-value ratio of owner occupied single family construction loans is 80% of appraised value. Residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent residential loans. At September 30, 2000, the Company had $820,000 of construction loans to borrowers intending to live in the properties upon completion of construction.

Construction loans to builders of one- to four-family residences require the payment of interest only for up to 24 months and have terms of up to 24 months. These loans may provide for the payment of interest and loan fees from loan proceeds and carry adjustable rates of interest. Loan fees charged in connection with the origination of such loans are generally 1%. At September 30, 2000, the Company did not have any construction loans to builders of one- to four-family residences.

Construction loans on commercial and multi-family real estate projects may be secured by apartments, agricultural facilities, small office buildings, medical facilities, assisted living facilities, hotels or other property, and are structured to be converted to permanent loans at the end of the construction phase, which generally runs up to 18 months. These construction loans have rates and terms which match any permanent multi-family or commercial real estate loan then offered by the Company, except that during the construction phase the borrower pays interest only. These loans generally provide for the payment of interest and loan fees from loan proceeds. At September 30, 2000, the Company had approximately $30.2 million of loans for the construction of commercial and multi-family real estate. This amount consisted of three loans totaling $11.1 million for the construction of assisted living facilities, three loans totaling $5.6 million for the construction of hotels, three loans totaling $6.2 million for the construction of apartment complexes, and four loans totaling $7.3 million for the construction of commercial facilities. All of these loans were performing in accordance with their terms at September 30, 2000.

Construction loans are obtained principally through continued business from builders who have previously borrowed from the Company, as well as referrals from existing customers and walk-in customers. The application process includes a submission to the Company of accurate plans, specifications, costs of the project to be constructed and projected revenues from the project. These items are also used as a basis to determine the appraised value of the subject property. Loans are based on the lesser of the current appraised value of the property or the cost of construction (land plus building).

Because of the uncertainties inherent in estimating construction costs and the market for the project upon completion, it is relatively difficult to evaluate accurately the total loan funds required to complete a project, the related loan-to-value ratios and the likelihood of ultimate success of the project. Construction loans to borrowers other than owner-occupants also involve many of the same risks discussed above regarding multi-family and commercial real estate loans and tend to be more sensitive to general economic conditions than many other types of loans. Also, the funding of loan fees and interest during the construction phase makes the monitoring of the progress of the project particularly important, as customary early warning signals of project difficulties may not be present.

Agricultural Lending. The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer and for other farm related products. At September 30, 2000, the Company had agricultural real estate loans secured by farmland of $10.9 million or 3.3% of the Company's gross loan portfolio. At the same date, $26.8 million, or 8.0% of the Company's gross loan portfolio, consisted of secured loans related to agricultural operations.

Agricultural operating loans are originated at either an adjustable or fixed rate of interest for up to a one year term or, in the case of livestock, upon sale. Most agricultural operating loans have terms of one year or less. Such loans provide for payments of principal and interest at least annually, or a lump sum payment upon maturity if the original term is less than one year. Loans secured by agricultural machinery are generally originated as fixed-rate loans with terms of up to seven years. At September 30, 2000, the average outstanding principal balance of an agricultural operating loan held by the Company was $42,000. At September 30, 2000, $17,000, or .06%, of the Company's agricultural operating loans were non-performing.

Agricultural real estate loans are frequently originated with adjustable rates of interest. Generally, such loans provide for a fixed rate of interest for the first one to five years, adjusting annually thereafter. In addition, such loans generally amortize over a period of ten to 20 years. Adjustable-rate agricultural real estate loans provide for a margin over the yields on the corresponding U.S. Treasury Security or prime rate. Fixed-rate agricultural real estate loans generally have terms up to five years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan. At September 30, 2000, $37,000, or .3% of the Company's agricultural real estate portfolio was non-performing.

Agricultural lending affords the Company the opportunity to earn yields higher than those obtainable on one- to four-family residential lending. Nevertheless, agricultural lending involves a greater degree of risk than one- to four-family residential mortgage loans because of the typically larger loan amount. 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 many factors outside the control of the farm borrower.

Weather presents one of the greatest risks as hail, drought, floods, or other conditions, can severely limit crop yields and thus impair loan repayments and the value of the underlying collateral. This risk can be reduced by the farmer with a variety of insurance coverages which can help to ensure loan repayment. Government support programs, and recently the Company, generally require that farmers procure crop insurance coverage.

Grain and livestock prices also present a risk as prices may decline prior to sale resulting in a failure to cover production costs. These risks may be reduced by the farmer with the use of futures contracts or options to mitigate price risk. The Company frequently requires borrowers to use future contracts or options to reduce price risk and help ensure loan repayment.

Another risk is the uncertainty of government programs and other regulations. During periods of low commodity prices, the income from government programs can be a significant source of cash to make loan payments and if these programs are discontinued or significantly changed, cash flow problems or defaults could result.

Finally, many farms are dependent on a limited number of key individuals upon whose injury or death may result in an inability to successfully operate the farm.

Consumer Lending. The Company offers a variety of secured consumer loans, including automobile, boat, home equity, home improvement, federally guaranteed student loans, and loans secured by savings deposits. In addition, the Company offers other secured and unsecured consumer loans. The Company currently originates substantially all of its consumer loans in its primary market area and surrounding areas. The Company originates consumer loans on both a direct and indirect basis. At September 30, 2000, the Company's consumer loan portfolio totaled $26.5 million, or 7.9% of its total gross loan portfolio. Of the consumer loan portfolio at September 30, 2000, substantially all were short- and intermediate-term, fixed-rate loans.

The largest component of the Company's consumer loan portfolio consists of home equity loans and lines of credit. Substantially all of the Company's home equity loans and lines of credit are secured by second mortgages on principal residences. The Company will lend amounts which, together with all prior liens, may be up to 100% of the appraised value of the property securing the loan. Home equity loans and lines of credit have maximum terms of up to 15 years and five years, respectively.

The Company primarily originates automobile loans on a direct basis, but also originates indirect automobile loans on a very limited basis. Direct loans are loans made when the Company extends credit directly to the borrower, as opposed to indirect loans, which are made when the Company purchases loan contracts, often at a discount, from automobile dealers which have extended credit to their customers. The Company's automobile loans typically are originated at fixed interest rates with terms up to 60 months for new and used vehicles. Loans secured by automobiles are generally originated for up to 80% of the N.A.D.A. book value of the automobile securing the loan.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed by the Company for consumer loans include an application, a determination of the applicant's payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. At September 30, 2000, none of the Company's consumer loan portfolio was non-performing.

Commercial Business Lending. The Company also originates commercial business loans. Most of the Company's commercial business loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. Commercial loans also involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies. At September 30, 2000, $29.3 million, or 8.8% of the Company's total gross loan portfolio was comprised of commercial business loans.

The maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Generally, the maximum term on non-mortgage lines of credit is one year. The loan-to-value ratio on such loans and lines of credit generally may not exceed 80% of the value of the collateral securing the loan. The Company's commercial business lending policy includes credit file documentation and analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Company's current credit analysis. Nonetheless, such loans are believed to carry higher credit risk than more traditional investments.

The largest commercial business loan outstanding at September 30, 2000 was a $5.4 million warehouse line of credit secured by the assignment of automobile contracts. The next largest commercial business loan outstanding at September 30, 2000 was a $2.9 million loan secured by bank stock and other assets. The Company had three other commercial business loans outstanding in excess of $1.0 million at September 30, 2000. All of these loans are currently performing in accordance with their terms. At September 30, 2000, the average outstanding principal balance of a commercial business loan held by the Company was $29,000.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself (which, in turn, is likely to be dependent upon the general economic environment). The Company's commercial business loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. At September 30, 2000, $51,000 or .2% of the Company's commercial business loan portfolio was non-performing.

Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities

Loans are generally originated by the Company's staff of salaried loan officers. Loan applications are taken and processed in the branches and the main office of the Company. While the Company originates both adjustable-rate and fixed-rate loans, its ability to originate loans is dependent upon the relative customer demand for loans in its market. Demand is affected by the interest rate environment.

The Company, from time to time, sells whole loans and loan participations generally without recourse. At September 30, 2000, there were no loans outstanding sold with recourse. When loans are sold the Company typically retains the responsibility for collecting and remitting loan payments, making certain that real estate tax payments are made on behalf of borrowers, and otherwise servicing the loans. The servicing fee is recognized as income over the life of the loans. The Company services loans that it originated and sold totaling $21.8 million at September 30, 2000, of which $5.7 million were sold to Fannie Mae and $16.1 million were sold to others.

In periods of economic uncertainty, the Company's ability to originate large dollar volumes of loans may be substantially reduced or restricted, with a resultant decrease in related loan origination fees, other fee income and operating earnings. In addition, the Company's ability to sell loans may substantially decrease as potential buyers (principally government agencies) reduce their purchasing activities.

The following table shows the loan origination (including undisbursed portions of loans in process), purchase and repayment activities of the Company for the periods indicated.

	Year Ended September 30,		
	1998	1999	2000
	(In Thousands)		
Originations by type:			
Adjustable rate:			
Real estate - one- to four-family	$ 4,356	$ 1,532	$ 4,047
- commercial and multi-family	8,543	4,354	7,386
- agricultural real estate	1,808	1,357	2,933
Non-real estate - consumer	745	1,480	2,131
- commercial business	7,459	7,669	8,420
- agricultural operating	20,905	17,110	13,981
Total adjustable-rate	43,816	33,502	38,898
Fixed rate:			
Real estate - one- to four-family	17,775	25,662	11,268
- commercial and multi-family	7,756	18,871	8,659
- agricultural real estate	2,576	2,146	525
Non-real estate - consumer	20,172	15,272	17,233
- commercial business	29,437	30,135	14,747
- agricultural operating	25,716	17,687	12,992
Total fixed-rate	103,432	109,773	65,424
Total loans originated	147,248	143,275	104,322
Purchases:			
Real estate- one-to-four-family	15,933	25,531	--
- commercial and multi-family	16,324	42,398	48,877
Non-real estate - commercial business	4,290	9,401	6,688
- agricultural operating	400	--	--
Total loans	36,947	77,330	55,565
Total mortgage-backed securities	39,409	93,409	--
Total purchased	76,356	170,739	55,565
Sales and Repayments:			
Sales:			
Real estate - one- to four-family	5,613	270	4,532
Non-real estate - consumer	--	--	--
- commercial business	--	7,134	--
Total loans	5,613	7,404	4,532
Mortgage-backed securities	5,916	--	20,654
Total sales	11,529	7,404	25,186
Repayments:			
Loan principal repayments	163,435	182,915	138,038
Mortgage-backed securities repayments	15,713	19,055	9,663
Total principal repayments	179,148	201,970	147,701
Total reductions	190,677	209,374	172,887
Increase (decrease) in other items, net	60	2,119	(788)
Net increase (decrease)	$ 32,987	$106,759	$ (13,788)

At September 30, 2000, approximately $136.8 million, or 40.9%, of the Company's gross loan portfolio consisted of purchased loans. The Company believes that purchasing loans secured by real estate located outside of its market area assists the Company in diversifying its portfolio and may lessen the adverse affects on the Company's business or operations which could result in the event of a downturn or weakening of the local economy in which the Company conducts its operations. However, additional risks are associated with purchasing loans secured by real estate outside of the Company's market area, including the lack of knowledge of the local real estate market and difficulty in monitoring and inspecting the property securing the loans.

The following table provides information regarding the Company's balance of wholly purchased real estate loans and real estate loan participations for each state in which the balance of such loans exceeded $1.0 million at September 30, 2000. Not included in the following table are purchased commercial business loans totaling $4.8 million, approximately 60% of which are located in the Company's market area.

	One- to Four-Family Loans		Commercial and Multi-Family		Construction Loans		Total Purchased Loans	
Location	Balance	Number of Loans	Balance	Number of Loans	Balance	Number of Loans	Balance	Number of Loans
	(Dollars in Thousands)							
Arizona	$ 81	3	$ 1,417	2	$ 5,000	1	$ 6,498	6
Colorado	6	4	1,011	5	1,049	2	2,066	11
Florida	11	1	--	--	3,106	1	3,117	2
Illinois	--	--	3,680	5	--	--	3,680	5
Iowa	214	25	9,685	18	800	1	10,699	44
Minnesota	--	--	11,279	14	1,658	2	12,937	16
Missouri	725	14	1,293	5	--	--	2,018	19
Nebraska	--	--	4,609	2	--	--	4,609	2
New Mexico	--	--	--	--	5,275	1	5,275	1
New York	1,295	64	--	--	--	--	1,295	64
North Carolina	15,777	74	--	--	--	--	15,777	74
North Dakota	19	6	1,154	4	--	--	1,173	10
South Dakota	399	26	2,793	5	3,481	2	6,673	33
Washington	15,264	52	19,707	13	9,786	3	44,757	68
Wisconsin	--	--	8,773	10	--	--	8,773	10
Other states	1,418	64	1,190	3	--	--	2,608	67
Total	$35,209	333	$66,591	86	$30,155	13	$131,955	432
Percent of loan portfolio	33.3%		64.3%		96.3%		39.5%	

Non-Performing Assets, Other Loans of Concern, and Classified Assets

When a borrower fails to make a required payment on real estate secured loans and consumer loans within 16 days after the payment is due, the Company generally institutes collection procedures by mailing a delinquency notice. The customer is contacted again, by written notice or telephone, before the payment is 45 days past due and again before 75 days past due. In most cases, delinquencies are cured promptly; however, if a loan has been delinquent for more than 90 days, satisfactory payment arrangements must be adhered to or the Company will initiate foreclosure or repossession.

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 a non-accrual status and, as a result, previously accrued interest income on the loan is taken out of current income. The loan will remain on a non-accrual status until the loan becomes current.

The following table sets forth the Company's loan delinquencies by type, before allowance for loan losses, by amount and by percentage of type at September 30, 2000.

	Loans Delinquent For:								
	30-59 Days			60-89 Days			90 Days and Over		
	Number	Amount	Percent of Category	Number	Amount	Percent of Category	Number	Amount	Percent of Category
	(Dollars in Thousands)								
Real Estate:									
One- to four-family............	7	$ 213	.20%	4	$ 97	.09%	4	$206	.19%
Commercial and multi-family.....	2	674	.65	--	--	--	--	--	--
Agricultural real estate........	--	--	--	1	87	.80	1	37	.33
Consumer..........................	20	171	.65	6	66	.25	--	--	--
Agricultural operating............	7	429	1.60	2	5	.02	1	17	.06
Commercial business...............	6	232	.79	4	39	.13	2	51	.17
Total.........................	42	$1,719	.51%	17	$294	.09%	8	$311	.09%

Delinquencies 90 days and over constituted .09% of total loans and .06% of total assets.

The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. Loans, with some exceptions, are typically placed on non-accrual status when the loan becomes 90 days or more delinquent or when the collection of principal and/or interest become doubtful. For all years presented, the Company's troubled debt restructurings (which involved forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates) are included in the table and were performing as agreed.

	September 30,				
	1996	1997	1998	1999	2000
	(Dollars in Thousands)				
Non-accruing loans:					
One- to four-family	$ 347	$ 444	$ 298	$ 613	$ 206
Commercial and multi-family	1,623	1,692	777	1,055	--
Agricultural real estate	127	--	--	70	37
Consumer	331	246	142	140	--
Agricultural operating	184	289	1,738	285	17
Commercial business	33	204	209	75	51
Total non-accruing loans	2,645	2,875	3,164	2,238	311
Accruing loans delinquent 90 days or more	177	282	3,905	--	--
Total non-performing loans	2,822	3,157	7,069	2,238	311
Restructured Loans:					
Agricultural operating	--	--	--	923	918
Commercial business	--	--	--	53	43
Total restructured loans	--	--	--	976	961
Foreclosed assets:					
One- to four-family	75	85	19	94	--
Commercial real estate	--	67	1,324	--	430
Consumer	8	--	19	24	15
Commercial business	9	4	--	25	--
Total	92	156	1,362	143	445
Less: Allowance for losses	5	--	299	--	--
Total foreclosed assets, net	87	156	1,063	143	445
Total non-performing assets	$2,909	$3,313	$8,132	$3,357	$1,717
Total as a percentage of total assets	.75%	.82%	1.94%	.66 %	.34%

For the year ended September 30, 2000, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately $33,000, of which none was included in interest income.

Non-accruing Loans. At September 30, 2000, the Company had $311,000 in non-accruing loans, which constituted .09% of the Company's gross loan portfolio. At such date, there were no non-accruing loans or aggregate non-accruing loans to one borrower in excess of $500,000 in net book value.

Other Loans of Concern. At September 30, 2000, there were loans totaling $8.2 million not included in the table above where known information about the possible credit problems of borrowers caused management to have concern as to the ability of the borrower to comply with the present loan repayment terms. This amount consisted of six one- to four-family residential mortgage loans totaling $167,000, nine commercial business loans totaling $1.4 million, 16 agricultural operating loans totaling $2.2 million, fourteen consumer loans totaling $139,000 and four commercial real estate loan totaling $4.3 million.

Classified Assets. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by the Office of Thrift Supervision (the "OTS") to be of lesser quality as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the savings association will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such minimal value that their continuance as assets without the establishment of a specific loss reserve is not warranted. The loans held by Security are subject to similar classification by its regulatory authorities.

When assets are classified as either substandard or doubtful, the Bank 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 assets. When assets are classified as "loss," the Bank is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. The Banks' determinations as to the classification of their assets and the amount of their valuation allowances are subject to review by their regulatory authorities, who may order the establishment of additional general or specific loss allowances.

On the basis of management's review of its assets, at September 30, 2000, the Company had classified a total of $6.1 million of its assets as substandard, $135,000 as doubtful and none as loss.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in its loan portfolio and changes in the nature and volume of its loan activity, including those loans which are being specifically monitored by management. Such evaluation, which includes a review of loans for which full collectibility may not be reasonably assured, considers among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate loan loss allowance.

Current economic conditions in the agricultural sector of the Company's market area indicate potential weakness due to uncertain growing conditions in 2001 and historically low commodity prices. Near drought conditions exist in a limited portion of the Company's agricultural market area, which has the potential to reduce crop yields in 2001 for these areas. Price levels for grain crops have generally been depressed since mid-1998 and currently remain at historically low levels. Grain crop prices are not expected to increase significantly in the near term. Livestock prices 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 the current level of commodity prices, 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 provision for loan losses.

Real estate properties acquired through foreclosure are recorded at the lower of cost or fair value. If fair value at the date of foreclosure is lower than the balance of the related loan, the difference will be charged-off to the allowance for loan losses at the time of transfer. Valuations are periodically updated by management and if the value declines, a specific provision for losses on such property is established by a charge to operations.

Although management believes that it uses the best information available to determine the allowances, unforeseen market conditions could result in adjustments and net earnings could be significantly affected if circumstances differ substantially from the assumptions used in making the final determination. Future additions to the Company's allowances will be the result of periodic loan, property and collateral reviews and thus cannot be predicted in advance.

The following table sets forth an analysis of the Company's allowance for loan losses.

	Year Ended September 30,				
	1996	1997	1998	1999	2000
	(Dollars in Thousands)				
Balance at beginning of period	$ 1,650	$ 2,356	$ 2,379	$ 2,909	$ 3,092
Iowa Savings acquisition	132	--	--	--	--
Security acquisition	563	--	--	--	--
Charge-offs:					
One-to four-family	--	--	(103)	(84)	(65)
Agricultural operating	--	--	(595)	(1,160)	--
Commercial and multi-family	(35)	(2)	(299)	--	(370)
Consumer	(54)	(66)	(152)	(202)	(104)
Commercial business	--	(55)	(17)	(420)	(730)
Total charge-offs	(89)	(123)	(1,166)	(1,866)	(1,269)
Recoveries:					
Consumer	--	--	17	39	55
Commercial business	--	--	5	8	33
Commercial and multi-family	--	2	--	--	--
Agricultural operating	--	24	11	11	39
Total recoveries	--	26	33	58	127
Net charge-offs	(89)	(97)	(1,133)	(1,808)	(1,142)
Additions charged to operations	100	120	1,663	1,992	1,640
Balance at end of period	$ 2,356	$ 2,379	$ 2,909	$ 3,093	$ 3,590
Ratio of net charge-offs during the period to average loans outstanding during the period	.04%	.04%	.44%	.63%	.37%
Ratio of net charge-offs during the period to average non-performing assets	5.30%	4.46%	21.50%	43.12%	64.53%

For more information on the provision for loan losses, see 'Management's Discussion and Analysis - Results of Operations" in the Annual Report.

The distribution of the Company's allowance for losses on loans at the dates indicated is summarized as follows:

	September 30,									
	1996		1997		1998		1999		2000	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in Thousands)									
One- to four-family	$ 235	31.54%	$ 222	27.75%	$ 257	30.50%	$ 331	34.80%	$ 250	31.63%
Commercial and multi-family real estate	639	34.23	712	28.12	602	23.77	772	27.06	1,183	31.01
Agricultural real estate	138	4.45	117	4.41	132	3.75	114	3.11	124	3.26
Construction	59	3.14	106	7.99	165	11.73	123	8.95	125	9.37
Consumer	270	8.21	289	10.29	277	9.33	308	7.39	335	7.93
Agricultural operating	531	12.21	580	14.51	1,024	13.24	806	9.24	611	8.02
Commercial business	271	6.22	277	6.93	324	7.68	449	9.45	592	8.78
Unallocated	213	--	76	--	128	--	190	--	370	--
Total	$2,356	100.00%	$2,379	100.00%	$2,909	100.00%	$3,093	100.00%	$3,590	100.00%

Investment Activities

General. The investment policy of the Company generally is to invest funds among various categories of investments and maturities based upon the Company's need for liquidity, to achieve the proper balance between its desire to minimize risk and maximize yield, to provide collateral for borrowings, and to fulfill the Company's asset/liability management policies. The Company's investment and mortgage-backed securities portfolios are managed in accordance with a written investment policy adopted by the Board of Directors which is implemented by members of the Bank's Investment Committee.

As of September 30, 2000, the Company's entire investment and mortgage-backed securities portfolios were classified as available for sale. For additional information regarding the Company's investment and mortgage-backed securities portfolios, see Notes 1 and 3 of the Notes to Consolidated Financial Statements in the Annual Report.

Investment Securities. It is the Company's general policy to purchase investment securities which are U.S. Government securities and federal agency obligations, state and local government obligations, commercial paper, corporate debt securities and overnight federal funds.

The following table sets forth the carrying value of the Company's investment security portfolio, excluding mortgage-backed securities, at the dates indicated.

	September 30,		
	1998	1999	2000
	(In Thousands)		
Investment Securities:			
Trust preferred securities(1)	$27,256	$26,998	$25,921
U.S. government securities	757	--	--
Federal agency obligations	27,015	15,492	16,380
Municipal bonds	1,341	1,387	1,215
Equity investments	1,230	856	1,070
Freddie Mac preferred stock	427	202	213
Fannie Mae common stock	129	125	143
Subtotal	58,155	45,060	44,942
FHLB stock	5,506	8,126	8,328
Total investment securities and FHLB stock	$63,661	$53,186	$53,270
Other Interest-Earning Assets:			
Interest bearing deposits in other financial institutions and Federal Funds sold	$ 5,818	$ 4,208	$ 5,938

(1) Within the trust preferred securities presented above, there are securities from individual issuers that exceed 10% of the Company's total equity. The name and the aggregate market value of securities of each individual issuer are as follows, as of September 30, 2000: PNC Capital Trust, $4.7 million; Key Corp Capital I, $4.8 million; Huntington Capital II, $4.6 million; Bank Boston Capital Trust IV, $4.7 million; BankAmerica Capital III, $4.8 million.

The composition and maturities of the Company's investment securities portfolio, excluding equity securities, FHLB stock and mortgage-backed securities, are indicated in the following table.

	September 30, 2000					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Market Value
	(Dollars in Thousands)					
Trust preferred securities	$ --	$ --	$ --	$25,921	$27,159	$25,921
Municipal bonds	211	685	319	--	1,200	1,215
Federal agency obligations	--	--	15,401	979	16,959	16,380
Total investment securities	$211	$685	$15,720	$26,900	$45,318	$43,516
Weighted average yield	5.33%	5.87%	6.27%	7.48%	7.00%	7.00%

Mortgage-Backed Securities. The Company's mortgage-backed and related securities portfolio consists of securities issued under government-sponsored agency programs, including those of Ginnie Mae, Fannie Mae and Freddie Mac. The Company also holds Collateralized Mortgage Obligations ("CMOs"), as well as a limited amount of privately issued mortgage pass-through certificates. The Ginnie Mae, Fannie Mae and Freddie Mac certificates are modified pass-through mortgage-backed securities that represent undivided interests in underlying pools of fixed-rate, or certain types of adjustable-rate, predominantly single-family and, to a lesser extent, multi-family residential mortgages issued by these government-sponsored entities. Fannie Mae and Freddie Mac generally provide the certificate holder a guarantee of timely payments of interest, whether or not collected. Ginnie Mae's guarantee to the holder is timely payments of principal and interest, backed by the full faith and credit of the U.S. Government. Privately issued mortgage pass-through certificates generally provide no guarantee as to timely payment of interest or principal, and reliance is placed on the creditworthiness of the issuer, which the Company monitors on a regular basis.

CMOs are special types of pass-through debt in which the stream of principal and interest payments on the underlying mortgages or mortgage-backed securities is used to create classes with different maturities and, in some cases, amortization schedules, as well as a residual interest, with each such class possessing different risk characteristics. At September 30, 2000, the Company held CMOs totaling $71.2 million, all of which were secured by underlying collateral issued under government-sponsored agency programs or residential real estate mortgage loans. Premiums associated with the purchase of these CMOs are not significant, therefore, the risk of significant yield adjustments because of accelerated prepayments is limited. Yield adjustments are encountered as interest rates rise or decline, which in turn slows or increases prepayment rates and affect the average lives of the CMOs.

At September 30, 2000, $100.5 million or 98.0% of the Company's mortgage-backed securities portfolio had fixed rates of interest and $2.0 million or 2.0% of such portfolio had adjustable rates of interest.

Mortgage-backed securities generally increase the quality of the Company's assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company. At September 30, 2000, $99.7 million or 97.3% of the Company's mortgage-backed securities were pledged to secure various obligations of the Company.

While mortgage-backed securities carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed, and value, of such securities. The prepayment risk associated with mortgage-backed securities is monitored periodically, and prepayment rate assumptions adjusted as appropriate to update the Company's mortgage-backed securities accounting and asset/liability reports. Classification of the Company's mortgage-backed securities portfolio as available for sale is designed to minimize that risk.

The following table sets forth the carrying value of the Company's mortgage-backed securities at the dates indicated.

	September 30,		
	1998	1999	2000
		(In Thousands)	
Ginnie Mae	$42,951	$ 27,886	$ 23,780
CMO	11,283	95,325	71,164
Freddie Mac	2,827	5,791	4,720
Fannie Mae	4,711	3,934	2,469
Privately Issued Mortgage Pass-Through Certificates	682	493	405
Total	$62,454	$133,429	$102,538

The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 2000. Not considered in the preparation of the table below is the effect of prepayments, periodic principal repayments and the adjustable-rate nature of these instruments.

	Due in				
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	September 30, 2000 Balance Outstanding
	(Dollars in Thousands)				
Ginnie Mae	$--	$ --	$ --	$23,780	$ 23,780
CMO	--	--	16,579	54,585	71,164
Freddie Mac	52	94	627	3,947	4,720
Fannie Mae	2	64	568	1,835	2,469
Privately Issued Mortgage Pass-Through Certificates(1)	--	--	--	405	405
Total	$54	$158	$17,774	$84,552	$102,538
Weighted average yield	11.01%	9.83%	6.57%	6.70%	6.68%

(1) This security is rated AA by a nationally recognized rating agency.

At September 30, 2000, the contractual maturity of 82.5% of all of the Company's mortgage- backed securities was in excess of ten years. The actual maturity of a mortgage-backed security is typically less than its stated maturity due to scheduled principal payments and prepayments of the underlying mortgages. Prepayments that are different than anticipated will affect the yield to maturity. The yield is based upon the interest income and the amortization of any premium or discount related to the mortgage-backed security. In accordance with generally accepted accounting principles, premiums and discounts are amortized over the estimated lives of the loans, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage- backed security, and these assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under such circumstances, the Company may be subject to reinvestment risk because to the extent that the Company's mortgage-backed securities amortize or prepay faster than anticipated, the Company may not be able to reinvest the proceeds of such repayments and prepayments at a comparable rate.

Sources of Funds

General. The Company's sources of funds are deposits, borrowings, amortization and repayment of loan principal, interest earned on or maturation of investment securities and short-term investments, and funds provided from operations.

Borrowings, including Federal Home Loan Bank ("FHLB") of Des Moines and Federal Reserve Bank of Chicago ("FRB") advances, reverse repurchase agreements and retail repurchase agreements, may be used at times to compensate for seasonal reductions in deposits or deposit inflows at less than projected levels, may be used on a longer-term basis to support expanded lending activities, and may also be used to match the funding of a corresponding asset.

Deposits. The Company offers a variety of deposit accounts having a wide range of interest rates and terms. The Company's deposits consist of passbook savings accounts, money market savings accounts, NOW and regular checking accounts, and certificate accounts currently ranging in terms from fourteen days to 60 months. The Company only solicits deposits from its primary market area and does not use brokers to obtain deposits. The Company relies primarily on competitive pricing policies, advertising and customer service to attract and retain these deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates, and competition.

The variety of deposit accounts offered by the Company has allowed it to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. The Company has become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. The Company endeavors to manage the pricing of its deposits in keeping with its asset/liability management and profitability objectives. 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. However, the ability of the Company to attract and maintain certificates of deposit and the rates paid on these deposits has been and will continue to be significantly affected by market conditions.

The following table sets forth the savings flows at the Company during the periods indicated.

	Year Ended September 30,		
	1998	1999	2000
	(Dollars in Thousands)		
Opening balance	$ 246,116	$ 283,858	$ 304,780
Deposits	615,028	608,478	655,460
Withdrawals	(589,176)	(599,915)	(654,717)
Interest credited	11,890	12,359	13,131
Ending balance	$ 283,858	$ 304,780	$ 318,654
Net increase (decrease)	$ 37,742	$ 20,922	$ 13,874
Percent increase (decrease)	15.34 %	7.37%	4.55%

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs offered by the Company for the periods indicated.

	Year Ended September 30,					
	1998		1999		2000	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)					
Transactions and Savings Deposits:						
Commercial Demand..............	$ 4,971	1.75%	$ 5,681	1.86%	$ 6,041	1.90%
Passbook Accounts..............	18,610	6.56	17,043	5.59	15,025	4.71
NOW Accounts...................	16,637	5.86	16,055	5.27	16,472	5.17
Money Market Accounts..........	22,509	7.93	41,905	13.75	41,012	12.87
Total Non-Certificate..........	62,727	22.10	80,684	26.47	78,550	24.65
Certificates:						
Variable.......................	559	.20	1,253	.41	1,077	.34
0.00 - 3.99%..................	95	.03	267	.09	100	.03
4.00 - 5.99%.................	130,729	46.05	185,476	60.85	97,054	30.46
6.00 - 7.99%.................	87,940	30.98	37,098	12.17	141,873	44.52
8.00 - 9.99%.................	1,808	.64	2	.01	---	---
Total Certificates.............	221,131	77.90	224,096	73.53	240,104	75.35
Total Deposits.................	$283,858	100.00%	$304,780	100.00%	$318,654	100.00%

The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 2000.

	Variable	0.00-3.99%	4.00-5.99%	6.00-7.99%	Total	Percent of Total
			(Dollars in Thousands)			
Certificate accounts maturing in quarter ending:						
December 31, 2000	$ 244	$ 2	$24,052	$ 9,605	$ 33,903	14.1%
March 31, 2001	104	--	20,579	12,052	32,735	13.6
June 30, 2001	204	52	13,734	13,599	27,589	11.5
September 30, 2001	221	--	9,785	28,081	38,087	15.9
December 31, 2001	66	--	6,802	12,873	19,741	8.2
March 31, 2002	120	--	5,559	7,238	12,917	5.4
June 30, 2002	1	--	5,210	22,290	27,501	11.5
September 30, 2002	--	--	2,929	11,095	14,024	5.8
December 31, 2002	--	--	2,547	6,274	8,821	3.7
March 31, 2003	--	--	1,771	3,521	5,292	2.2
June 30, 2003	--	3	1,204	3,405	4,612	1.9
September 30, 2003	--	--	934	3,531	4,465	1.9
Thereafter	117	43	1,948	8,309	10,417	4.3
Total	$1,077	$100	$97,054	$141,873	$240,104	100.0%
Percent of total	.45%	.04%	40.42%	59.09%	100.00%	

The following table indicates the amount of the Company's certificates of deposit and other deposits by time remaining until maturity as of September 30, 2000.

	Maturity				
	3 Months or Less	After 3 to 6 Months	After 6 to 12 Months	After 12 months	Total
			(In Thousands)		
Certificates of deposit less than $100,000	$26,246	$27,031	$56,139	$ 99,474	$208,890
Certificates of deposit of $100,000 or more	7,657	5,704	9,536	8,317	31,214
Total certificates of deposit	$33,903	$32,735	$65,675	$107,791	$240,104(1)

(1) Includes deposits from governmental and other public entities totaling $10.0 million.

Borrowings. Although deposits are the Company's primary source of funds, the Company's policy has been to utilize borrowings when they are a less costly source of funds, can be invested at a positive interest rate spread, or when the Company desires additional capacity to fund loan demand.

The Company's borrowings historically have consisted of advances from the FHLB of Des Moines upon the security of a blanket collateral agreement of a percentage of unencumbered loans and the pledge of specific investment securities. Such advances can be made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. At September 30, 2000, the Company had $139.7 million of advances from the FHLB of Des Moines and the ability to borrow up to an additional $28.0 million. All of the Company's advances currently carry fixed rates. At September 30, 2000, advances totaling $28.2 million had terms to maturity of one year or less. The remaining $111.5 million had maturities ranging up to 19 years.

From time to time, the Company has offered retail repurchase agreements to its customers. These agreements typically range from 14 days to five years in term, and typically have been offered in minimum amounts of $100,000. The proceeds of these transactions are used to meet cash flow needs of the Company. At September 30, 2000, the Company had approximately $4.3 million of retail repurchase agreements outstanding.

The Company has also, from time to time, entered into reverse repurchase agreements through nationally recognized broker-dealer firms. These agreements are accounted for as borrowings by the Company and are secured by certain of the Company's investment and mortgage-backed securities. The broker-dealer takes possession of the securities during the period that the reverse repurchase agreement is outstanding. The terms of the agreements have typically ranged from 30 days to a maximum of six months. The Company has not entered into any reverse repurchase agreements in the past five years.

The following table sets forth the maximum month-end balance and average balance of FHLB advances, retail repurchase agreements and other borrowings (consisting of FRB advances) for the periods indicated.

	Year Ended September 30,		
	1998	1999	2000
		(In Thousands)	
Maximum Balance:			
FHLB advances	$109,766	$161,348	$157,658
Retail repurchase agreements	4,075	4,322	4,920
Other borrowings	2,100	200	--
Average Balance:			
FHLB advances	$ 95,328	$135,846	$149,896
Retail repurchase agreements	2,916	3,300	3,460
Other borrowings	557	48	--

The following table sets forth certain information as to the Company's FHLB advances and other borrowings at the dates indicated.

	At September 30,		
	1998	1999	2000
	(Dollars in Thousands)		
FHLB advances	$85,264	$161,348	$139,738
Retail repurchase agreements	4,075	3,021	4,255
Other borrowings	550	--	--
Total borrowings	$89,889	$164,369	$143,993
Weighted average interest rate of FHLB advances	5.91%	5.38%	5.78%
Weighted average interest rate of retail repurchase agreements	5.71%	5.28%	6.43%
Weighted average interest rate of other borrowings	5.45%	---%	---%

Subsidiary Activities

The only subsidiaries of the Company are First Federal and Security. First Federal has one service subsidiary, First Services Financial Limited ("First Services"). At September 30, 2000, the net book value of First Federal's investment in First Services was approximately $786,000. Security does not have any subsidiaries.

First Federal organized First Services, its sole service corporation, in 1983. First Services is located in Storm Lake, Iowa and offers mutual funds and, in some locations, insurance products and annuities. In addition, Brookings Service Corporation ("BSC"), a subsidiary of First Services, offers full brokerage services through PrimeVest Financial Services, Inc., a third party vendor. First Services, together with its subsidiary BSC, recognized net income of $37,000 during fiscal 2000.

Regulation

General. First Midwest currently has two wholly-owned subsidiaries, First Federal, a federally-chartered thrift institution and Security, an Iowa-chartered commercial bank. First Federal is subject to extensive regulation, supervision and examination by the OTS, as its chartering authority and primary federal regulator, and by the Federal Deposit Insurance Corporation (the "FDIC"), which insures its deposits up to applicable limits. First Federal is a member of the FHLB System and is subject to certain limited regulation by the FRB. Such regulation and supervision governs the activities in which an institution can engage and the manner in which such activities are conducted, and is intended primarily for the protection of the insurance fund and depositors. Security is subject to extensive regulation, supervision and examination by the Iowa Superintendent of Banking (the "ISB") and the FRB, which are its state and primary federal regulators, respectively. It is also subject to regulation by the FDIC, which insures its deposits up to applicable limits. As with First Federal, such regulation and supervision governs the activities in which Security can engage and the manner in which such activities are conducted and is intended primarily for the protection of the insurance fund and depositors.

First Midwest is regulated as a bank holding company by the FRB. Bank holding companies are subject to comprehensive regulation and supervision by the FRB under the Bank Holding Company Act of 1956, as amended (the "BHCA") and the regulations of the FRB. As a bank holding company, First Midwest must file reports with the FRB and such additional information as the FRB may require, and is subject to regular inspections by the FRB. First Midwest is subject to the activity limitations imposed under the BHCA and in general may engage in only those activities that the FRB has determined to be closely related to banking.

Regulatory authorities have been granted extensive discretion in connection with their supervisory and enforcement activities which are intended to strengthen the financial condition of the banking industry, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Any change in such regulation and oversight, whether by the OTS, the FDIC, the FRB or the Congress could have a material impact on First Midwest, First Federal or Security and their respective operations.

Certain of these regulatory requirements and restrictions are discussed below or elsewhere in this document.

Federal Regulation of Financial Institutions. The OTS has extensive authority over the operations of savings associations. As part of this authority, First Federal is required to file periodic reports with the OTS and is subject to periodic examination by the OTS and the FDIC. The last regular OTS examination of First Federal was as of November 6, 2000. When these examinations are conducted by the OTS, the examiners may require First Federal to provide for higher general or specific loan loss reserves. Security is subject to similar regulation and oversight by the ISB and the FRB and was last examined as of July 17, 2000.

Each federal banking regulator has extensive enforcement authority over its regulated institutions. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports. Except under certain circumstances, public disclosure of final enforcement actions by the regulator is required.

In addition, the investment, lending and branching authority of First Federal is prescribed by federal laws and it is prohibited from engaging in any activities not permitted by such laws. Security is subject to such restrictions under state law as administered by the ISB. Federal savings associations are also generally authorized to branch nationwide whereas Iowa chartered banks, such as Security, are limited to establishing branches in the counties contiguous to the county where their home office is located. At September 30, 2000, First Federal and Security were in compliance with the noted restrictions.

First Federal's general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). Security is subject to similar restrictions. At September 30, 2000, First Federal's and Security's lending limit under these restrictions was $5.4 million and $927,000, respectively. First Federal and Security are in compliance with the loans-to-one-borrower limitation.

Insurance of Accounts and Regulation by the FDIC. First Federal is a member of the Savings Association Insurance Fund (the "SAIF") and Security is a member of the Bank Insurance Fund (the "BIF"), each of which is administered by the FDIC. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the SAIF or the BIF. The FDIC also has the authority to initiate enforcement actions against any FDIC insured institution after giving its primary federal regulator the opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their level of capital and supervisory evaluation. The current assessment rates range from zero to .27% per $100 of assessable deposits. Risk classification of all insured institutions will be made by the FDIC for each semi-annual assessment period. Institutions that are well- capitalized and have a high supervisory rating are subject to the lowest assessment rate. At September 30, 2000, each of First Federal and Security met the capital requirements of a "well capitalized" institution and were not subject to any assessment. See Note 13 of Notes to Consolidated Financial Statements in the Annual Report.

Prior to the enactment of the legislation recapitalizing the SAIF in 1996, a portion of the SAIF assessment imposed on savings associations was used to repay obligations issued by a federally chartered corporation to provide financing for resolving the thrift crisis in the 1980s. Although the legislation also now requires assessments to be made on BIF-assessable deposits for this purpose, effective January 1, 1997, that assessment will be limited to 20% of the rate imposed on SAIF assessable deposits until the earlier of December 31, 1999 or when no savings association continues to exist, thereby imposing a greater burden on SAIF member institutions such as First Federal. Thereafter, however, assessments on BIF-member institutions will be made on the same basis as SAIF-member institutions. The rates established by the FDIC to implement this requirement for all FDIC-insured institutions is a 2.02 basis point assessment on both SAIF deposits and BIF deposits.

Regulatory Capital Requirements. Federally insured financial institutions, such as First Federal and Security, are required to maintain a minimum level of regulatory capital. These capital requirements mandate that an institution maintain at least the following ratios: (1) a core (or Tier 1) capital to adjusted total assets ratio of 4% (which can be reduced to 3% for highly rated institutions); (2) a Tier 1 capital to risk-weighted assets ratio of 4% and (3) a risk-based capital to risk-weighted assets ratio of 8%. Capital requirements in excess of these standards may be imposed on individual institutions on a case-by-case basis. See Note 13 of Notes to Consolidated Financial Statements in the Annual Report.

An FDIC-insured institution's primary federal regulator is also authorized and, under certain circumstances required, to take certain actions against an "undercapitalized institution" (generally defined to be one with less than either a 4% core capital ratio, a 4% Tier 1 risked-based capital ratio or an 8% risk-based capital ratio). Any such institution must submit a capital restoration plan and until such plan is approved by the OTS may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The primary federal regulator is also authorized, and with respect to institution's whose capital is further depleted, required to impose additional restrictions that can affect all aspects of the institution's operations, including the appointment of a receiver for a "critically undercapitalized" institution (i.e., one with a tangible capital ratio of 2% or less). As a condition to the approval of the capital restoration plan, any company controlling an undercapitalized institution must agree that it will enter into a limited capital maintenance guarantee with respect to the institution's achievement of its capital requirements.

The imposition of any of these measures on First Federal or Security may have a substantial adverse effect on Company's operations and profitability. First Midwest shareholders do not have preemptive rights, and therefore, if First Midwest is directed by the OTS, the FRB or the FDIC to issue additional shares of Common Stock, such issuance may result in the dilution in shareholders percentage of ownership of First Midwest.

Limitations on Dividends and Other Capital Distributions. The OTS imposes various restrictions on savings associations with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. The OTS also prohibits a savings association from declaring or paying any dividends or from repurchasing any of its stock if, as a result of such action, the regulatory capital of the association would be reduced below the amount required to be maintained for the liquidation account established in connection with the association's mutual to stock conversion.

Savings institutions such as First Federal may make a capital distribution without the approval of the OTS, provided they notify the OTS 30-days before they declare the capital distribution and they meet the following requirements: (i) have a regulatory rating in one of the two top examination categories, (ii) are not of supervisory concern, and will remain adequately- or well-capitalized, as defined in the OTS prompt corrective action regulations, following the proposed distribution, and (iii) the distribution does not exceed their net income for the calendar year-to-date plus retained net income for the previous two calendar years (less any dividends previously paid). If a savings institution does not meet the above stated requirements, it must obtain the prior approval of the OTS before declaring any proposed distributions.

Security may pay dividends, in cash or property, only out of its undivided profits. In addition, FRB regulations prohibit the payment of dividends by a state member bank if losses have at any time been sustained by such bank that equal or exceed its undivided profits then on hand, unless (i) the prior approval of the FRB has been obtained and (ii) at least two-thirds of the shares of each class of stock outstanding have approved the dividend payment. FRB regulations also prohibit the payment of any dividend by a state member bank without the prior approval of the FRB if the total of all dividends declared by the bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the previous two calendar years (minus any required transfers to a surplus or to a fund for the retirement of any preferred stock).

Qualified Thrift Lender Test. All savings associations, including First Federal, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings association to have at least 65% of its portfolio assets (as defined by regulation) in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis or meet the requirements for a domestic building and loan association under the Internal Revenue Code. Under either test, the required assets primarily consist of residential housing related loans and investments. At September 30, 2000, First Federal met the test and has always met the test since its effectiveness.

Any savings association that fails to meet the QTL test must convert to a national bank charter, unless it requalifies as a QTL within one year and thereafter remains a QTL, or limits its new investments and activities to those permissible for both a savings association and a national bank. In addition, the association is immediately ineligible to receive any new FHLB borrowings and is subject to national bank limits for payment of dividends and branching authority. If such association has not requalified or converted to a national bank within three years after the failure, it must divest of all investments and cease all activities not permissible for a national bank. In addition, it must repay promptly any outstanding FHLB borrowings, which may result in prepayment penalties.

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), every FDIC insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the OTS and the FRB, in connection with the examination of First Federal and Security, respectively, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by the institution. An unsatisfactory rating may be used as the basis for the denial of such an application. First Federal was examined for CRA compliance in January 2000 and Security was examined in June 1999 and both received a rating of "satisfactory."

Bank Holding Company Regulation

General. Bank holding companies, such as First Midwest, are subject to comprehensive regulation by the FRB under the BHCA and the regulations of the FRB. As a bank holding company, First Midwest is required to file reports with the FRB and such additional information as the FRB may require, and is subject to regular inspections by the FRB. The FRB also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Under FRB policy, a bank holding company must serve as a source of strength for its subsidiary banks. Under this policy the FRB may require a holding company to contribute additional capital to an undercapitalized subsidiary bank.

Under the BHCA, a bank holding company must obtain FRB approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or
(iii) merging or consolidating with another bank holding company.

The BHCA prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which, by statute or by FRB regulation or order, have been identified as activities closely related to the business of banking or managing or controlling banks. The list of activities permitted by the FRB includes, among other things, operating a savings institution (such as First Federal), mortgage company, finance company, credit card company or factoring company; performing certain data processing operations; providing certain investment and financial advice; underwriting and acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, non-operating basis; real estate and personal property appraising; and, subject to certain limitations, providing securities brokerage services for customers. The scope of permissible activities may be expanded from time to time by the FRB. Such activities may also be affected by federal legislation.

Interstate Banking and Branching. The FRB may approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. The FRB may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state or if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. Iowa has adopted a five year minimum existence requirement. States are authorized to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit.

The federal banking agencies are also generally authorized to approve interstate merger transactions without regard to whether such transaction is prohibited by the law of any state. Interstate acquisitions of branches or the establishment of a new branch is permitted only if the law of the state in which the branch is located permits such acquisitions. Interstate mergers and branch acquisitions are also subject to the nationwide and statewide insured deposit concentration amounts described above. Iowa permits interstate branching only by merger.

Dividends. The FRB has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the FRB's view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earning retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The FRB also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the FRB, the FRB may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized."

Bank holding companies are required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of their consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, FRB order, or any condition imposed by, or written agreement with, the FRB. This notification requirement does not apply to any company that meets the well-capitalized standard for commercial banks, has a safety and soundness examination rating of at least a "2" and is not subject to any unresolved supervisory issues.

Capital Requirements. The FRB has established capital requirements for bank holding companies that generally parallel the capital requirements for commercial banks and federal thrift institutions such as First Federal and Security. First Midwest is in compliance with these requirements.

Federal Home Loan Bank System

First Federal and Security are both members of the FHLB of Des Moines, which is one of 12 regional FHLBs, that administers the home financing credit function of savings associations. Each FHLB serves as a reserve or central bank for its members within its assigned region. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB. These policies and procedures are subject to the regulation and oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances must be used for residential home financing.

As members of the FHLB System, First Federal and Security are required to purchase and maintain stock in the FHLB of Des Moines. At September 30, 2000, the Banks had in the aggregate $8.3 million in FHLB stock, which was in compliance with this requirement. For the fiscal year ended September 30, 2000, dividends paid by the FHLB of Des Moines to First Federal and Security totaled $552,000. Over the past five calendar years such dividends have averaged 6.83% and were 6.86% for the first three quarters of the calendar year 2000.

Under federal law the FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to low- and moderately priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of First Federal's FHLB stock may result in a corresponding reduction in First Federal's capital.

Federal and State Taxation

Federal Taxation. First Midwest and its subsidiaries file consolidated federal income tax returns on a fiscal year basis using the accrual method of accounting. In addition to the regular income tax, corporations, including savings banks such as First Federal, generally are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the corporation's regular income tax and net operating losses can offset no more than 90% of alternative minimum taxable income.

To the extent earnings appropriated to a savings bank's bad debt reserves and deducted for federal income tax purposes exceed the allowable amount of such reserves computed under the experience method and to the extent of the bank's supplemental reserves for losses on loans ("Excess"), such Excess may not, without adverse tax consequences, be utilized for the payment of cash dividends or other distributions to a shareholder (including distributions on redemption, dissolution or liquidation) or for any other purpose (except to absorb bad debt losses). As of September 30, 2000, First Federal's Excess for tax purposes totaled approximately $6.7 million.

First Midwest and its consolidated subsidiaries have not been audited by the IRS within the past ten years. In the opinion of management, any examination of still open returns (including returns of subsidiaries and predecessors of, or entities merged into, First Midwest) would not result in a deficiency which could have a material adverse effect on the financial condition of First Midwest and its subsidiaries.

Iowa Taxation. First Federal and Security file Iowa franchise tax returns. First Midwest and First Federal's subsidiary file Iowa corporation tax returns on a fiscal year-end basis.

Iowa imposes a franchise tax on the taxable income of mutual and stock savings banks and commercial banks. The tax rate is 5%, which may effectively be increased, in individual cases, by application of a minimum tax provision. Taxable income under the franchise tax is generally similar to taxable income under the federal corporate income tax, except that, under the Iowa franchise tax, no deduction is allowed for Iowa franchise tax payments and taxable income includes interest on state and municipal obligations. Interest on U.S. obligations is taxable under the Iowa franchise tax and under the federal corporate income tax. The taxable income for Iowa franchise tax purposes is apportioned to Iowa through the use of a one-factor formula consisting of gross receipts only.

Taxable income under the Iowa corporate income tax is generally similar to taxable income under the federal corporate income tax, except that, under the Iowa tax, no deduction is allowed for Iowa income tax payments; interest from state and municipal obligations is included in income; interest from U.S. obligations is excluded from income; and 50% of federal corporate income tax payments are excluded from income. The Iowa corporate income tax rates range from 6% to 12% and may be effectively increased, in individual cases, by application of a minimum tax provision.

South Dakota Taxation. First Federal files a South Dakota franchise tax return due to the operations of its Brookings division. The South Dakota franchise tax is imposed only on depository institutions. First Midwest, Security and First Federal's subsidiaries are therefore not subject to the South Dakota franchise tax.

South Dakota imposes a franchise tax on the taxable income of a depository institution at the rate of 6%. Taxable income under the franchise tax is generally similar to taxable income under the federal corporate income tax, except that, under the South Dakota franchise tax, no deduction is allowed for state income and franchise taxes, bad debt deductions are determined on the basis of actual charge-offs, income from municipal obligations exempt from federal taxes are included in the franchise taxable income, and there is a deduction allowed for federal income taxes accrued for the fiscal year. The taxable income for South Dakota franchise tax purposes is apportioned to South Dakota through the use of a three-factor formula consisting of tangible real and personal property, payroll and gross receipts.

Delaware Taxation. As a Delaware holding company, First Midwest is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual fee to the State of Delaware. First Midwest is also subject to an annual franchise tax imposed by the State of Delaware.

Competition

The Company faces strong competition, both in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from commercial banks, savings banks, credit unions, insurance companies, and mortgage bankers making loans secured by real estate located in the Company's market area. Commercial banks and credit unions provide vigorous competition in consumer lending. The Company competes for real estate and other loans principally on the basis of the quality of services it provides to borrowers, interest rates and loan fees it charges, and the types of loans it originates.

The Company attracts all of its deposits through its retail banking offices, primarily from the communities in which those retail banking offices are located; therefore, competition for those deposits is principally from other commercial banks, savings banks, credit unions and brokerage offices located in the same communities. The Company competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours, and convenient branch locations with interbranch deposit and withdrawal privileges at each.

The Company serves Adair, Buena Vista, Calhoun, Guthrie, Ida, Pocahontas, Polk and Sac counties in Iowa and Brookings County in South Dakota. There are 31 commercial banks, four savings banks, other than First Federal, and one credit union which compete for deposits and loans in the First Federal's primary market area in northwest Iowa and eight commercial banks, one savings bank, other than First Federal, and one credit union which compete for deposits and loans in First Federal's market area in Brookings, South Dakota. In addition, there are twelve commercial banks in Security's primary market area in west central Iowa. First Federal competes for deposits and loans with numerous financial institutions located throughout the metropolitan market areas of Des Moines, Iowa and Sioux Falls, South Dakota.

Employees

At September 30, 2000, the Company and its subsidiaries had a total of 136 employees, including 12 part-time employees. The Company's employees are not represented by any collective bargaining group. Management considers its employee relations to be good.

Executive Officers of the Company Who Are Not Directors

The following information as to the business experience during the past five years is supplied with respect to the executive officers of the Company who do not serve on the Company's Board of Directors. There are no arrangements or understandings between such persons named and any persons pursuant to which such officers were selected.

Donald J. Winchell - Mr. Winchell, age 48, serves as Senior Vice President, Treasurer and Chief Financial Officer of First Midwest and First Federal, and is responsible for the formulation and implementation of policies and objectives for First Federal's finance and accounting functions. His duties include financial planning, interest rate risk management, accounting, investments, financial policy development and compliance, budgeting and asset/liability management. Mr. Winchell also serves as Treasurer of First Services Financial Limited and Brookings Service Corporation. Mr. Winchell joined First Federal in 1989 as Vice President and Chief Financial Officer, was appointed Treasurer in 1990, and Senior Vice President in 1992. Prior to joining First Federal, Mr. Winchell served as Senior Vice President and Chief Financial Officer of Midwest Federal Savings and Loan Association of Nebraska City, Nebraska since 1981. Mr. Winchell received a Bachelor of Science degree and a Bachelor of Business Administration degree from Washburn University, Topeka, Kansas. Mr. Winchell is a certified public accountant.

Item 2. Description of Property

The Company conducts its business at its main office and branch office in Storm Lake, Iowa, and five other locations in its primary market area in Northwest Iowa. The Company also operates two offices in Brookings, South Dakota, through the Company's Brookings Federal Bank division of the Bank; two offices in Des Moines, Iowa, through the Company's Iowa Savings Bank division of the Bank; one office in Sioux Falls, South Dakota, through the Company's Sioux Falls division of the Bank; and three offices in West Central Iowa through the Company's Security State Bank subsidiary.

The Company owns all of its offices, except for the branch offices located at Storm Lake Plaza, Storm Lake, Iowa and West Des Moines, Iowa as to which the land is leased. The total net book value of the Company's premises and equipment (including land, building and leasehold improvements and furniture, fixtures and equipment) at September 30, 2000 was $6.1 million. See Note 7 of Notes to Consolidated Financial Statements in the Annual Report.

The Company believes that its current facilities are adequate to meet the present and foreseeable needs of the Company and the Banks. The Company has begun construction of a new office located in Sioux Falls, South Dakota and has initiated plans to construct a new office to be located in Urbandale, Iowa. The construction of the Sioux Falls office is anticipated to be completed during the second quarter of the 2001 fiscal year and the construction of the Urbandale office is anticipated to be completed by the end of the 2001 fiscal year. In November 1996, the Company purchased an existing building located in West Des Moines, Iowa. In March 1998, the facility opened as an additional office of the Iowa Savings Bank Division of First Federal.

The Bank maintains an on-line data base with a service bureau, whose primary business is providing such services to financial institutions. The net book value of the data processing and computer equipment utilized by the Company at September 30, 2000 was approximately $380,000.

Item 3. Legal Proceedings

The Company is involved as plaintiff or defendant in various legal actions arising in the normal course of its business. While the ultimate outcome of these proceedings cannot be predicted with certainty, it is the opinion of management, after consultation with counsel representing Company in the proceedings, that the resolution of these proceedings should not have a material effect on Company's consolidated financial position or results of operations.

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

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended September 30, 2000.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

Page 56 of the attached 2000 Annual Report to Shareholders is herein incorporated by reference.

Item 6. Selected Financial Data

Page 10 of the attached 2000 Annual Report to Shareholders is herein incorporated by reference.

Item 7. Management's Discussion and Analysis or Financial Condition and Results of Operation

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Pages 11 through 21 of the attached 2000 Annual Report to Shareholders are herein incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Pages 17 through 19 of the attached 2000 Annual Report to Shareholders are herein incorporated by reference.

Item 8. Financial Statements and Supplementary Data

Pages 22 through 52 of the attached 2000 Annual Report to Shareholders are herein incorporated by reference.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

The information required by Item 304 of Regulation S-K regarding the change in the Company's accountants was previously filed as part of the Company's Current Report on Form 8-K filed on May 30, 2000, as amended on Form 8-K/A filed on June 13, 2000 and the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2001, filed on December 18, 2000.

Item 10. Directors and Executive Officers of the Registrant

Directors

Information concerning directors of the Company is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2001, filed on December 18, 2000.

Executive Officers

Information concerning the executive officers of the Company is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2001, filed on December 18, 2000 and from the information set forth under the caption "Executive Officers of the Company Who Are Not Directors" contained in Part I of this Form 10-K.

Compliance with Section 16(a)

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the SEC reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, except as noted below, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended September 30, 2000, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owners were complied with.

Item 11. Executive Compensation

Information concerning executive compensation is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2001, filed on December 18, 2000.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2001, filed on December 18, 2000.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and transactions is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2001, filed on December 18, 2000.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following is a list of documents filed as part of this report:

(1) Financial Statements:

The following financial statements are incorporated by reference under Part II, Item 8 of this Form 10-K:

1. Report of Independent Auditors.
2. Consolidated Balance Sheets as of September 30, 2000 and 1999.
3. Consolidated Statements of Income for the Years Ended September 30, 2000, 1999 and 1998.
4. Consolidated Statements of Changes in Shareholders' Equity for the Years Ended September 30, 2000, 1999 and 1998.
5. Consolidated Statements of Cash Flows for the Years Ended September 30, 2000, 1999 and 1998.
6. Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

All financial statement schedules have been omitted as the information is not required under the related instructions or is inapplicable.

(3) Exhibits:

See Index of Exhibits.

(b) Reports on Form 8-K:

There were no Form 8-Ks filed by the Registrant during the three month period ended September 30, 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: December 28, 2000 By: /s/ James S. Haahr
James S. Haahr
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By:/s/ James S. Haahr *James S. Haahr, Chairman of the Board President and Chief Executive Officer (Principal Executive Officer)*	*Date: December 28, 2000*
By: /s/ E. Wayne Cooley *E. Wayne Cooley, Director*	*Date: December 28, 2000*
By: /s/ E. Thurman Gaskill *E. Thurman Gaskill, Director*	*Date: December 28, 2000*
By: /s/ Rodney G. Muilenburg *Rodney G. Muilenburg, Director*	*Date: December 28, 2000*
By:/s/ Jeanne Partlow *Jeanne Partlow, Director*	*Date: December 28, 2000*
By: /s/ G. Mark Mickelson *G. Mark Mickelson, Director*	*Date: December 28, 2000*
By: /s/ J. Tyler Haahr *J. Tyler Haahr, Director, Senior Vice President, Secretary and Chief Operating Officer*	*Date: December 28, 2000*
By: /s/ Donald J. Winchell *Donald J. Winchell, Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)*	*Date: December 28, 2000*

INDEX TO EXHIBITS

Exhibit Number	Description
3(i)	Registrant's Articles of Incorporation as currently in effect, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), are incorporated herein by reference.
3(ii)	Registrant's Bylaws, as amended and restated, filed as Exhibit 3(ii) to Registrant's Report on Form 10-K for the fiscal year ended September 30, 1998 (Commission File No. 0-22140), is incorporated herein by reference.
4	Registrant's Specimen Stock Certificate, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.1	Registrant's 1995 Stock Option and Incentive Plan, filed as Exhibit 10.1 to Registrant's Report on Form 10-KSB for the fiscal year ended September 30, 1996 (Commission File No. 0-22140), is incorporated herein by reference.
10.2	Registrant's 1993 Stock Option and Incentive Plan, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.3	Registrant's Recognition and Retention Plan, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.4	Employment agreement between First Federal Savings Bank of the Midwest and J. Tyler Haahr, filed as an exhibit to Registrant's Report on Form 10-K for the fiscal year ended September 30, 1997 (Commission File No. 0-22140), is incorporated herein by reference.
10.5	Registrant's Supplemental Employees' Investment Plan, filed as an exhibit to Registrant's Report on Form 10-KSB for the fiscal year ended September 30, 1994 (Commission File No. 0- 22140), is incorporated herein by reference.
10.6	Employment agreements between First Federal Savings Bank of the Midwest and James S. Haahr and Donald J. Winchell, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.7	Registrant's Executive Officer Compensation Program, filed as Exhibit 10.6 to Registrant's Report on Form 10-K for the fiscal year ended September 30, 1998 (Commission File No. 0- 22140), is incorporated herein by reference.
10.8	Registrant's Executive Officer Incentive Stock Option Plan for Mergers and Acquisitions, filed as Exhibit 10.7 to Registrant's Report on Form 10-K for the fiscal year ended September 30, 1998 (Commission File No. 0-22140), is incorporated herein by reference.
11	Statement re: computation of per share earnings (included under Note 1 and 2 of Notes to Consolidated Financial Statements in the Annual Report to Shareholders' attached hereto as Exhibit 13).
13	Annual Report to Shareholders.
21	Subsidiaries of the Registrant.
23.1	Consent of McGladery & Pullen, LLP.
23.2	Consent of Crowe, Chizek and Company LLP.
27	Financial Data Schedule (electronic filing only).
99	Report of Predecessor Accountants.

First Midwest Financial, Inc. | Annual Report 2000

The sign of
better banking

fmficash.com

Inside cover:

[GRAPHIC-Bank FLOW CHART]

Company Profile

First Midwest Financial, Inc. is a $506 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. Fifteen offices support customers in Brookings and Sioux Falls, South Dakota, and throughout central and northwest Iowa. Plans are underway to begin construction of a new Iowa Savings Bank main office in the city of Urbandale, Iowa.

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

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

Banks are members FDIC and Equal Housing Lenders.

Contents

[GRAPHIC-PHOTO OF Bryce Loring-Vice President of Lending] "We invite you to invest in us, bank with us, and experience the difference of better banking." -Bryce Loring
Vice President of Lending

Financial Highlights

	2000	1999	1998	1997	1996
At September 30					
Total assets	$ 505,590	$ 511,213	$ 418,380	$ 404,589	$ 388,008
Total loans, net	324,703	303,079	270,286	254,641	243,534
Total deposits	318,654	304,780	283,858	246,116	233,406
Shareholders' equity	40,035	39,771	42,286	43,477	43,210
Book value per common share(1)	$ 16.48	$ 15.86	$ 16.56	$ 16.11	$ 14.81
Total equity to assets	7.93%	7.78%	10.11%	10.75%	11.14%
For the Fiscal Year					
Net interest income	$ 13,832	$ 13,197	$ 12,829	$ 11,946	$ 10,359
Net income	2,328	2,641	2,785	3,642	2,414(2)
Diluted earnings per share(1)	$ 0.93	$ 1.04	$ 1.03	$ 1.28	$ 0.90(2)
Return on average assets	.46%	.54%	.68%	.98%	.77%(2)
Return on average equity	5.98%	6.35%	6.43%	8.41%	6.22%(2)

Net yield on interest-earning assets	2.79%	2.83%	3.26%	3.38%	3.47%
Cash earnings(3)	$ 2,696	$ 3,006	$ 3,150	$ 4,006	$ 2,584(2)
Cash earnings per share diluted(1) (3)	$ 1.08	$ 1.18	$ 1.17	$ 1.40	0.96(2)
Cash return on average assets(3)	.53%	.61%	.77%	1.08%	.82%(2)
Cash return on average equity(3)	6.93%	7.23%	7.27%	9.25%	6.66%(2)

[GRAPHIC - Charts: Total Assets; Total Loans, Net; Total Deposits]

Footnotes:

(1) Amounts reported have been adjusted for the three for two stock split paid January 2, 1997 in the form of a 50 percent stock dividend.
(2) Reflects the one-time, industry-wide special assessment to recapitalize the Savings Association Insurance Fund. Excluding the special assessment, Net income, Diluted earnings per share, Return on average assets, and Return on average equity would have been $3,209,000, $1.19, 1.01%, and 8.22%, respectively.
(3) Cash earnings exclude the amortization of goodwill from net income, net of related income taxes.

The Company and its subsidiaries exceed regulatory capital requirements.

Letter to Shareholders

To Our Shareholders:

This was a year of continued progress for First Midwest Financial, Inc. Our total deposits and loans climbed to record levels, while our credit quality measures outperformed national averages.

Deposits reached an all-time high of $318.7 million in 2000, a 5 percent increase from 1999, and an 85 percent increase over the past five years. Our company outpaced the average national deposit percent growth trends for commercial banks, savings banks, and total FDIC-insured domestic deposits during the past three years.(1)

In addition, the number of demand deposit accounts climbed 5 percent this year. Over the past five years we have increased demand deposit balances 109 percent. The Company will continue its strategies to attract profitable checking and money market accounts, and reduce our cost of funds.

Lending performance was also notable this past year. Net loans rose to a record $324.7 million, a 7 percent increase from 1999, and an 82 percent increase over the past five years.

The percentage of loans greater than 30 days past due to total loans dropped from 1.59 percent in 1999 to 0.71 percent in 2000, while the percentage of non-performing loans to total loans dropped from 0.73 percent to 0.09 percent. Our percentage of non-performing loans is well below the average national thrift and bank percentages for our peer group.(1) We will continue our strategies to increase loan volume without compromising credit quality standards.

While our deposit and loan operations performed well, diluted earnings per share declined from $1.04 in 1999 to $0.93 in 2000. This is primarily due to our planned restructuring of our balance sheet. We sold lower yielding assets, reinvested funds into higher yielding assets, and repaid borrowings. We expect that these transactions will increase long-term shareholder value and profitability for the Company.

Looking Ahead

The future of First Midwest Financial is its people - people who care about our customers, their communities, our shareholders, and each other. Therefore, the most important investment we make is in our people. Each person's unique talents and contributions allow us to implement strategies and achieve goals. Formalized employee training programs are being implemented to build consistent customer service standards and to support our employee development program. After all, it is our people who provide our real competitive advantage, and who are the real sign of better banking.

Resources are also dedicated to technology and product development. This past year we added QUICKbank 24-Hour Telebanking and additional services to our product mix. We also improved our information systems with upgraded networks and streamlined communication tools to help our people be more effective. An interactive website for each bank is scheduled for introduction in early 2001. On-line banking will follow later in the year.

First Midwest's website is now available with up-to-date investor information. Visit us at www.fmficash.com, and bookmark us for future reference.

While many competitors use technology to replace one- on-one service, we use it to enhance our personalized service. We believe that we can build better long-term relationships if we get to know our customers. To us, that is what being a super-community bank is all about - hometown service with larger bank resources.

We will continue to dedicate resources to expand our branch network into metropolitan areas that provide additional opportunities for growth. In September 2000, the doors to a temporary facility opened in Sioux Falls, South Dakota. We expect the construction of our permanent building to be completed in Spring 2001. Building plans are progressing for Iowa Saving Bank division's new main office in Urbandale, Iowa.

We have never been more optimistic about First Midwest Financial than we are today, and we believe our stock remains an attractive investment. The First Midwest team remains dedicated to increasing shareholder value and enhancing your investment. Thank you for your continuing support.

Sincerely,

/S/ James S. Haahr

James S. Haahr
Chairman of the Board,
President & CEO

/S/ J. Tyler Haahr

J. Tyler Haahr
Senior Vice President,
Secretary & COO

(1) Based on reports distributed by the FDIC.

Cutlines:

We have increased demand deposit balances 109 percent over the past five years. The Company will continue its strategies to attract profitable checking and money market accounts, and reduce our cost of funds.

Our focus on credit quality produces first-rate performance trends.

Charts: Non-Performing Loans to Total Loans; Delinquent loans greater than 30 Days to Total Loans

Editorial:
Our Mission Statement

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

Cutline:
"Our people are the heart of our mission, and our entire organization." -Sandra Hegland,
Vice President of
Human Resources

Tradition

We have a tradition of providing financial solutions that help our customers achieve their goals.

In fact, First Federal Savings Bank, our founding bank, was established 46 years ago to help people buy homes and earn a fair return on their savings. While our company has grown and our mission has expanded, we are still dedicated to building long-term customer relationships based on trust, respect, and integrity.

Our company's 1993 conversion to stock owner-ship enabled us to become a "super-community bank." We used the capital raised to acquire and build additional banks and broaden our branch network. We have also invested in technology to provide additional services for our customers and to streamline operations. The holding company structure is good for our customers, and is good for our banks.

Together, we are driven toward one vision: Be the bank of choice for financial services in our market areas. We believe that providing our customers with personalized service from knowledgeable financial experts will help differentiate us from our competition.

Today we have fifteen bank locations, with a new building planned for construction this year. Our assets have grown from $161 million in 1993 to $506 million in 2000. And, we now provide a wide range of financial services that help over 25,000 customers throughout the Midwest. Loyal customers are a strong indication of our success, and we look forward to earning more business in coming years.

Teamwork and Results

Our people make the difference. We work together every day to do the right things right.

That is why each year we review our past performance, update our strategies, and develop specific action plans to achieve our goals. Employees participate in the business planning process so that we all understand how we affect results.

This past year we accomplished many of our goals. We introduced new products and improved our use of technology. Employee and customer programs were established to reinforce our personalized, needs-based service. We achieved record deposit and loan balances without compromising credit quality standards. And, we expanded operations into a new market.

Our First Federal Sioux Falls division opened the doors to its temporary facility on September 6, 2000. Tony Trussell, Division President, and our top-quality customer service team are developing new customer relationships as the 12,000-square-foot permanent building is under construction. Thanks to the contributions from employees across the Company, we have enjoyed a smooth transition into the Sioux Falls community.

None of these accomplishments would be realized without the hard work of talented people. We are proud of our team and are optimistic about the years to come.

[GRAPHIC - "Do the right things right"]

Cutline:
"People helping people" is a core philosophy that helps our team do the right things right. Employees pictured left to right: Susan Mesenbrink, Deposit Account Specialist; Bradley Reichter, Branch Manager; Susanne McLaughlin, Personal Banker; Jean Engen, Assistant Vice President and Savings Manager; and John Grundmeier, Vice President of Lending.

Innovation

The only way to move ahead of the competition is to embrace change and strive toward continuous improvement in everything we do.

Our employees constantly strive to improve processes and services that benefit our customers and our company. We believe that the implementation of innovative ideas fosters healthy growth.

We view technology as an opportunity to improve operating efficiencies and to provide 24-hour service options for our customers. This year we upgraded our computer network to improve internal and external communication. We introduced QUICKbank 24-Hour Telebanking and made other additions to our product mix. We also launched fmficash.com so investors can easily access up-to- date information about our company. Watch for individual bank websites in mid-January and on-line banking introductions in late 2001.

Our products and services include: Better than Free Timeless Checking | Business and Commercial Checking | Photo QUICKcard Cash & Check | Money Market Accounts | Certificates of Deposit | QUICKbank 24-Hour Telebanking | Savings Accounts | Mortgage Lending | Business and Commercial Lending | Agricultural Lending | Consumer Lending | Lines of Credit | Credit Life Insurance | Crop Insurance | Credit Cards | Retire-ment and Trust Services | Ready Reserve | Overdraft Protection | Automated Clearing House Origination | Direct Deposit | Automatic Payment | Investments(1)

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

Cutline:
Technology provides us with opportunities to enhance our customer service and internal operations. Employees pictured left to right: Doug Waller, Assistant Vice President of Information Systems; Sandy Eickholt, Technical Services Representative; and Charles Friederichs, Vice President and Director of Information Systems.

[GRAPHIC - PEOPLE]

Real People. Real Service. Real Value.

Our banks truly believe in people helping people. It is that simple. We listen and work with our customers to provide financial solutions that help them succeed.

And unlike many national banks, our customers always talk with a real person when they call or visit one of our offices. We believe that, by getting to know our customers, we can provide better service to help them reach their goals.

We are also dedicated to being good corporate citizens. That means encouraging our people to become actively involved in their communities. This year our banks partnered with General Colin Powell and the American Bankers Association to become Banks of Promise. We dedicated financial resources and thousands of employee hours to help youth and charitable organizations. We also initiated a "Volunteer of the Year" program to recognize our people for their community orientation.

Community involvement is just one area we recognize. Our sales and service program has been rewarding our employees for their customer service, continuous improvement, great work environment, and result efforts for years. We encourage our people to expand their financial knowledge and skills. We believe that when employees are empowered to become their best, it will lead to first-rate customer service. After all, a satisfied customer is a true sign of better banking.

Cutline:
Our service scores a perfect "10" with our customers. Employee: Tracee Dierenfield, Assistant Vice President and Loan Officer; Customers: Patricia Colburn, German Instructor and Certification Officer at Buena Vista University; Matthew Huddleston, Interpreter for Arrowhead Educa- tion Agency; Sara M. Huddleston, Victim Advocate for Social Agency; and daughter Alexis N.; Kent Mauck, President of Mauck + Associates; and Darrel Hinkeldey, Farmer.

Financial Contents:

Company Vision and Mission

Vision of First Midwest
Financial, Inc.
Build the best super-
community bank
system in the Midwest.

Vision of First Midwest
Financial Banks
Be the bank of choice
for financial services
in our market area.

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

Company Values

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

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

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

Results
We are results oriented.
Meeting goals allows
the company to earn
a fair profit while servicing

our customers in an efficient and
professional manner.

Cutline:
"I am proud to be part of a growing organization - one that truly cares about its people and customers." -Sandra Castillo Bilingual Customer Service Representative

Selected Consolidated Financial Information

September 30,	2000	1999	1998	1997	1996
Selected Financial Condition Data (In Thousands)					
Total assets	$ 505,590	$ 511,213	$ 418,380	$ 404,589	$ 388,008
Loans receivable, net	324,703	303,079	270,286	254,641	243,534
Securities available for sale	147,479	178,489	120,610	115,985	109,492
Excess of cost over net assets acquired, net	3,768	4,133	4,498	4,863	5,091
Deposits	318,654	304,780	283,858	246,116	233,406
Total borrowings	143,993	164,369	89,888	112,126	106,478
Shareholders' equity	40,035	39,771	42,286	43,477	43,210
Year Ended September 30,					
Selected Operations Data (In Thousands, Except Per Share Data)					
Total interest income	$ 38,410	$ 35,373	$ 32,059	$ 29,005	$ 24,337
Total interest expense	24,578	22,176	19,230	17,059	13,978
Net interest income	13,832	13,197	12,829	11,946	10,359
Provision for loan losses	1,640	1,992	1,663	120	100
Net interest income after provision for loan losses	12,192	11,205	11,166	11,826	10,259
Total noninterest income	566	1,918	1,875	1,700	1,419
Total noninterest expense	9,408	8,645	8,253	7,382	7,568(2)
Income before income taxes and extraordinary items	3,350	4,478	4,788	6,144	4,110
Income tax expense	1,374	1,837	2,003	2,502	1,696
Income before extraordinary items	1,976	2,641	2,785	3,642	2,414
Extraordinary items, net of income tax	352	--	--	--	--
Net income	$ 2,328	$ 2,641	$ 2,785	$ 3,642	$ 2,414(2)
Earnings per common and common equivalent share:					
Income before extraordinary items (1)					
Basic earnings per share	$ 0.81	$ 1.07	$ 1.08	$ 1.34	$ 0.95(2)
Diluted earnings per share	$ 0.79	$ 1.04	$ 1.03	$ 1.28	$ 0.90(2)
Net income (1)					
Basic earnings per share	$ 0.95	$ 1.07	$ 1.08	$ 1.34	$ 0.95(2)
Diluted earnings per share	$ 0.93	$ 1.04	$ 1.03	$ 1.28	$ 0.90(2)
Year Ended September 30,					
Selected Financial Ratios and Other Data					
Performance Ratios					
Return on average assets	0.46%	0.54%	0.68%	0.98%	0.77%(2)
Return on average shareholders' equity	5.98	6.35	6.43	8.41	6.22(2)
Interest rate spread information:					
Average during the year	2.39%	2.43%	2.76%	2.80%	2.83%
End of year	2.32	2.40	2.74	2.78	2.84
Net yield on average interest-earning assets	2.79	2.83	3.26	3.38	3.47
Ratio of operating expense to average total assets	1.85	1.80	2.00	2.00	2.40
Quality Ratios					
Non-performing assets to total assets at end of year	0.15%	0.47%	1.94%	0.82%	0.75%
Allowance for loan losses to non-performing loans	1,156.13	137.16	41.15	75.36	83.49
Capital Ratios					
Shareholders' equity to total assets at end of period	7.93%	7.78%	10.11%	10.75%	11.14%
Average shareholders' equity to average assets	7.67	8.65	10.51	11.62	12.44
Ratio of average interest-earning assets to average interest-bearing liabilities	108.02	108.39	110.22	112.00	113.72
Other Data					
Cash earnings (in thousands) (3)	$ 2,696	$ 3,006	$ 3,150	$ 4,006	$ 2,584(2)
Cash earnings per share diluted (1) (3)	$ 1.08	$ 1.18	$ 1.17	$ 1.40	$ 0.96(2)
Cash return on average assets (3)	0.53%	0.61%	0.77%	1.08%	0.82%(2)
Cash return on average equity (3)	6.93	7.23	7.27	9.25	6.66(2)
Book value per common share outstanding (1)	$ 16.48	$ 15.86	$ 16.56	$ 16.11	$ 14.81
Dividends declared per share (1)	$ 0.52	$ 0.52	$ 0.48	$ 0.36	$ 0.29
Dividend payout ratio	54.83%	48.24%	44.05%	26.41%	30.90%
Number of full-service offices	14	13	13	13	12

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

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. All references to the Company prior to September 20, 1993, except where otherwise indicated, are to First Federal and its subsidiary on a consolidated basis.

The Company focuses on establishing and maintaining long-term relationships with customers, and is committed to serving the financial service needs of the communities in its market area. The Company's primary market area includes the following counties: Adair, Buena Vista, Calhoun, Ida, Guthrie, Pocahontas, Polk, and Sac located in Iowa, and 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, 2000 were $505.6 million, a decrease of $5.6 million, or 1.1%, from $511.2 million at September 30, 1999. The decrease in assets was due primarily to the reduction in securities available for sale, which was partially offset by an increase in net loans receivable.

The Company's portfolio of securities available for sale decreased $31.0 million, or 17.4%, to $147.5 million at September 30, 2000 from $178.5 million at September 30, 1999. The decrease was due to the sale of securities available for sale in a planned restructuring of the balance sheet and, in addition, was due to the normal repayment of mortgage-backed securities. The balance sheet restructuring involved the sale of lower yielding securities, the reinvestment of proceeds into higher yielding assets, and the repayment of borrowings.

The Company's portfolio of net loans receivable increased by $21.6 million, or 7.1%, to $324.7 million at September 30, 2000 from $303.1 million at September 30, 1999. Net loans receivable increased as a result of increased origination and purchase of commercial and multi-family real estate loans on existing and newly constructed properties. In addition, the increase resulted from increased origination of consumer loans and agricultural real estate loans. Conventional one to four family residential mortgage loans declined as existing originated and purchased loans repaid in amounts greater than new originations during the period. Agricultural business loans also declined as a result of repayments in excess of new originations during the period.

Customer deposit balances increased by $13.9 million, or 4.6%, from $304.8 million at September 30, 1999 to $318.7 million at September 30, 2000. The increase in deposits resulted from management's continued effort to enhance deposit product design and marketing programs. Deposit balances increased for noninterest-bearing demand accounts and time certificates of deposit in the amounts of $360,000 and $16.0 million, respectively. Interest-bearing transac-tion accounts, which include savings, NOW and money market demand accounts, declined $2.5 million as higher interest rates during the period provided incentive for the movement of funds to fixed-term certificates of deposit.

The Company's borrowings from the FHLB decreased by $21.6 million, or 13.4%, from $161.3 million at September 30, 1999 to $139.7 million at September 30, 2000. The reduction in borrowings was the result of increased deposit balances and proceeds from the sale of securities available for sale.

Shareholders' equity increased $264,000, or 0.7%, to $40.0 million at September 30, 2000 from $39.8 million at September 30, 1999. The increase in shareholders' equity is the result of net earnings during the period, which were partially offset by the effect of stock repurchases and the payment of cash dividends on common stock.

Results of Operations

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

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

The Company's noninterest income consists primarily of fees charged on transaction accounts and for the origination of loans, both of which help offset the costs associated with establishing and maintaining deposit and loan accounts. In addition, noninterest income is derived from the activities of First Federal's wholly-owned subsidiaries, First Services Financial Limited and Brookings Service Corporation. Both engage in the sale of various non-insured investment products. Historically, the Company has not derived significant income as a result of gains on the sale of securities and other assets. During the year ended September 30, 2000, the Company recorded a loss on the sale of securities available for sale in the amount of $1,021,000 resulting from the planned restructuring of the balance sheet that involved the sale of lower yielding securities, the reinvestment of funds into higher yielding assets, and the repayment of borrowings. The loss on sale of securities was partially offset by a $561,000 gain on the transfer of Federal Home Loan Bank advances. For the years ended September 30, 1999 and 1998, gains were recorded in the amounts of $332,000 and $399,000, respectively, as a result of the sale of securities available for sale.

The following table sets forth the weighted average effective interest rate on interest-earning assets and interest-bearing liabilities at the end of each of the years presented.

At September 30	2000	1999	1998
WEIGHTED AVERAGE YIELD ON			
Loans receivable	8.47%	8.09%	8.80%
Mortgage-backed securities available for sale	6.66	6.38	7.15
Securities available for sale	6.92	6.14	6.40
FHLB stock	7.10	6.25	6.75
Combined weighted average yield on interest-earning assets	7.91	7.39	8.13
WEIGHTED AVERAGE RATE PAID ON			
Demand, NOW and money market demand deposits	3.50	3.24	3.00
Savings deposits	3.05	2.50	2.48
Time deposits	6.02	5.32	5.80
FHLB advances	5.99	5.38	5.91
Other borrowed money	6.32	5.28	5.68
Combined weighted average rate paid on interest-bearing liabilities	5.59	4.99	5.39
Spread	2.32%	2.40%	2.74%

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,	2000 vs. 1999			1999 vs. 1998		
	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)
	(In Thousands)					
INTEREST-EARNING ASSETS						
Loans receivable	$ 2,081	$ 391	$ 2,472	$ 2,399	$(1,658)	$ 741
Mortgage-backed securities available for sale	651	55	706	4,088	(262)	3,826
Securities available for sale	(354)	129	(225)	(1,276)	(72)	(1,348)
FHLB stock	62	22	84	114	(19)	95
Total interest-earning assets	$ 2,440	$ 597	$ 3,037	$ 5,325	$(2,011)	$ 3,314
INTEREST-BEARING LIABILITIES						
Demand, NOW and money market deposits	$ 269	$ 146	$ 415	$ 587	$ 210	$ 797
Savings deposits	(46)	76	30	(65)	10	(55)
Time deposits	514	171	685	997	(665)	332
FHLB advances	819	433	1,252	2,233	(343)	1,890
Other borrowed money	7	13	20	(7)	(11)	(18)
Total interest-bearing liabilities	$ 1,563	$ 839	$ 2,402	$ 3,745	$ (799)	$ 2,946
Net effect on net interest income	$ 877	$(242)	$ 635	$ 1,580	$(1,212)	$ 368

First Midwest Financial, Inc. and Subsidiaries

Average Balances, Interest Rates and Yields

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

Year Ended September 30,	2000			1999			1998		
(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)	$309,768	$ 26,268	8.48%	$285,232	$23,796	8.34%	$256,482	$23,055	8.99%
Mortgage-backed securities available for sale	125,749	8,210	6.53	115,784	7,504	6.48	52,722	3,678	6.98
Securities available for sale	52,672	3,379	6.42	58,190	3,604	6.19	78,789	4,952	6.29
FHLB stock	8,190	553	6.75	7,278	469	6.44	5,514	374	6.78
Total interest-earning assets	496,379	$ 38,410	7.74%	466,484	$35,373	7.58%	393,507	$32,059	8.15%
Noninterest-earning assets	10,879			14,719			18,415		
Total assets	$507,258			$481,203			$ 411,922		
INTEREST-BEARING LIABILITIES									
Demand, NOW and money market demand deposits	$ 59,199	$ 2,145	3.62%	$ 51,778	$ 1,730	3.34%	$ 34,202	$ 933	2.73%
Savings deposits	15,986	477	2.98	17,528	447	2.55	20,090	502	2.50
Time deposits	230,992	13,015	5.63	221,873	12,330	5.56	203,932	11,998	5.88
FHLB advances	149,896	8,735	5.83	135,846	7,483	5.51	95,328	5,593	5.87
Other borrowed money	3,460	206	5.95	3,348	186	5.56	3,473	204	5.87
Total interest-bearing liabilities	459,533	$ 24,578	5.35%	430,373	$22,176	5.15%	357,025	$19,230	5.39%
Noninterest-bearing:									
Deposits	5,639			5,749			5,646		
Liabilities	3,178			3,451			5,956		
Total liabilities	468,350			439,573			368,627		
Shareholders' equity	38,908			41,630			43,295		
Total liabilities and shareholders' equity	$507,258			$481,203			$411,922		
Net interest-earning assets	$ 36,846			$ 36,111			$ 36,482		
Net interest income		$ 13,832			$ 13,197			$12,829	
Net interest rate spread			2.39%			2.43%			2.76%
Net yield on average interest-earning assets			2.79%			2.83%			3.26%
Average interest-earning assets to average interest-bearing liabilities	108.02%			108.39%			110.22%		

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

Comparison of Operating Results for the Years Ended September 30, 2000 and September 30, 1999

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

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

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

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

Provision for Loan Losses The provision for loan losses for the year ended September 30, 2000 was $1,640,000 compared to $1,992,000 for the same period in 1999. Management believes that, based on a detail review of the loan portfolio, historic loan losses, current economic conditions, and other factors, the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate reserve against potential losses from the loan portfolio.

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

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

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

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

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

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

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

Comparison of Operating Results for the Years Ended September 30, 1999 and September 30, 1998

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

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

Interest Income Interest income for the year ended September 30, 1999 increased $3,314,000, or 10.3%, to $35,373,000 from $32,059,000 for the same period in 1998. The increase reflects a $2,478,000 increase in interest earned on the portfolio of securities available for sale, which increased to $11,108,000 for the year ended September 30, 1999 from $8,630,000 in 1998. The increase in interest income from securities resulted from a higher average securities portfolio balance, which was partially offset by a lower average yield on the securities portfolio during fiscal 1999 compared to 1998. In addition, interest income was higher due to a $741,000 increase in interest earned on the loan portfolio as a result of a higher average loan portfolio balance which was partially offset by a lower average yield during fiscal 1999 compared to 1998.

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

Provision for Loan Losses The provision for loan losses for the year ended September 30, 1999 was $1,992,000 compared to $1,662,000 for the same period in 1998. Management believes that, based on a detail review of the loan portfolio, historic loan losses, current economic conditions, and other factors, the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate reserve against potential losses from the loan portfolio.

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

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

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

Asset/Liability Management
And Market Risk

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

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

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

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

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

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

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

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

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

Presented below, as of September 30, 2000 and 1999, is an analysis of the Company's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points. As illustrated in the table, the Company's NPV is generally more sensitive to rising rate changes than declining rates. This occurs primarily because, as rates rise, the market value of fixed- rate loans and mortgage-backed securities declines due to both the rate increase and the related slowing of prepayments on loans. When rates decline, the Company does not experience

Change in Interest Rate (Basis Points)	Board Limit % Change	At September 30, 2000 $ Change	At September 30, 2000 % Change	At September 30, 1999 $ Change	At September 30, 1999 % Change
(Dollars in Thousands)					
+200 bp	(40)%	$(7,202)	(18)%	$(10,597)	(26)%
+100 bp	(25)	(3,323)	(8)	(5,029)	(12)
0	-	-	-	-	-
-100 bp	(10)	2,659	6	3,535	9
-200 bp	(15)	1,657	4	3,875	9

a significant rise in market value for these loans and mortgage-backed securities because borrowers prepay at relatively higher rates. The value of the Company's deposits and borrowings change in approximately the same proportion in rising and falling rate scenarios. The Company experienced a decrease in interest rate sensitivity at September 30, 2000 as compared to the end of the previous year due to the reduction, through sale and repayment, of fixed-rate mortgage-backed securities with longer expected terms to maturity and, in addition, the lengthening of the average maturity of FHLB advances.

Certain shortcomings are inherent in the method of analysis presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets such as adjustable-rate mortgage loans have features 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 tables. Finally, the ability of some borrowers to service their debt may decrease in the event of an interest rate increase. The Company considers all of these factors in monitoring its exposure to interest rate risk.

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

Asset Quality It is management's belief, based on information available, that the Company's current asset quality is satisfactory. At September 30, 2000, non- performing assets, consisting of non-accruing loans, accruing loans delinquent 90 days or more, real estate owned, and repossessed consumer property, totaled $755,000, or 0.15% of total assets, compared to $2,381,000, or 0.47% of total assets, for the fiscal year ended 1999. The decrease in non-performing assets during fiscal 2000 reflects management's continued effort to strengthen the quality of its loan portfolio through adherence to written underwriting guidelines, an on-going credit review program, and diligent collection practices.

The Company maintains an allowance for loan losses because of the potential that some loans may not be repaid in full. At September 30, 2000, the Company had an allowance for loan losses in the amount of $3,590,000 as compared to $3,093,000 at September 30, 1999. 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 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, 2000, $734,000 of the allowance for loan losses was allocated to impaired loans (See Note 4 of Notes to Consolidated Financial Statements), $500,000 was allocated to identified problem loan situations, and $2,356,000 was allocated as a reserve against losses from the overall loan portfolio. At September 30, 1999, $438,000 of the allowance for loan losses was allocated to impaired loans, $670,000 was allocated to identified problem loan situations, and $1,985,000 was allocated as a reserve against losses from the overall loan portfolio.

The September 30, 2000 allowance for loan losses that was allocated to impaired loans was $734,000, which is 12.9% of impaired loans as of that date. The September, 30 1999 allowance allocated to impaired loans was $438,000, which is 10.9% of impaired loans at that date. The increase in the dollar amount of the allocated allowance is due to the relative increase in total impaired loans between the periods and the increase in the allocated allowance as a percentage of total impaired loans is a result of the specific analysis performed on a loan-by-loan basis as described above.

The September 30, 2000 allowance allocated to other identified problem loan situations was $500,000 as compared to $670,000 at September 30, 1999, a decrease of $170,000. This change is a result of the specific analysis performed on a loan-by-loan basis as described above.

The portion of the September 30, 2000 allowance that was not specifically allocated was $2,356,000 as compared to $1,985,000 at September 30,1999, an increase of $371,000. This increase was primarily due to an increase in the size of the loan portfolio and a shift in the mix of the loan portfolio from single-family loans to 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.

Federal regulations require First Federal to main-tain minimum levels of liquid assets. Currently, First Federal is required to maintain liquid assets of at least 4% of the average daily balance of net withdrawable savings deposits and borrowings payable on demand in one year or less during the preceding calendar quarter. Liquid assets for purposes of this ratio include cash, certain time deposits, U.S. Government, governmental agency, and corporate securities and obligations, unless otherwise pledged. First Federal has historically maintained its liquidity ratio at levels in excess of those required. First Federal's regulatory liquidity ratios were 8.7%, 9.1% and 15.4% at September 30, 2000, 1999 and 1998, respectively.

Liquidity management is both a daily and long- term function of the Company's management strategy. The Company adjusts its investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) the projected availability of purchased loan products, (iii) expected deposit flows,
(iv) yields available on interest- bearing deposits, and (v) the objectives of its asset/liability management program. Excess liquidity is generally invested in interest-earning overnight deposits and other short-term government agency obligations. If the Company requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the Federal Home Loan Bank of Des Moines and has collateral eligible for use with reverse repurchase agreements.

The primary investing activities of the Company are the origination and purchase of loans and the purchase of securities. During the years ended September 30, 2000, 1999 and 1998, the Company originated loans totaling $104.3 million, $143.3 million and $147.2 million, respectively. Purchases of loans totaled $55.6 million, $77.3 million and $36.9 million during the years ended September 30, 2000, 1999 and 1998, respectively. During the years ended September 30, 2000, 1999 and 1998, the Company purchased mortgage-backed securities and other securities available for sale in the amount of $515,000, $125.4 million and $89.9 million, respectively.

At September 30, 2000, the Company had outstanding commitments to originate and purchase loans of $14.8 million. (See Note 14 of Notes to Consolidated Financial Statements.) Certificates of deposit scheduled to mature in one year or less from September 30, 2000 total $132.3 million. Based on its historical experience, management believes that a significant portion of such deposits will remain with the Company, however, there can be no assurance that the Company can retain all such deposits. Management believes that loan repayment and other sources of funds will be adequate to meet the Company's foreseeable short- and long-term liquidity needs.

During fiscal year 2000, the Company began construction of a new office facility in Sioux Falls, South Dakota. The construction of this office is expected to be completed during the second quarter of the 2001 fiscal year. In addition, the Company has initiated plans to construct a new office to be located in Urbandale, Iowa, which is anticipated to be completed by the end of the 2001 fiscal year. The source of funds for capital improvements of this type is from the normal operations of the Company.

On September 20, 1993, the Bank converted from a federally chartered mutual savings and loan association to a federally chartered stock savings bank. At that time, a liquidation account was established for the benefit of eligible account holders who continue to maintain their account with the Bank after the conversion. The liquidation account is reduced annually to the extent that eligible account holders have reduced their qualifying deposits. At September 30, 2000, the liquidation account approximated $2.5 million.

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

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

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

SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" was issued in September 2000, and replaces SFAS No. 125 of the same title. SFAS 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. The adoption of SFAS No. 140 is not expected to have a material impact on the results of operations or financial condition of the Company.

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

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

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

Consolidated Balance Sheets
September 30, 2000 and 1999

	2000	1999
ASSETS		
Cash and due from banks	$ 984,937	$ 1,165,895
Interest-bearing deposits in other financial institutions	5,937,594	4,208,016
Total cash and cash equivalents	6,922,531	5,373,911
Securities available for sale	147,478,931	178,489,030
Loans receivable, net of allowance for loan losses of $3,589,873 in 2000 and $3,092,628 in 1999	324,702,629	303,078,500
Federal Home Loan Bank (FHLB) stock, at cost	8,327,600	8,125,800
Accrued interest receivable	5,216,929	5,046,234
Premises and equipment, net	6,091,741	4,770,056
Foreclosed real estate	445,133	142,901
Other assets	6,404,936	6,186,320
Total assets	$ 505,590,430	$ 511,212,752
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Noninterest-bearing demand deposits	$ 6,040,991	$ 5,680,923
Savings, NOW and money market demand deposits	72,508,530	75,003,028
Time certificates of deposit	240,104,200	224,095,970
Total deposits	318,653,721	304,779,921
Advances from FHLB	139,738,451	161,348,071
Securities sold under agreements to repurchase	4,254,965	3,020,951
Advances from borrowers for taxes and insurance	461,514	422,593
Accrued interest payable	1,006,341	875,365
Accrued expenses and other liabilities	1,440,353	995,103
Total liabilities	465,555,345	471,442,004
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 2,431,574 shares outstanding at September 30, 2000; 2,957,999 shares issued and 2,507,073 shares outstanding at September 30, 1999	29,580	29,580
Additional paid-in capital	20,976,107	21,305,937
Retained earnings - substantially restricted	30,404,386	29,352,943
Accumulated other comprehensive income (loss)	(2,553,891)	(2,520,633)
Unearned Employee Stock Ownership Plan shares	--	(167,200)
Treasury stock, 526,425 and 450,926 common shares, at cost, at September 30, 2000 and 1999, respectively	(8,821,097)	(8,229,879)
Total shareholders' equity	40,035,085	39,770,748
Total liabilities and shareholders' equity	$ 505,590,430	$ 511,212,752

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income
Years ended September 30, 2000, 1999 and 1998

	2000	1999	1998
Interest and dividend income:			
Loans receivable, including fees	$ 26,267,638	$23,795,796	$ 23,054,813
Securities available for sale	11,589,221	11,108,170	8,629,761
Dividends on FHLB stock	553,165	468,765	374,220
	38,410,024	35,372,731	32,058,794
Interest expense:			
Deposits	15,636,793	14,506,472	13,432,454
FHLB advances and other borrowings	8,941,569	7,669,408	5,797,499
	24,578,362	22,175,880	19,229,953
Net interest income	13,831,662	13,196,851	12,828,841
Provision for loan losses	1,640,000	1,992,000	1,662,472
Net interest income after provision for loan losses	12,191,662	11,204,851	11,166,369
Noninterest income:			
Loan fees and deposit service charges	1,310,642	1,346,117	1,263,367
Gain (loss) on sales of securities available for sale, net	(1,020,885)	331,611	398,903
Gain (loss) on sales of foreclosed real estate, net	(12,033)	16,513	(33,034)
Brokerage commissions	131,801	79,159	52,479
Other income	156,707	144,625	193,158
	566,232	1,918,025	1,874,873
Noninterest expense:			
Employee compensation and benefits	5,830,791	5,135,672	4,644,809
Occupancy and equipment expense	1,301,495	1,158,946	1,133,187
SAIF deposit insurance premium	89,990	155,901	143,199
Data processing expense	410,645	378,709	339,385
Provision for losses on foreclosed real estate	--	--	299,532
Other expense	1,775,122	1,815,730	1,692,728
	9,408,043	8,644,958	8,252,840
Income before income taxes	3,349,851	4,477,918	4,788,402
Income tax expense	1,374,220	1,836,786	2,003,520
Net income before extraordinary item	1,975,631	2,641,132	2,784,882
Extraordinary item, gain on extinguishment of debt, less income tax effect of $208,600	351,995	--	--
Net income	$ 2,327,626	$ 2,641,132	$ 2,784,882
Earnings per common and common equivalent share:			
Basic earnings per common share:			
Income before extraordinary item	$ 0.81	$ 1.07	$ 1.08
Extraordinary item, net of income taxes	0.14	--	--
Net income	$ 0.95	$ 1.07	$ 1.08
Diluted earnings per common share:			
Income before extraordinary item	$ 0.79	$ 1.04	$ 1.03
Extraordinary item, net of income taxes	0.14	--	--
Net income	$ 0.93	$ 1.04	$ 1.03

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity
Years ended September 30, 2000, 1999 and 1998

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Unearned Employee Stock Ownership Plan Shares
Balance at September 30, 1997	$ 29,580	$ 20,984,754	$ 26,427,657	$ 960,371	$(567,200)
Comprehensive income:					
Net income for the year ended September 30, 1998	--	--	2,784,882	--	--
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	--	--	--	(161,551)	--
Total comprehensive income					
Purchase of 152,226 common shares of treasury stock	--	--	--	--	--
30,000 common shares committed to be released under the ESOP	--	454,460	--	--	200,000
Cash dividends declared on common stock ($.48 per share)	--	--	(1,226,725)	--	--
Purchase of 1,033 common shares upon exercise of stock options	--	--	--	--	--
Issuance of 7,600 common shares from treasury stock due to exercise of stock options	--	(109,139)	--	--	--
Balance, September 30, 1998	$ 29,580	$ 21,330,075	$ 27,985,814	$ 798,820	$(367,200)
Balance, September 30, 1998	$ 29,580	$ 21,330,075	$ 27,985,814	$ 798,820	$(367,200)
Comprehensive income:					
Net income for the year ended September 30, 1999	--	--	2,641,132	--	--
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	--	--	--	(3,319,453)	--
Total comprehensive income (loss)					
Purchase of 79,647 common shares of treasury stock	--	--	--	--	--
30,000 common shares committed to be released under the ESOP	--	255,220	--	--	200,000
Amortization of management recognition and retention plan common shares and tax benefits of restricted stock under the plans	--	101,634	--	--	--
Cash dividends declared on common stock ($.52 per share)	--	--	(1,274,003)	--	--
Issuance of 23,051 common shares from treasury stock due to exercise of stock options	--	(222,026)	--	--	--
Issuance of 10,424 common shares from treasury stock for award of stock under management recognition and retention plans	--	(158,966)	--	--	--
Balance, September 30, 1999	$ 29,580	$ 21,305,937	$ 29,352,943	$(2,520,633)	$(167,200)

	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 1997	$(4,358,158)	$ 43,477,004
Comprehensive income:		
Net income for the year ended September 30, 1998	--	2,784,882
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	--	(161,551)
Total comprehensive income		2,623,331
Purchase of 152,226 common shares of treasury stock	(3,271,203)	(3,271,203)
30,000 common shares committed to be released under the ESOP	--	654,460
Cash dividends declared on common stock ($.48 per share)	--	(1,226,725)
Purchase of 1,033 common shares upon exercise of stock options	(21,972)	(21,972)
Issuance of 7,600 common shares from treasury stock due to exercise of stock options	159,807	50,668
Balance, September 30, 1998	$(7,491,526)	$ 42,285,563
Balance, September 30, 1998	$(7,491,526)	$ 42,285,563
Comprehensive income:		
Net income for the year ended September 30, 1999	--	2,641,132
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	--	(3,319,453)
Total comprehensive income (loss)		(678,321)
Purchase of 79,647 common shares of treasury stock	(1,289,186)	(1,289,186)
30,000 common shares committed to be released under the ESOP	--	455,220
Amortization of management recognition and retention plan common shares and tax benefits of restricted stock under the plans	--	101,634
Cash dividends declared on common stock ($.52 per share)		
Issuance of 23,051 common	--	(1,274,003)
shares from treasury stock due to exercise of stock options	391,867	169,841
Issuance of 10,424 common shares from treasury stock for award of stock under management recognition and retention plans	158,966	--
Balance, September 30, 1999	$(8,229,879)	$ 39,770,748

Consolidated Statements of Changes in Shareholders' Equity
(cont.)
Years ended September 30, 2000, 1999 and 1998

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Unearned Employee Stock Ownership Plan Shares
Balance, September 30, 1999	$ 29,580	$ 21,305,937	$ 29,352,943	$(2,520,633)	$(167,200)
Comprehensive income:					
Net income for the year ended September 30, 2000	--	--	2,327,626	--	--
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	--	--	--	(33,258)	--
Total comprehensive income					
Purchase of 129,999 common shares of treasury stock	--	--	--	--	--
ESOP stock released for allocation	--	103,664	--	--	167,200
Issuance of 54,500 common shares from treasury stock due to exercise of stock options	--	(467,372)	--	--	--
Cash dividends declared on common stock ($.52 per share)	--	--	(1,276,183)	--	--
Amortization of management recognition and retention plan common shares and tax benefits of restricted stock under the plans	--	33,878	--	--	--
Balance, September 30, 2000	$ 29,580	$ 20,976,107	$ 30,404,386	$(2,553,891)	$ --

	Treasury Stock	Total Shareholders' Equity
Balance, September 30, 1999	$(8,229,879)	$ 39,770,748
Comprehensive income:		
Net income for the year ended September 30, 2000	--	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)
Total comprehensive income		2,294,368
Purchase of 129,999 common shares of treasury stock	(1,478,508)	(1,478,508)
ESOP stock released for allocation	--	270,864
Issuance of 54,500 common shares from treasury stock due to exercise of stock options	887,290	419,918
Cash dividends declared on common stock ($.52 per share)	--	(1,276,183)
Amortization of management recognition and retention plan common shares and tax benefits of restricted stock under the plans	--	33,878
Balance, September 30, 2000	$(8,821,097)	$ 40,035,085

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
Years Ended September 30, 2000, 1999 and 1998

	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,327,626	$ 2,641,132	$ 2,784,882
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion, net	1,522,239	1,757,207	973,454
Provision for loan losses	1,640,000	1,992,000	1,662,472
Provision for losses on foreclosed real estate	--	--	299,532
Gain on transfer of FHLB advances	(560,595)	--	--
(Gain) loss on sales of securities available for sale, net	1,020,885	(331,611)	(398,903)
Proceeds from the sales of loans held for sale	1,435,581	7,403,780	5,613,115
Originations of loans held for sale	(1,435,581)	(7,403,780)	(5,613,115)
(Gain) loss on sales of foreclosed real estate, net	12,033	(16,513)	33,034
Net change in:			
Accrued interest receivable	(170,695)	(77,627)	397,502
Other assets	(505,918)	113,315	46,622
Accrued interest payable	130,976	40,624	(231,005)
Accrued expenses and other liabilities	445,250	360,857	(152,159)
Net cash provided by operating activities	5,861,801	6,479,384	5,415,431
CASH FLOWS FROM INVESTING ACTIVITIES			
Net change in interest-bearing deposits in other financial institutions	--	--	200,000
Purchase of securities available for sale	(515,000)	(125,354,705)	(89,877,636)
Proceeds from sales of securities available for sale	20,275,060	24,791,295	18,280,412
Proceeds from maturities and principal repayment of securities available for sale	9,822,708	37,255,192	67,062,074
Loans purchased	(55,565,541)	(77,329,717)	(36,947,582)
Net change in loans	31,437,629	42,151,758	18,415,456
Proceeds from sales of foreclosed real estate	498,316	1,357,430	440,401
Purchase of FHLB stock	(201,800)	(2,620,000)	(447,700)
Proceeds from redemption of FHLB stock	--	--	571,200
Purchase of premises and equipment	(1,770,906)	(1,110,859)	(227,895)
Net cash provided by (used in) investing activities	3,980,466	(100,859,606)	(22,531,270)

Consolidated Statements of Cash Flows (cont.)
Years Ended September 30, 2000, 1999 and 1998

	2000	1999	1998
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in noninterest-bearing demand, savings, NOW and money market demand deposits	$ (2,134,430)	$ 17,956,774	$ 7,316,146
Net change in time deposits	16,008,230	2,964,995	30,426,308
Proceeds from advances from FHLB	789,920,595	278,950,000	198,850,000
Repayments of advances from FHLB	(810,969,620)	(202,865,491)	(221,012,663)
Net change in securities sold under agreements to repurchase	1,234,014	(1,053,616)	2,274,567
Net change in other borrowings	--	(550,000)	(2,350,000)
Net change in advances from borrowers for taxes and insurance	38,921	17,375	(44,269)
Cash dividends paid	(1,276,183)	(1,274,003)	(1,226,725)
Proceeds from exercise of stock options	363,335	169,841	28,696
Purchase of treasury stock	(1,478,509)	(1,289,186)	(3,271,203)
Net cash provided by (used in) financing activities	(8,293,647)	93,026,689	10,990,857
Net change in cash and cash equivalents	1,548,620	(1,353,533)	(6,124,982)
CASH AND CASH EQUIVALENTS			
Beginning of year	5,373,911	6,727,444	12,852,426
End of year	$ 6,922,531	$ 5,373,911	$ 6,727,444
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 24,447,386	$ 22,135,256	$ 19,460,958
Income taxes	2,038,500	1,919,389	1,795,805
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES			
Loans transferred to foreclosed real estate	$ 812,581	$ 420,501	$ 1,679,984

See Notes to Consolidated Financial Statements.

First Midwest Financial, Inc. and Subsidiaries

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., a bank holding company located in Storm Lake, Iowa, (the "Company") and its wholly-owned subsidiaries which include First Federal Savings Bank of the Midwest, a federally chartered savings bank whose primary regulator is the Office of Thrift Supervision, (the "Bank" or "First Federal"), Security State Bank, a state chartered commercial bank whose primary regulator is the Federal Reserve, ("Security"), First Services Financial Limited, which offers brokerage services and non-insured investment products and Brookings Service Corporation. All significant intercompany balances and transactions have been eliminated.

Nature of Business, Concentration of Credit Risk and Industry Segment Information: The primary source of income for the Company is the purchase or origination of consumer, commercial, agricultural commercial real estate, and residential real estate loans. See Note 4 for a discussion of concentrations of credit risk. 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 primrily 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, 2000 and 1999, trust assets totaled approximately $14,473,000 and $14,405,000, respectively.

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

Certain Significant Estimates: The allowance for loan losses, fair values of securities and other financial instruments, and stock-based compensation expense, involve certain significant estimates made by management. These estimates are reviewed by management routinely and it is reasonably possible that circumstances that exist at September 30, 2000 may change in the near-term future and that the effect could be material to the consolidated financial statements.

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

Securities: The Company classifies all securities as available for sale. Available for sale securities are those the Company may decide to sell if needed for liquidity, asset-liability management or other reasons. Available for sale securities are reported at fair value, with net unrealized gains and losses reported as other comprehensive income or loss and as a separate component of shareholders' equity, net of tax.

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

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

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

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

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

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

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

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

Smaller-balance homogeneous loans are evaluated for impairment in total. Such loans include residential first mortgage loans secured by one-to-four family residences, residential construction loans, and automobile, manufactured homes, home equity and second mortgage loans. Commercial 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: acquired through, or in lieu of, loan foreclosure are initially recorded at fair value at the date of acquisition, establishing a new cost basis. Any reduction to fair value from the carrying value of the related loan at the time of acquisition is accounted for as a loan loss and charged against the allowance for loan losses. Valuations are periodically performed by management and valuation allowances are adjusted through a charge to income for changes in fair value or estimated selling costs.

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

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

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

Financial Instruments with Off-Balance-Sheet Risk: The Company, in the normal course of business, makes commitments to make loans which are not reflected in the consolidated financial statements. A summary of these commitments is disclosed in Note 15.

Intangible Assets: Goodwill arising from the acquisition of subsidiary banks is amortized over l5 years using the straight-line method. As of September 30, 2000 and 1999, unamortized goodwill totaled $3,767,951 and $4,132,883, respectively. Amortization expense was $364,932, $364,932 and $364,932 for each of the years ended September 30, 2000, 1999 and 1998, respectively.

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

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

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

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

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

SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" was issued in September 2000, and replaces SFAS No. 125 of the same title. SFAS No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. The adoption of SFAS No. 140 is not expected to have a material impact on the results of operations or financial condition of the Company.

Earnings Per Common Share Note 2.

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.

	2000	1999	1998
Basic earnings per common share:			
Numerator:			
Net income before extraordinary item	$ 1,975,631	$ 2,641,132	$ 2,784,882
Extraordinary item, gain on extinguishment of debt, less income tax effect of $208,600	351,995	--	--
Net Income	$ 2,327,626	$ 2,641,132	$ 2,784,882
Denominator, weighted average common shares outstanding	2,464,829	2,510,494	2,646,105
Less weighted average unallocated ESOP shares	(11,535)	(41,327)	(71,327)
Weighted average common shares outstanding for basic earnings per common share	2,453,294	2,469,167	2,574,778
Basic earnings per common share:			
Earnings per common share before extraordinary item	$ 0.81	$ 1.07	$ 1.08
Extraordinary item per common share	0.14	--	--
Earnings per common share	$ 0.95	$ 1.07	$ 1.08

Earnings Per Common Share (cont.)

	2000	1999	1998
Diluted earnings per common share:			
Numerator:			
Net income before extraordinary item	$1,975,631	$2,641,132	$2,784,882
Extraordinary item, gain on extinguishment of debt, less income tax effect of $208,600	351,995	--	--
Net income	$2,327,626	$2,641,132	$2,784,882
Denominator, weighted average common shares outstanding for basic earnings per common share	2,453,294	2,469,167	2,574,778
Add dilutive effects of assumed exercises of stock options and average nonvested MRRP shares, net of tax benefits	40,661	79,681	127,862
Weighted average common and dilutive potential common shares outstanding	2,493,955	2,548,848	2,702,640
Diluted earnings per common share:			
Diluted earnings per common share before extraordinary item	$ 0.79	$ 1.04	$ 1.03
Diluted extraordinary item per common share	0.14	--	--
Diluted earnings per common share	$ 0.93	$ 1.04	$ 1.03

Stock options totaling 171,096 shares were not considered in computing diluted earnings per common share for the year ended September 30, 2000, because they were not dilutive.

During the year ended September 30, 2000, the Company acquired approximately 5.1% (129,999 shares) of its beginning of year outstanding common shares under its common stock repurchase program. This repurchase will affect the Company's future earnings per common share computations by reducing amounts available for investment and weighted average shares outstanding.

Securities Note 3.

Year end securities available for sale were as follows:

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

1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Trust preferred	$ 27,148,725	$ 34,696	$ (476,743)	$ 26,706,678
Obligations of states and political subdivisions	1,360,307	37,368	(10,830)	1,386,845
U.S. Government and federal agencies	15,922,716	--	(430,409)	15,492,307
Mortgage-backed securities	136,600,215	425,464	(3,596,526)	133,429,153
	181,031,963	497,528	(4,514,508)	177,014,983
Marketable equity securities	1,471,705	302,168	(299,826)	1,474,047
	$182,503,668	$ 799,696	$ (4,814,334)	$178,489,030

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, 2000	Amortized Cost	Fair Value
Due in one year or less	$ 210,000	$ 211,010
Due after one year through five years	664,591	685,359
Due after five years through ten years	16,284,412	15,719,747
Due after ten years	28,159,373	26,899,451
	45,318,376	43,515,567
Mortgage-backed securities	104,795,500	102,537,560
	$150,113,876	$146,053,127

Activities related to the sale of securities available for sale are summarized below. Included in gross gains (losses) on sales in 2000 is an impairment loss of approximately $142,000.

	2000	1999	1998
Proceeds from sales	$ 20,275,060	$ 24,791,295	$ 18,280,412
Gross gains on sales	-	331,611	398,903
Gross (losses) on sales	(878,679)	-	-

Note 4. Loans Receivable, Net
Year end loans receivable were as follows:

	2000	1999
One to four family residential mortgage loans:		
Insured by FHA or guaranteed by VA	$ 127,377	$ 107,610
Conventional	105,574,680	110,209,779
Construction	31,301,308	28,379,330
Commercial and multi-family real estate loans	103,595,098	85,793,177
Agricultural real estate loans	10,894,866	9,873,850
Commercial business loans	29,331,875	29,941,661
Agricultural business loans	26,810,047	29,284,440
Consumer loans	26,483,135	23,425,672
	334,118,386	317,015,519
Less:		
Allowance for loan losses	(3,589,873)	(3,092,628)
Undistributed portion of loans in process	(5,424,794)	(10,494,446)
Net deferred loan origination fees	(401,090)	(349,945)
	$ 324,702,629	$ 303,078,500

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

	2000	1999	1998
Beginning balance	$ 3,092,628	$ 2,908,902	$ 2,379,091
Provision for loan losses	1,640,000	1,992,000	1,662,472
Recoveries	126,887	58,240	33,635
Charge-offs	(1,269,642)	(1,866,514)	(1,166,296)
Ending balance	$ 3,589,873	$ 3,092,628	$ 2,908,902

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 $136,798,000 at September 30, 2000 and were secured by properties located, as a percentage of total loans, as follows: 13% in Washington, 5% in North Carolina, 4% in Minnesota, 4% in Iowa, 3% in Wisconsin, 2% in South Dakota, 2% in New Mexico, 2% in Arizona and the remaining 6% in 17 other states. The Company's purchased loans totaled approximately $125,475,000 at September 30, 1999 and were secured by properties located, as a percentage of total loans, as follows: 12% in Washington, 6% in North Carolina, 5% in Minnesota, 3% in Iowa, 2% in

Wisconsin, 2% in New Mexico, 2% in South Dakota, 2% in Nebraska and the remaining 6% in 20 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 $18,333,000 and $9,848,000 of loans secured by hotel properties and $17,216,000 and $13,022,000 of loans secured by assisted living facilities at September 30, 2000 and 1999, respectively. The remainder of the commercial real estate portfolio is diversified by industry. The Company's policy for requiring collateral and guarantees varies with the creditworthiness of each borrower.

The amount of restructured and related party loans as of September 30, 2000 and 1999 were not significant. The amount of nonaccruing loans as of September 30, 2000 and 1999 were approximately $311,000 and $2,239,000, respectively.

Impaired loans were as follows:

	2000	1999
Year-end loans with no allowance for loan losses allocated	$ --	$ 109,461
Year-end loans with allowance for loan losses allocated	5,693,460	4,019,156
Amount of the allowance allocated	734,237	438,452
Average of impaired loans during the year	3,954,277	3,188,310
Interest income recognized during impairment	374,205	206,778
Cash basis interest income recognized	--	--

Foreclosed Real Estate Note 5.

Year end foreclosed real estate was as follows:

	2000	1999
Foreclosed real estate	$445,133	$142,901
Less allowance for foreclosed real estate losses	--	--
	$445,133	$142,901

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

	2000	1999	1998
Balance, beginning of period	$ --	$ 299,532	$ --
Provision for losses on foreclosed real estate		--	299,532
Less losses charged against allowance	--	(299,532)	--
Balance, end of period	$ --	$ --	$299,532

Note 6. Loan Servicing

Mortgage loans serviced for others are not reported as assets. The unpaid principal balances of these loans at year end were as follows:

	2000	1999
Mortgage loan portfolios serviced for FNMA	$ 5,695,000	$ 4,941,000
Other	16,096,000	11,040,000
	$21,791,000	$15,981,000

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $12,000 and $97,000 at September 30, 2000 and 1999, respectively.

Note 7. Premises and Equipment, Net

Year end premises and equipment were as follows:

	2000	1999
Land	$ 1,782,970	$ 935,289
Buildings	5,214,003	4,858,210
Furniture, fixtures and equipment	3,430,664	2,969,748
	10,427,637	8,763,247
Less accumulated depreciation	(4,335,896)	(3,993,191)
	$ 6,091,741	$ 4,770,056

Depreciation of premises and equipment included in occupancy and equipment expense was approximately $449,000, $390,000 and $355,000 for the years ended September 30, 2000, 1999 and 1998, respectively.

Note 8. Deposits

Jumbo certificates of deposit in denominations of $100,000 or more were approximately $31,214,000 and $20,533,000 at year end 2000 and 1999.

At September 30, 2000, the scheduled maturities of certificates of deposit were as follows for the years ended September 30:

2001	$132,313,120
2002	74,182,987
2003	23,190,190
2004	4,635,354
2005	5,410,227
Thereafter	372,322
	$240,104,200

Advances from Federal Home Loan Bank Note 9.

At September 30, 2000, advances from the FHLB of Des Moines with fixed and variable rates ranging from 4.26% to 7.82% (weighted-average rate of 5.78%) are required to be repaid in the year ending September 30 as presented below. Certain advances contain call features that allow the FHLB to call for the prepayment of the borrowing prior to maturity.

2001	$46,706,421
2002	11,921,408
2003	2,009,298
2004	115,509
2005	8,917,073
Thereafter	70,068,742
	$139,738,451

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

At year end 2000 and 1999, the Bank and Security collectively pledged securities with amortized costs of $87,376,000 and $88,067,000 and fair values of approximately $85,104,000 and $86,741,000 against specific FHLB advances. In addition, qualifying mortgage loans of approximately $103,338,000 and $107,712,000 were pledged as collateral at year end 2000 and 1999.

During fiscal 2000, the Company recognized a gain totaling $351,995, net of related income taxes, on the transfer of $15,000,000 of FHLB advances. The transfer of FHLB advances was in conjunction with a restructuring of the balance sheet wherein lower yielding securities were sold with the proceeds reinvested in higher yielding assets and used to repay borrowings.

Securities Sold Under Agreements to Repurchase Note 10.

Year end securities sold under agreements to repurchase totaled $4,254,965 and $3,020,951 for 2000 and 1999.

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

	2000	1999
Highest month-end balance	$4,920,423	$4,321,674
Average balance	3,460,390	3,299,584
Weighted average interest rate during the period	5.95%	5.38%
Weighted average interest rate at end of period	6.43%	5.28%

At year end 2000, securities sold under agreements to repurchase had maturities ranging from 1 to 18 months with a weighted average maturity of 15 months.

The Company pledged securities with amortized costs of approximately $4,323,000 and $6,105,000 and fair values of approximately $4,221,000 and $6,079,000, respectively, at year end 2000 and 1999 as collateral for securities sold under agreements to repurchase.

Note 11. Employee Benefits

Employee Stock Ownership Plan (ESOP):
The Company maintains an ESOP for eligible employees who have 1,000 hours of employment with the Bank and who have attained age 21. In 1993, the ESOP borrowed $1,534,100 from the Company to purchase 230,115 shares of the Company's common stock. Final payment of this loan was received during the year ended September 30, 2000. Shares purchased by the ESOP are held in suspense for allocation among participants as the loan is repaid. ESOP expense of $270,864, $455,220 and $654,460 was recorded for the years ended September 30, 2000, 1999 and 1998, respectively. Contributions of $167,200, $200,000 and $200,000 were made to the ESOP during the years ended September 30, 2000, 1999 and 1998, 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, 2000, 1999 and 1998, 25,080, 30,000 and 30,000 shares with an average fair value of $10.80, $15.17 and $21.82 per share, respectively, were committed to be released. Also for the years ended September 30, 2000, 1999 and 1998, allocated shares and total ESOP shares reflect 1,287, 23,275 and 11,359 shares, respectively, withdrawn from the ESOP by participants who are no longer with the Company and 7,434, 4,735 and 2,742 shares, respectively, purchased for dividend reinvestment.

Year-end ESOP shares are as follows:

	2000	1999	1998
Allocated shares	199,815	168,588	157,128
Unearned shares	--	25,080	55,080
Total ESOP shares	199,815	193,668	212,208
Fair value of unearned shares	$ -	$319,770	$950,130

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 2000, 1999 or 1998.

The fair value of options granted during 2000, 1999, and 1998 is estimated using the following weighted-average information: risk-free interest rate of 5.99%, 6.17% and 4.49%, expected life of 7.0 years, expected dividends of 5.30%, 4.00% and 2.69% per year and expected stock price volatility of 22%, 22% and 20% per year.

	2000	1999	1998
Net income as reported	$ 2,327,626	$ 2,641,132	$ 2,784,882
Proforma net income	2,287,501	2,569,635	2,689,596
Reported earnings per common and common equivalent share:			
Basic	$ 0.95	$ 1.07	$ 1.08
Diluted	0.93	1.04	1.03
Proforma earnings per common and common equivalent share:			
Basic	$ 0.93	$ 1.04	$ 1.04
Diluted	0.92	1.01	1.00

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, 2000, 95,364 shares were authorized for future grants. Information about option grants follows:

	Number of Options	Weighted-Average Exercise Price
Outstanding, September 30, 1997	325,298	$ 10.23
Granted	13,418	17.88
Exercised	(7,600)	6.67
Forfeited	--	--
Outstanding, September 30, 1998	331,116	10.62
Granted	26,335	13.00
Exercised	(23,051)	7.37
Forfeited	(9,000)	17.59
Outstanding, September 30, 1999	325,400	10.85
Granted	29,418	9.88
Exercised	(54,500)	6.67
Forfeited	--	--
Outstanding, September 30, 2000	300,318	$ 11.51

The weighted-average fair value per option for options granted in 2000, 1999 and 1998 was $.66, $1.54 and $2.01. At September 30, 2000, options outstanding were as follows:

Exercise Price	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Options
$6.67 - $9.99	$ 7.19	4.17	156,640
$10.00 - $14.99	13.04	8.68	30,855
$15.00 - $19.99	16.80	6.43	102,383
$20.00 - $20.13	20.13	7.00	10,440
	$ 11.51	5.50	300,318

Options exercisable at year end are as follows:

	Number of Options	Weighted-Average Exercise Price
1998	285,491	$ 9.54
1999	286,650	10.09
2000	270,443	11.17

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 $33,878, $101,634 and $0 was recorded for these plans for the years ended 2000, 1999 and 1998. The remaining unamortized unearned compensation value of the plans at September 30, 2000 and 1999 was $0 and $57,332, respectively.

Profit sharing plan: The Company has a profit sharing plan covering substantially all full-time employees. Contribution expense for the years ended September 2000, 1999 and 1998, was $329,108, $0 and $0, respectively.

Note 12. Income Taxes

The Company, the Bank and its subsidiaries and Security file a consolidated federal income tax return on a fiscal year basis. Prior to fiscal year 1997, if certain conditions were met in determining taxable "income" on the consolidated federal income tax return, the Bank was allowed a special bad debt deduction based on a percentage of taxable income (8% for 1996) or on specified experience formulas. 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 six-year period beginning with the tax year ended September 30, 1999.

The provision for income taxes consists of:

		2000	1999	1998
Federal:				
	Current	$ 1,644,698	$ 1,690,170	$ 2,012,841
	Deferred	(258,085)	(90,137)	(230,887)
		1,386,613	1,600,033	1,781,954
State:				
	Current	236,122	250,616	304,679
	Deferred	(39,915)	(13,863)	(83,113)
		196,207	236,753	221,566
	Total income tax expense	$ 1,582,820	$ 1,836,786	$ 2,003,520

Income tax expense includes $208,600 related to a gain on an extraordinary item.

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

	2000	1999	1998
Income taxes at 34% federal tax rate	$ 1,139,000	$ 1,522,000	$ 1,628,000
Increase (decrease) resulting from:			
State income taxes - net of federal benefit	111,000	156,000	146,000
Excess of cost over net assets acquired	124,000	124,000	124,000
Excess of fair value of ESOP shares released over cost	35,000	87,000	155,000
Other, net	(34,780)	(52,214)	(49,480)
Total income tax expense	$ 1,374,220	$ 1,836,786	$ 2,003,520

Year end deferred tax assets and liabilities consist of:

	2000	1999
Deferred tax assets:		
Bad debts	$ 861,000	$ 570,000
Deferred loan fees	44,000	65,000
Net unrealized losses on securities available for sale	1,514,054	1,494,005
Other items	84,000	72,000
	2,503,054	2,201,005
Deferred tax liabilities:		
Federal Home Loan Bank stock dividend	(452,000)	(452,000)
Accrual to cash basis	(89,000)	(133,000)
Premises and equipment	(72,000)	(51,000)
Other	(30,000)	(74,000)
	(643,000)	(659,000)
Valuation allowance	--	--
Net deferred tax assets	$ 1,860,054	$ 1,542,005

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 $2,300,000 at September 30, 2000 and 1999. If the Bank were liquidated or otherwise ceases to be a bank or if tax laws were to change, the $2,300,000 would be recorded as expense.

Note 13. Capital Requirements and Restrictions on Retained Earnings

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

Quantitative measures established by regulation to ensure capital adequacy require First Federal and Security to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2000, 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	
As of September 30, 1999:	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Total capital (to risk-weighted assets):						
First Federal	$35,898	11.8%	$24,291	8.0%	$30,364	10.0%
Security	4,144	13.3	2,490	8.0	3,113	10.0
Tier 1 (Core) capital (to risk-weighted assets):						
First Federal	32,541	10.7	12,146	4.0	18,218	6.0
Security	3,848	12.4	1,245	4.0	1,868	6.0
Tier 1 (Core) capital (to average total assets):						
First Federal	32,541	7.1	18,423	4.0	23,028	5.0
Security	3,848	8.2	1,876	4.0	2,345	5.0
Tier 1 (Core) capital (to total assets),						
First Federal	32,541	7.1	18,227	4.0	22,784	5.0

As of September 30, 1999:	Actual Amount	Actual Ratio	Minimum Requirement For Capital Adequacy Purposes Amount	Minimum Requirement For Capital Adequacy Purposes Ratio	Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
			(Dollars in thousands)			
Total capital (to risk-weighted assets):						
First Federal	$35,111	12.0%	$23,470	8.0%	$29,338	10.0%
Security	3,890	14.8	2,107	8.0	2,634	10.0
Tier 1 (Core) capital (to risk-weighted assets):						
First Federal	32,172	11.0	11,735	4.0	17,603	6.0
Security	3,670	13.9	1,053	4.0	1,580	6.0
Tier 1 (Core) capital (to average total assets):						
First Federal	32,172	7.3	17,602	4.0	22,002	5.0
Security	3,670	9.4	1,563	4.0	1,954	5.0
Tier 1 (Core) capital (to total assets),						
First Federal	32,172	7.0	1,857	4.0	23,134	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, 2000, approximately $317,000 of First Federal's retained earnings and none of Security's retained earnings were potentially available for distribution to the Company.

Commitments and Contingencies Note 14.

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, 2000 and 1999, loan commitments approximated $14,810,000 and $33,212,000, respectively, excluding undisbursed portions of loans in process. Loan commitments at September 30, 2000 included commitments to originate fixed-rate loans with interest rates ranging from 8% to 8.875% totaling $530,000 and adjustable-rate loan commitments with interest rates ranging from 6.25% to 19% totaling $13,280,000. The Company also had commitments to purchase adjustable rate loans of $1,000,000 with interest rates of 11.25%. Loan commitments at September 30, 1999 included commitments to originate fixed-rate loans with interest rates ranging from 6.875% to 8.75% totaling $865,000 and adjustable-rate loan commitments with interest rates ranging from 7.75% to 10.25% totaling $18,391,000. The Company also had commitments to purchase adjustable rate loans of $7,056,000 with interest rates ranging from 7.50% to 9.25%, and commitments to purchase $6,900,000 in fixed rate loans with interest rates ranging from 7.375% to 7.50% as of year end 1999. 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 $11,190,000 and $11,958,000 and fair values of approximately $10,831,000 and $11,767,000 at September 30, 2000 and 1999, respectively, were pledged as collateral for public funds on deposit.

Securities with amortized costs of approximately $6,135,000 and $5,813,000 and fair values of approximately $6,096,000 and $5,865,000 at September 30, 2000 and 1999, 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 $2,519,000 as of September 30, 2000.

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:

	2000	1999	1998
Net change in net unrealized gains and losses on securities available for sale:			
Unrealized gains (losses) arising during the year	$(1,075,235)	$(4,956,193)	$ 143,685
Reclassification adjustment for (gains) losses included in net income	1,020,885	(331,611)	(398,903)
Net change in unrealized gains and losses on securities available for sale	(54,350)	(5,287,804)	(255,218)
Tax effects	21,092	1,968,351	93,667
Other comprehensive income (loss)	$ (33,258)	$(3,319,453)	$(161,551)

Note 16. Lease Commitment

The Company has leased property under various noncancelable operating lease agreements which expire at various times through December 2009, and require annual rentals of $52,600 plus the payment of the property taxes, normal maintenance and insurance on the property.

The total minimum rental commitment at September 30, 2000, under the leases is as follows:

2001	$ 52,600
2002	52,600
2003	52,600
2004	46,600
2005	46,600
Thereafter	172,550
	$ 423,550

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, 2000 and 1999

	2000	1999
ASSETS		
Cash and cash equivalents	$ 72,236	$ 435,866
Securities available for sale	3,380,496	3,546,100
Investment in subsidiary banks	38,702,338	38,373,373
Loan receivable from ESOP	--	167,200
Loan receivable	325,179	--
Other assets	211,071	272,713
Total assets	$ 42,691,320	$ 42,795,252
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Loan payable to subsidiary banks	$ 2,550,000	$ 2,750,000
Accrued expenses and other liabilities	106,235	274,504
Total liabilities	2,656,235	3,024,504
SHAREHOLDERS' EQUITY		
Common stock	29,580	29,580
Additional paid-in capital	20,976,108	21,305,937
Retained earnings, substantially restricted	30,404,386	29,352,943
Accumulated other comprehensive income	(2,553,891)	(2,520,633)
Unearned employee stock ownership plan shares	--	(167,200)
Treasury stock, at cost	(8,821,098)	(8,229,879)
Total shareholders' equity	40,035,085	39,770,748
Total liabilities and shareholders' equity	$ 42,691,320	$ 42,795,252

Condensed Statements of Income
Years Ended September 30, 2000, 1999 and 1998

	2000	1999	1998
Dividend income from subsidiary banks	$ 2,525,000	$ 2,350,000	$2,000,000
Interest income	280,351	297,447	272,260
Gain (loss) on sales of securities available for sale, net	(37,206)	62,466	317,960
	2,768,145	2,709,913	2,590,220
Interest expense	205,863	210,444	72,581
Operation expenses	388,023	405,076	354,945
	593,886	615,520	427,526
Income before income taxes and equity in undistributed net income of subsidiaries	2,174,259	2,094,393	2,162,694
Income tax expense (benefit)	(142,000)	(106,000)	50,000
Income before equity in undistributed net income of subsidiaries	2,316,259	2,200,393	2,112,694
Equity in undistributed net income of subsidiary banks	11,367	440,739	672,188
Net income	$ 2,327,626	$ 2,641,132	$2,784,882

Condensed Statements of Cash Flows
Years Ended September 30, 2000, 1999 and 1998

	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,327,626	$ 2,641,132	$ 2,784,882
Adjustments to reconcile net income to net cash from operating activities:			
Equity in undistributed net income of subsidiary banks	(11,367)	(440,739)	(672,188)
Amortization of recognition and retention plan	33,878	101,634	--
Gain on sales of securities available for sale, net	37,206	(62,466)	(317,960)
Change in other assets	(9,817)	(38,470)	174,711
Change in accrued expenses and other liabilities	7,771	94,617	142,705
Net cash provided by operating activities	2,385,297	2,295,708	2,112,150
CASH FLOWS FROM INVESTING ACTIVITIES			
Repayment of securities	5,409	--	--
Purchase of securities available for sale	(500,000)	(1,626,721)	(5,150,000)
Proceeds from sales of securities available for sale	495,000	2,155,709	2,195,509
Loans purchased	(325,179)	--	--
Repayments on loan receivable from ESOP	167,200	200,000	200,000
Net cash provided by (used in) investment activities	(157,570)	728,988	(2,754,491)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan payable to subsidiary banks	--	1,150,000	4,550,000
Repayments on loan payable to subsidiary banks	(200,000)	(1,450,000)	(1,500,000)
Cash dividends paid	(1,276,183)	(1,274,003)	(1,226,725)
Proceeds from exercise of stock options	363,335	169,841	28,696
Purchase of treasury stock	(1,478,509)	(1,289,186)	(3,271,203)
Net cash (used in) financing activities	(2,591,357)	(2,693,348)	(1,419,232)
Net change in cash and cash equivalents	(363,630)	331,348	(2,061,573)
CASH AND CASH EQUIVALENTS			
Beginning of year	435,866	104,518	2,166,091
End of year	$ 72,236	$ 435,866	$ 104,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest	$ 209,447	$ 210,444	$ 72,581

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).

First Midwest Financial, Inc. and Subsidiaries

Note 18. Selected Quarterly Financial Data (Unaudited)

	Quarter Ended			
	December 31	March 31	June 30	September 30
Fiscal year 2000:				
Total interest income	$9,404,770	$9,545,028	$9,672,083	$9,788,143
Total interest expense	5,911,477	5,991,817	6,264,173	6,410,895
Net interest income	3,493,293	3,553,211	3,407,910	3,377,248
Provision for loan losses	325,000	270,000	400,000	645,000
Net income before extraordinary item	764,680	760,747	2,055	448,149
Extraordinary item	--	--	351,995	--
Net income	764,680	760,747	354,050	448,149
Earnings per common and common equivalent share:				
Basic:				
Net income before extraordinary item	$ 0.31	$ 0.31	$ --	$ 0.18
Extraordinary item	--	--	0.15	--
Net income	0.31	0.31	0.15	0.18
Diluted:				
Net income before extraordinary item	0.30	0.30	--	0.18
Extraordinary item	--	--	0.14	--
Net income	0.30	0.30	0.14	0.18
Fiscal year 1999:				
Total interest income	$8,761,124	$8,585,259	$8,842,903	$9,183,445
Total interest expense	5,342,257	5,472,837	5,577,855	5,782,931
Net interest income	3,418,867	3,112,422	3,265,048	3,400,514
Provision for loan losses	243,000	358,000	299,000	1,092,000
Net income	908,517	759,500	756,673	216,442
Earnings per common and common equivalent share:				
Basic	$ 0.37	$ 0.31	$ 0.31	$ 0.09
Diluted	0.36	0.30	0.30	0.09
Fiscal year 1998:				
Total interest income	$7,894,734	$7,839,781	$7,996,291	$8,327,988
Total interest expense	4,712,639	4,622,771	4,815,319	5,079,224
Net interest income	3,182,095	3,217,010	3,180,972	3,248,764
Provision for loan losses	35,000	1,345,000	55,000	227,472
Net income	989,055	46,316	893,056	856,455
Earnings per common and common equivalent share:				
Basic	$ 0.38	$ 0.02	$ 0.35	$ 0.34
Diluted	0.36	0.02	0.33	0.32

Fair Values of Financial Instruments Note 19.

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, 2000 and 1999, 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, 2000 and 1999. This information is presented solely for compliance with SFAS No. 107 and is subject to change over time based on a variety of factors.

	2000		1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Selected assets:				
Cash and cash equivalents	$ 6,922,531	$ 6,923,000	$ 5,373,911	$ 5,374,000
Securities available for sale	147,478,931	147,479,000	178,489,030	178,489,000
Loans receivable, net	324,702,629	321,192,000	303,078,500	302,980,000
FHLB stock	8,327,600	8,328,000	8,125,800	8,126,000
Accrued interest receivable	5,216,929	5,217,000	5,046,234	5,046,000
Selected liabilities:				
Noninterest bearing demand deposits	(6,040,991)	(6,041,000)	(5,680,923)	(5,681,000)
Savings, NOW and money market demand deposits	(72,508,530)	(72,509,000)	(75,003,028)	(75,003,000)
Other time certificates of deposit	(240,104,200)	(239,698,000)	(224,095,970)	(224,027,000)
Total deposits	(318,653,721)	(318,248,000)	(304,779,921)	(304,711,000)
Advances from FHLB	(139,738,451)	(137,078,000)	(161,348,071)	(159,253,000)
Securities sold under agreements to repurchase	(4,254,965)	(4,250,000)	(3,020,951)	(3,026,000)
Advances from borrowers for taxes and insurance	(461,514)	(462,000)	(422,593)	(423,000)
Accrued interest payable	(1,006,341)	(1,006,000	(875,365)	(875,000)
Off-balance-sheet instruments, loan commitments	(14,810,000)	--	(33,212,000)	--

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 2000 and 1999.

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, 2000 and 1999. 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, 2000 and 1999 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, 2000 and 1999, for advances with similar terms and remaining maturities.

Securities Sold Under Agreements to Repurchase: The fair value of securities sold under agreements to repurchase and other borrowings was estimated by discounting the expected future cash flows using derived interest rates approximating market as of September 30, 2000 and 1999 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.

Independent Auditor's Report

To the Board of Directors
First Midwest Financial, Inc. and Subsidiaries

Storm Lake, Iowa

We have audited the accompanying consolidated balance sheet of First Midwest Financial, Inc. and Subsidiaries, as of September 30, 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of First Midwest Financial, Inc. and Subsidiaries as of September 30, 1999 and for each of the years ended September 30, 1999 and 1998, were audited by other auditors whose report, dated October 15, 1999, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Midwest Financial, Inc. as of September 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/McGladrey & Pullen, LLP

McGladrey & Pullen, LLP
Des Moines, Iowa
October 27, 2000

Board of Directors

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

J. Tyler Haahr - Senior Vice President, Secretary and Chief Operating Officer for First Midwest Financial, Inc.; Executive Vice President, Secretary and Chief Operating Officer for First Federal Savings Bank of the Midwest; Chief Executive Officer of Security State Bank; and Vice President and Secretary of First Services Financial Limited. First Midwest and its affiliates have employed Mr. Haahr since March 1997. Previously Mr. Haahr was a partner with the law firm of Lewis and Roca LLP, Phoenix, Arizona. Board committee: First Federal Trust Committee. J. Tyler Haahr is the son of James S. Haahr.

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

E. Thurman Gaskill - Member of the Board of Directors for First Midwest Financial, Inc., First Federal Savings Bank of the Midwest, and Security State Bank. Mr. Gaskill has owned and operated a grain farming operation located near Corwith, Iowa, since 1958. He has served as a commissioner with the Iowa Department of Economic Development and also as a commissioner with the Iowa Department of Natural Resources. Mr. Gaskill is the past president of Iowa Corn Growers Association, past chairman of the United States Feed Grains Council, and has served in numerous other agriculture positions. He was re-elected to the Iowa State Senate in 2000 and represents District 8. He serves as Chairman of the Senate Agricultural Committee. Board committees: Chairman of the First Federal Trust Committee and member of the Audit-Compensation/Personnel Committee.

G. Mark Mickelson - Member of the Board of Directors for First Midwest Financial, Inc., First Federal Savings Bank of the Midwest, and Security State Bank. Mr. Mickelson is a Principal with Northwestern Growth Corporation in Sioux Falls, South Dakota. Northwestern Growth Corporation is the Corporate development and investment function of Northwestern Corporation. Mr. Mickelson graduated with high honors from Harvard Law School and is an inactive member of the South Dakota Bar Assoiciaton and a Certified Public Accountant. Board committees: First Federal Audit- Compensation/Personnel Committee and Stock Option Committee.

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

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

{GRAPHIC-PHOTOS OF EACH OF THE ABOVE]

Executive Officers

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

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

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

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

Tim D. Harvey
President for Brookings Federal Bank Division

Troy Moore
President for Iowa Savings Bank Division

Tony Trussell
President for First Federal Sioux Falls Division

I. Eugene Richardson, Jr.
President for Security State Bank

Susan C. Jesse
Senior Vice President for First Federal Savings Bank of the Midwest

{GRAPHIC-PHOTOS OF ABOVE]

Bank Directors

Directors of First Federal Savings Bank of the Midwest James S. Haahr, Chairman
E. Wayne Cooley
E. Thurman Gaskill
J. Tyler Haahr
G. Mark Mickelson
Rodney G. Muilenburg

Directors of Security State Bank
James S. Haahr, Chairman
Jeffrey N. Bump
E. Wayne Cooley
E. Thurman Gaskill
J. Tyler Haahr
G. Mark Mickelson
Rodney G. Muilenburg
I. Eugene Richardson, Jr.

Brookings Federal Bank Advisory Board
Fred J. Rittershaus, Chairman
Virgil G. Ellerbruch
J. Tyler Haahr
Tim D. Harvey
O. Dale Larson
Earl R. Rue

Office Locations

First Federal Storm Lake Division

Main Office
Fifth at Erie
P.O. Box 1307
Storm Lake, Iowa 50588
712.732.4117
800.792.6815
712.732.7105 fax
[GRAPHIC-MAP INDICATING LOCATIONS]
Storm Lake Plaza
1415 North Lake Avenue
Storm Lake, Iowa 50588
712.732.6655
712.732.7924 fax

Lake View
Fifth at Main
Lake View, Iowa 51450
712.657.2721
712.657.2896 fax

Laurens
104 North Third Street
Laurens, Iowa 50554
712.841.2588
712.841.2029 fax
[GRAPHIC-PHOTOS OF BANKS]
Manson
Eleventh at Main
Manson, Iowa 50563
712.469.3319
712.469.2458 fax

Odebolt
219 South Main Street
Odebolt, Iowa 51458
712.668.4881
712.668.4882 fax

Sac City
518 Audubon Street
Sac City, Iowa 50583
712.662.7195
712.662.7196 fax

Brookings Federal Bank Division

Main Office
600 Main Avenue
P.O. Box 98
Brookings, South Dakota 57006
605.692.2314
800.842.7452
605.692.7059 fax

Eastbrook
425 22nd Avenue South
Brookings, South Dakota 57006
605.692.2314

Iowa Savings Bank
Division

Main Office
3448 Westown Parkway
West Des Moines, Iowa 50266
515.226.8474
515.226.8475 fax

Highland Park
3624 Sixth Avenue
Des Moines, Iowa 50313
515.288.4866
515.288.3104 fax

Urbandale (coming soon)
4848 86th Street
Urbandale, Iowa 50322

First Federal Sioux Falls
Division

Main Office
Minnesota at 33rd
P.O. Box 520
Sioux Falls, South Dakota 57101
605.977.7500
605.977.7501 fax

Security State Bank

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

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

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

Investor Information

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

Annual Meeting of Shareholders
The Annual Meeting of Shareholders will convene at 1:00 pm on Monday, January 22, 2001. 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
Silver, Freedman & Taff, LLP
1100 New York Avenue, NW
Washington, DC 20005-3934

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

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

Registrar & Transfer Company 10 Commerce Drive Cranford, New Jersey 07016 Telephone: 800.368.5948 Email: invrelations@rtco.com Website: www.rtco.com

Form 10-K
Copies of the Company's annual report on Form 10-K for the year ended September 30, 2000 (excluding exhibits thereto) are available without charge, upon request to:

Investor Relations

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

Telephone: 712.732.4117
Email: invrelations@fmficash.com Website: www.fmficash.com

Stock Market Information

First Midwest Financial, Inc.'s common stock trades on the Nasdaq National Market under the symbol "CASH." The Wall Street Journal publishes daily trading information for the stock under the abbreviation, "FstMidwFnl," in the National Market Listing. Quarterly dividends for 1999 and 2000 were $0.13. The price range of the common stock, as reported on the Nasdaq System, was as follows:

	Fiscal Year 2000		Fiscal Year 1999	
	Low	High	Low	High
First Quarter	$9.00	$13.63	$14.13	$19.63
Second Quarter	$9.50	$12.50	$14.25	$16.00
Third Quarter	$8.75	$11.25	$14.25	$15.50
Fourth Quarter	$9.00	$10.81	$12.50	$14.75

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, 2000, First Midwest had 2,431,574 shares of common stock outstanding, which were held by 317 shareholders of record, and 300,318 shares subject to outstanding options. The shareholders of record number does not reflect 513 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, 2000: First Tennessee Securities Corp.; Herzog, Heine, Geduld, Inc.; Howe Barnes Investments, Inc.; Spear, Leeds & Kellogg; Sandler O'Neill & Partners; and Tucker Anthony Incorporated.

Inside back cover:
Economic Data

First Federal Storm Lake
Average Land Value as of
September 2000
High-quality farmland in northwest
Iowa: $2,347 per acre

Taxable Retail Sales 1999
Storm Lake - $129,181,166

Unemployment Rate as of
August 2000
Buena Vista County - 1.8%

Brookings Federal Bank
Average Land Value as of
February 2000
High-productivity, non-irrigated
cropland in east-central
South Dakota: $993 per acre

Taxable Retail Sales 1999
Brookings - $159,975,335

Unemployment Rate as of
August 2000
Brookings - 1.2%

Iowa Savings Bank
Average Land Value as of
September 2000
High-quality farmland in central
Iowa: $2,528 per acre

Taxable Retail Sales 1999
Des Moines - $4,054,937,130

Unemployment Rate as of
August 2000
Polk County - 1.6%

First Federal Sioux Falls
Average Land Value as of
February 2000
High-productivity, non-irrigated
cropland in east-central
South Dakota: $993 per acre

Taxable Retail Sales 1999
Sioux Falls - $1,649,718,363

Unemployment Rate as of
August 2000
Minnehaha County - 1.6%

Security State Bank
Average Land Value as of
September 2000
High-quality farmland in west-central
Iowa: $2,413 per acre

Taxable Retail Sales 1999
Stuart - $7,403,152

Unemployment Rate as of
August 2000
Guthrie County - 1.8%

[GRAPHIC-PHOTO OF Julie S. Jensen] "Thank you for your support."
-Julie S. Jensen
Customer Service Representative

Back Cover:

[GRAPHIC-FMFI logo]

First Midwest Financial, Inc.
First Federal Building
Fifth at Erie
P.O. Box 1307

Storm Lake, Iowa 50588

SUBSIDIARIES OF THE REGISTRANT

Parent	Subsidiary	Percentage of Ownership	State of Incorporation or Organization
First Midwest Financial, Inc.	First Federal Savings Bank of the Midwest	100%	Federal
First Midwest Financial, Inc.	Security State Bank	100%	Iowa
First Federal Savings Bank of the Midwest	First Services Financial Limited	100%	Iowa
First Services Financial Limited	Brookings Service Corporation	100%	South Dakota

The financial statements of First Midwest Financial, Inc. are consolidated with those of its subsidiaries.

EXHIBIT 23.1

CONSENT OF MCGLADERY & PULLEN, LLP

CONSENT OF INDEPENDENT AUDITORS

To the Board of Directors
First Midwest Financial, Inc.
Storm Lake, Iowa

We consent to the incorporation by reference in the First Midwest Financial, Inc. Registration Statement on Form S-8 of First Midwest Financial, Inc., pertaining to the First Midwest Financial, Inc. 1995 Stock Option and Incentive Plan, of our report dated October 27, 2000, which appears in the annual report on Form 10-K of First Midwest Financial, Inc. and subsidiaries for the year ended September 30, 2000.

/s/ McGladery & Pullen, LLP

McGladery & Pullen, LLP

Des Moines, Iowa
December 28, 2000

EXHIBIT 23.2

CONSENT OF CROWE, CHIZEK & COMPANY LLP

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement Nos. 33-80171 and 33-22523 of First Midwest Financial, Inc. on Form S-8 and in Registration Statement No. 333-9871 of First Midwest Financial, Inc. on Form S-3 of our report dated October 15, 1999, contained in Exhibit 99 to First Midwest Financial Inc.'s Annual Report on Form 10-K for the fiscal year ended September 30, 2000.

/s/ Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

South Bend Indiana
December 21, 2000

ARTICLE 9

MULTIPLIER: 1

PERIOD TYPE	YEAR
FISCAL YEAR END	SEP 30 2000
PERIOD END	SEP 30 2000
CASH	984,937
INT BEARING DEPOSITS	5,937,594
FED FUNDS SOLD	0
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	147,478,931
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	328,292,502
ALLOWANCE	3,589,873
TOTAL ASSETS	505,590,430
DEPOSITS	318,653,721
SHORT TERM	32,454,965
LIABILITIES OTHER	2,908,208
LONG TERM	111,538,451
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	29,580
OTHER SE	40,005,505
TOTAL LIABILITIES AND EQUITY	505,590,430
INTEREST LOAN	26,267,638
INTEREST INVEST	12,142,386
INTEREST OTHER	0
INTEREST TOTAL	38,410,024
INTEREST DEPOSIT	15,636,793
INTEREST EXPENSE	24,578,362
INTEREST INCOME NET	13,831,662
LOAN LOSSES	1,640,000
SECURITIES GAINS	(1,020,885)
EXPENSE OTHER	9,408,043
INCOME PRETAX	3,349,851
INCOME PRE EXTRAORDINARY	1,975,631
EXTRAORDINARY	351,995
CHANGES	0
NET INCOME	2,327,626
EPS BASIC	.95
EPS DILUTED	.93
YIELD ACTUAL	2.79
LOANS NON	310,508
LOANS PAST	0
LOANS TROUBLED	961,000
LOANS PROBLEM	8,193,000
ALLOWANCE OPEN	3,092,628
CHARGE OFFS	1,269,642
RECOVERIES	126,887
ALLOWANCE CLOSE	3,589,873
ALLOWANCE DOMESTIC	3,219,686
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	370,187

EXHIBIT 99

REPORT OF PREDECESSOR ACCOUNTANTS

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
First Midwest Financial, Inc. and Subsidiaries Storm Lake, Iowa

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

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

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

/s/ Crowe, Chizek & Company LLP

Crowe, Chizek & Company LLP

South Bend, Indiana
October 15, 1999