

# META FINANCIAL GROUP INC

## FORM 10-Q (Quarterly Report)

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Industry	S&Ls/Savings Banks
Sector	Financial
Fiscal Year	09/30

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

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2000

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

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

*Commission File Number: 0-22140*

**FIRST MIDWEST FINANCIAL, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
-----

(State or other jurisdiction of  
incorporation or organization)

42-1406262  
-----

(IRS Employer Identification No.)

Fifth at Erie, Storm Lake, Iowa 50588

(Address of principal executive offices)

(712) 732-4117

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class:  
Common Stock, \$.01 par value

Outstanding at May 10, 2000:  
2,431,574 Common Shares

Transitional Small Business Disclosure Format:

Yes [ ] ; No [ X ]

**FIRST MIDWEST FINANCIAL, INC.**

**FORM 10-Q**

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

	March 31, 2000	September 30, 1999
	-----	-----
Assets		
Cash and due from banks	\$ 1,260,120	\$ 1,165,895
Interest-bearing deposits in other financial institutions - short-term (cost approximates market value)	3,770,111	4,208,016
	-----	-----
Total cash and cash equivalents	5,030,231	5,373,911
Securities available for sale, amortized cost of \$177,124,182 and \$182,503,668	169,926,799	178,489,030
Loans receivable - net of allowance for loan losses of \$3,209,074 and \$3,092,628	308,272,164	303,078,500
Foreclosed real estate, net	618,271	142,901
Accrued interest receivable	3,932,776	5,046,234
Federal Home Loan Bank stock, at cost	8,168,300	8,125,800
Premises and equipment, net	5,760,516	4,770,056
Excess of cost over net assets acquired	3,950,417	4,132,883
Other assets	3,341,310	2,053,437
	-----	-----
Total Assets	\$ 509,000,784	\$ 511,212,752
	=====	=====
Liabilities and Shareholders' Equity		
Liabilities		
Deposits	\$ 313,225,812	\$ 304,779,921
Advances from Federal Home Loan Bank	152,482,705	161,348,071
Securities sold under agreements to repurchase	2,962,213	3,020,951
Advances from borrowers for taxes and insurance	479,499	422,593
Accrued interest payable	989,995	875,365
Other liabilities	1,074,083	995,103
	-----	-----
Total Liabilities	471,214,307	471,442,004
	-----	-----

Shareholders' Equity		
-----		
Preferred stock, 800,000 shares authorized, no shares issued or outstanding	--	--
Common stock, \$.01 par value, 5,200,000 shares authorized, 2,957,999 shares issued and 2,431,574 shares outstanding at March 31, 2000; 2,957,999 shares issued and 2,507,073 shares outstanding at September 30, 1999	29,580	29,580
Additional paid-in capital	20,931,779	21,305,937
Retained earnings - substantially restricted	30,233,044	29,352,943
Accumulated other comprehensive income (loss), net of tax benefit of \$2,677,704 at March 31, 2000 and \$1,494,005 at September 30, 1999	(4,519,679)	(2,520,633)
Unearned Employee Stock Ownership Plan shares	(67,150)	(167,200)
Treasury stock, 526,425 and 450,926 common shares, at cost	(8,821,097)	(8,229,879)
	-----	-----
Total Shareholders' Equity	37,786,477	39,770,748
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 509,000,784	\$ 511,212,752
	=====	=====

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

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

	Three Months Ended		Six Months Ended	
	2000	1999	2000	1999
Interest and Dividend Income:				
Loans receivable	\$ 6,433,856	\$ 5,748,647	\$ 12,703,915	\$11,780,103
Securities available for sale	2,977,174	2,723,478	5,980,999	5,354,114
Dividends on Federal Home Loan Bank stock	133,998	113,134	264,884	212,166
	-----	-----	-----	-----
Total interest and dividend income	9,545,028	8,585,259	18,949,798	17,346,383
Interest Expense:				
Deposits	3,781,058	3,552,305	7,510,580	7,199,726
FHLB advances and other borrowings	2,210,759	1,920,532	4,392,714	3,615,368
	-----	-----	-----	-----
Total interest expense	5,991,817	5,472,837	11,903,294	10,815,094
	-----	-----	-----	-----
Net interest income	3,553,211	3,112,422	7,046,504	6,531,289
Provision for loan losses	270,000	358,000	595,000	601,000
	-----	-----	-----	-----
Net interest income after provision for loan losses	3,283,211	2,754,422	6,451,504	5,930,289
Noninterest income:				
Loan fees and deposit service charges	269,710	335,669	580,327	695,217
Gain (loss) on sales of securities available for sale, net	(5,000)	271,645	(5,000)	293,756
Gain (loss) on sales of foreclosed real estate, net	(17,322)	(10,021)	(13,890)	1,750
Brokerage commissions	32,808	16,475	69,668	31,389
Other income	35,963	32,664	98,237	72,351
	-----	-----	-----	-----
Total noninterest income	316,159	646,432	729,342	1,094,463
Noninterest expense:				
Employee compensation and benefits	1,459,504	1,254,958	2,833,800	2,481,750
Occupancy and equipment expense	328,147	292,254	625,296	575,425
Federal deposit insurance premium	18,284	39,819	57,276	74,785
Data processing expense	113,957	89,140	214,234	187,106
Other expense	455,036	452,643	927,535	916,886
	-----	-----	-----	-----
Total noninterest expense	2,374,928	2,128,814	4,658,141	4,235,952
	-----	-----	-----	-----
Income before income taxes	1,224,442	1,272,040	2,522,705	2,788,800
Income tax expense	463,695	512,540	997,278	1,120,783
	-----	-----	-----	-----
Net income	\$ 760,747	\$ 759,500	\$ 1,525,427	\$ 1,668,017
	=====	=====	=====	=====

Earnings per common share:				
Basic	\$ 0.31	\$ 0.31	\$ 0.62	\$ 0.68
	-----	-----	-----	-----
Diluted	\$ 0.30	\$ 0.30	\$ 0.60	\$ 0.66
	-----	-----	-----	-----

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2000	1999	2000	1999
Net income	\$ 760,747	\$ 759,500	\$ 1,525,427	\$ 1,668,017
Other comprehensive income (loss):				
Net change in net unrealized gains and losses on securities available for sale	(31,413)	(321,875)	(3,182,745)	(1,282,152)
Deferred income tax expense (benefit)	(11,717)	(119,802)	(1,183,699)	(477,143)
	-----	-----	-----	-----
Total other comprehensive income (loss)	(19,696)	(202,073)	(1,999,046)	(805,009)
	-----	-----	-----	-----
Total comprehensive income (loss)	\$ 741,051	\$ 557,427	\$ (473,619)	\$ 863,008
	=====	=====	=====	=====

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

FIRST MIDWEST FINANCIAL, INC.  
AND SUBSIDIARIES  
Consolidated Statement of Changes in Shareholders' Equity (Unaudited)  
For the Six Months Ended March 31, 2000

	Common Stock -----	Additional Paid-In Capital -----	Retained Earnings -----	Accumulated Other Comprehensive Income (Loss), Net of Tax -----	Unearned Employee Stock Ownership Plan Shares -----
Balance at September 30, 1999	\$29,580	\$ 21,305,937	\$ 29,352,943	\$ (2,520,633)	\$ (167,200)
15,000 common shares committed to be released under the ESOP	--	77,132	--	--	100,050
Cash dividends declared on common stock (\$0.26 per share)	--	--	(645,326)	--	--
Purchase of 129,999 common shares of treasury stock	--	--	--	--	--
Issuance of 54,500 common shares from treasury stock due to exercise of stock options, net of tax benefit	--	(467,372)	--	--	--
Amortization of management recognition and retention plan common shares and tax benefits of restricted stock under the plans	--	16,082	--	--	--
Net change in net unrealized losses on securities available for sale, net of income tax benefit of \$1,183,699	--	--	--	(1,999,046)	--
Net income for the six months ended March 31, 2000	--	--	1,525,427	--	--
	-----	-----	-----	-----	-----
Balance at March 31, 2000	\$29,580 =====	\$ 20,931,779 =====	\$ 30,233,044 =====	\$ (4,519,679) =====	\$ (67,150) =====

	Treasury Stock -----	Total Shareholders' Equity -----
Balance at September 30, 1999	\$(8,229,879)	\$ 39,770,748
15,000 common shares committed to be released under the ESOP	--	177,182
Cash dividends declared on common stock (\$0.26 per share)	--	(645,326)
Purchase of 129,999 common shares of treasury stock	(1,478,507)	(1,478,507)
Issuance of 54,500 common shares from treasury stock due to exercise of stock options, net of tax benefit	887,289	419,917
Amortization of management recognition and retention plan common shares and tax benefits of restricted stock under the plans	--	16,082
Net change in net unrealized losses on securities available for sale, net of income tax benefit of \$1,183,699	--	(1,999,046)
Net income for the six months ended March 31, 2000	--	1,525,427
	-----	-----
Balance at March 31, 2000	\$(8,821,097)	\$ 37,786,477
	=====	=====

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

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

	Six Months Ended March 31, 2000	1999
	-----	-----
Cash flows from operating activities:		
Net income	\$ 1,525,427	\$ 1,668,017
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization and accretion, net	858,989	727,715
Provision for loan losses	595,000	601,000
(Gain) loss on sales of securities available for sale, net	5,000	(293,756)
(Gain) loss on sales of foreclosed real estate, net	13,890	(1,750)
Proceeds from sales of loans held for sale	504,567	1,000,000
Originations of loans held for sale	(504,567)	(1,000,000)
Net change in accrued interest receivable	1,113,458	1,109,908
Net change in other assets	(103,172)	44,766
Net change in accrued interest payable	114,630	(66,993)
Net change in accrued expenses and other liabilities	135,562	1,304
	-----	-----
Net cash from operating activities	4,258,784	3,790,211
Cash flows from investing activities:		
Purchase of securities available for sale	(515,000)	(80,927,226)
Purchase of Federal Home Loan Bank stock	(42,500)	(2,287,500)
Proceeds from sales of securities available for sale	495,000	23,166,846
Proceeds from maturities and principal repayments of securities available for sale	5,191,969	19,429,127
Net change in loans receivable	21,968,151	13,009,040
Loans purchased	(28,598,055)	(30,111,614)
Proceeds from sales of foreclosed real estate	277,676	1,102,001
Purchase of premises and equipment, net	(1,197,900)	(147,653)
	-----	-----
Net cash from investing activities	(2,420,659)	(56,766,979)
Cash flows from financing activities:		
Net change in noninterest-bearing demand, savings, NOW, and money market demand deposits	1,026,441	3,043,296
Net change in other time deposits	7,419,450	11,481,735
Proceeds from advances from Federal Home Loan Bank	404,800,000	206,600,000
Repayments of advances from Federal Home Loan Bank	(413,665,366)	(161,163,646)
Net change in securities sold under agreements to repurchase	(58,738)	(2,006,665)
Net change in other borrowings	--	(550,000)
Net change in advances from borrowers for taxes and insurance	56,906	24,800
Cash dividends paid	(645,326)	(653,036)
Proceeds from the exercise of stock options	363,335	169,842
Purchase of treasury stock	(1,478,507)	(790,500)
	-----	-----
Net cash from financing activities	(2,181,805)	56,155,826
	-----	-----

Net change in cash and cash equivalents	(343,680)	3,179,058
Cash and cash equivalents at beginning of period	5,373,911	6,727,444
	-----	-----
Cash and cash equivalents at end of period	\$ 5,030,231	\$ 9,906,502
	=====	=====
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$ 11,788,664	\$ 10,882,087
Income taxes	945,904	1,321,800
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to foreclosed real estate	\$ 766,935	\$ 254,774

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

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

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies followed by First Midwest Financial, Inc. ("First Midwest" or the "Company") and its consolidated subsidiaries, First Federal Savings Bank of the Midwest ("First Federal"), Security State Bank ("Security"), First Services Financial Limited and Brookings Service Corporation, for interim reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. The accompanying financial statements do not purport to contain all the necessary financial disclosures required by generally accepted accounting principles that might otherwise be necessary in the circumstances and should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 1999.

**2. EARNINGS PER SHARE**

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

A reconciliation of the numerators and denominators used in the basic earnings per common share and the diluted earnings per common share computations for the three months and six months ended March 31, 2000 and 1999 is presented below.

	Three Months Ended March 31, -----		Six Months Ended March 31, -----	
	2000 ----	1999 ----	2000 ----	1999 ----
Basic Earnings Per Common Share:				
Numerator:				
Net Income	\$ 760,747 =====	\$ 759,500 =====	\$1,525,427 =====	\$1,668,017 =====
Denominator:				
Weighted average common shares outstanding	2,482,787	2,519,436	2,498,084	2,516,048
Less: Weighted average unallocated ESOP shares	(15,080) -----	(45,080) -----	(18,851) -----	(48,871) -----
Weighted average common shares outstanding for basic earnings per share	2,467,707 =====	2,474,356 =====	2,479,233 =====	2,467,177 =====
Basic earnings per common share	\$ 0.31 =====	\$ 0.31 =====	\$ 0.62 =====	\$ 0.68 =====

	Three Months Ended March 31,		Six Months Ended March 31,	
	2000 ----	1999 ----	2000 ----	1999 ----
Diluted Earnings Per Common Share:				
Numerator:				
Net Income	\$ 760,747 =====	\$ 759,500 =====	\$1,525,427 =====	\$1,668,017 =====
Denominator:				
Weighted average common shares outstanding for basic earnings per common share	2,467,707	2,474,356	2,479,233	2,467,177
Add: Dilutive effects of assumed exercises of stock options and nonvested MRRP shares, net of tax benefits	42,710 -----	75,889 -----	52,633 -----	78,782 -----
Weighted average common and dilutive potential common shares outstanding	2,510,417 =====	2,550,245 =====	2,531,866 =====	2,545,959 =====
Diluted earnings per common share	\$ 0.30 =====	\$ 0.30 =====	\$ 0.60 =====	\$ 0.66 =====

### 3. COMMITMENTS

At March 31, 2000 and September 30, 1999, the Company had outstanding commitments to originate and purchase loans totaling \$24.7 million and \$33.2 million, respectively, excluding undisbursed portions of loans in process. It is expected that outstanding loan commitments will be funded with existing liquid assets.

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

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

**GENERAL**

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

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at March 31, 2000, compared to September 30, 1999, and the consolidated results of operations for the three months and six months ended March 31, 2000, compared to the same period in 1999. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 1999.

**FINANCIAL CONDITION**

Total assets decreased by \$2.2 million, or 0.43%, from \$511.2 million at September 30, 1999, to \$509.0 million at March 31, 2000. The decrease was attributable to a decrease in the Company's portfolio of securities available for sale, which declined by \$8.6 million. This decrease was partially offset by a \$5.2 million increase in net loans receivable. The deposit portfolio increased by \$8.4 million and was used to reduce borrowings from the Federal Home Loan Bank.

Cash and cash equivalents decreased \$344,000, or 6.4%, to \$5.0 million at March 31, 2000, from \$5.4 million at September 30, 1999. The decrease was due to the use of available funds in the repayment of borrowings and to fund the origination and purchase of loans.

The portfolio of securities available for sale decreased \$8.6 million, or 4.8%, to \$169.9 million at March 31, 2000, from \$178.5 million at September 30, 1999. The decrease was the result of maturities and principal repayments received on securities during the period and, additionally, was due to adjustment of the carrying value of securities available for sale to market value at the end of the period in accordance with SFAS 115.

The portfolio of net loans receivable increased by \$5.2 million, or 1.7%, to \$308.3 million at March 31, 2000, from \$303.1 million at September 30, 1999. The increase was due to an increase in multi-family residential mortgage loans and commercial real estate loans totaling \$14.8 million during the period. This increase was partially offset by a decline in single-family residential mortgage loans of \$4.4 million and a seasonal decrease in agricultural loans totaling \$3.8 million.

Deposit balances increased by \$8.4 million, or 2.8%, to \$313.2 million at March 31, 2000, from \$304.8 million at September 30, 1999. The increase in deposit balances resulted from increases in checking accounts, money market accounts and certificates of deposit, which increased by \$1.4 million, \$473,000 and \$7.4 million, respectively. This increase is the result of the Company's continued emphasis on promoting transaction accounts, which generally carry a lower interest cost, and cross-marketing into other deposit products. The increase was partially offset by a decrease in savings accounts in the amount of \$857,000.

The balance in advances from the Federal Home Loan Bank of Des Moines (FHLB) decreased by \$8.8 million, or 5.5%, to \$152.5 million at March 31, 2000 from \$161.3 million at September 30, 1999. The decrease in FHLB advances resulted from repayments using funds generated by deposit portfolio growth and maturities and principal repayments received on the portfolio of securities available for sale.

Total shareholders' equity decreased \$2.0 million, or 5.0%, to \$37.8 million at March 31, 2000 from \$39.8 million at September 30, 1999. The decrease in shareholders' equity was due to the purchase of treasury stock, an increase in unrealized loss on securities available for sale in accordance with SFAS 115, and the payment of cash dividends to shareholders in an aggregate amount that exceeded net earnings during the period.

## NON-PERFORMING ASSETS AND ALLOWANCE FOR LOAN LOSSES

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

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 March 31, 2000. At March 31, 2000, loans delinquent 30 days and over totaled 0.65% of total loans as compared to 1.59% at September 30, 1999.

	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	\$ 292	0.27%	0	\$ 0	0.00%	2	\$ 79	0.07%
Commercial and multi-family	2	119	0.13	1	450	0.48	0	0	0.00
Agricultural real estate	2	124	1.37	0	0	0.00	0	0	0.00
Consumer	23	230	0.97	3	44	0.18	5	28	0.12
Agricultural operating	8	326	1.24	2	100	0.38	0	0	0.00
Commercial business	9	218	0.75	0	0	0.00	2	10	0.03
Total	51	\$ 1,309	0.45%	6	\$ 594	0.21%	9	\$ 117	0.04%
	====	=====		=====	=====		=====	=====	

At March 31, 2000, commercial and multi-family real estate loans delinquent 30 days and over totaled \$569,000, or 0.18% of the total loan portfolio as compared to \$1.5 million, or 0.50% of total loans at September 30, 1999. 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. The majority of the Company's delinquent commercial and multi-family real estate loans have been purchased as participations with other lenders, are serviced by other lenders and are secured by properties outside the Company's primary market area. These loans are being closely monitored by management, however, there can be no assurance that all loans will be fully collectible.

At March 31, 2000, agricultural operating loans delinquent 30 days and over totaled \$426,000, or 0.14% of the total loan portfolio as compared to \$501,000, or 0.16% of total loans at September 30, 1999. Agricultural

lending involves a greater degree of risk than one- to four-family residential mortgage loans because of the typically larger loan amounts. In addition, payments on loans are dependent on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. The success of the loan may also be affected by factors outside the control of the agricultural borrower, such as the weather and grain and livestock prices. Although management believes the Company's portfolio of agricultural real estate and operating loans is well structured and adequately secured, there can be no assurance that all loans will be fully collectible.

The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. Foreclosed assets include assets acquired in settlement of loans.

	March 31, 2000	September 30, 1999
	-----	-----
	(Dollars in Thousands)	
Non-accruing loans:		
One-to four family	\$ 79	\$ 613
Commercial and multi-family	450	1,055
Agricultural real estate	--	70
Consumer	27	140
Agricultural operating	--	285
Commercial business	10	75
	-----	-----
Total non-accruing loans	566	2,238
Accruing loans delinquent 90 days or more	--	--
	-----	-----
Total non-performing loans	566	2,238
Foreclosed assets:		
One- to four family	65	94
Commercial real estate	430	--
Agricultural real estate	103	--
Consumer	20	24
Commercial Business	--	25
	-----	-----
Total foreclosed assets	618	143
Less: Allowance for losses	--	--
	-----	-----
Total foreclosed assets, net	618	143
	-----	-----
Total non-performing assets	\$1,184	\$2,381
	=====	=====
Total as a percentage of total assets	0.23%	0.47%
	=====	=====

For the three months ended March 31, 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 \$11,000 of which none was included in interest income.

Other Loans of Concern. At March 31, 2000, there were loans totaling \$4.5 million not included in the table above where known information about 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 eight one- to four-family residential real estate loans totaling \$444,000, one commercial real estate loan totaling \$917,000, six commercial business loans totaling \$807,000, twenty-one consumer loans totaling \$220,000, and seventeen agricultural loans totaling \$2.1 million. At September 30, 1999, other loans of concern totaled \$3.9 million.

Classified Assets. Federal regulations provide for the classification of loans and other assets as "substandard", "doubtful" or "loss", based on the level of weakness determined to be inherent in the collection of the principal and interest. When loans are classified as either substandard or doubtful, the Company may establish general allowances for loan losses in an amount deemed prudent by management.

General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem loans. When assets are classified as loss, the Company is required either to establish a specific allowance for loan losses equal to 100% of that portion of the loan so classified, or to charge-off such amount. The Company's determination as to the classification of its loans and the amount of its valuation allowances are subject to review by its regulatory authorities, who may require the establishment of additional general or specific loss allowances.

On the basis of management's review of its loans and other assets, at March 31, 2000, the Company had classified a total of \$4.7 million of its assets as substandard, \$470,000 as doubtful and none as loss as compared to classifications at September 30, 1999 of \$5.9 million substandard, \$142,000 doubtful and none as loss.

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

Current economic conditions in the agricultural sector of the Company's market area indicate potential weakness due to historically low commodity prices. Price levels for grain crops and livestock have generally been depressed since mid-1998, although livestock prices have improved in recent months. Grain crop prices remain at historically low levels and are not expected to increase significantly in the near term. 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 could result in weakness in the agricultural loan portfolio that could create a need for the Company to increase its allowance for loan losses through increased charges to the provision for loan losses.

At March 31, 2000, the Company has established an allowance for loan losses totaling \$3.2 million. The allowance represents approximately 567% of the total non-performing loans at March 31, 2000 as compared to 138% at September 30, 1999.

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

	( In Thousands )
Balance, September 30, 1999	\$ 3,093
Charge-offs	( 556 )
Recoveries	77
Additions charged to operations	595
	-----
Balance, March 31, 2000	\$ 3,209
	=====

Based on currently available information, management believes the allowance for loan losses is adequate to absorb currently anticipated losses in the portfolio. Future additions to the allowance for loan losses may become necessary based upon changing economic conditions, increased loan balances or changes in the underlying collateral of the loan portfolio.

## RESULTS OF OPERATIONS

General. For the three months ended March 31, 2000, the Company recorded net income of \$761,000 compared to net income of \$760,000 for the same period in 1999. Net income for the three-month period reflects increases in net interest income and noninterest expense and decreases in provision for loan losses and noninterest income as compared to the 1999 period. For the six months ended March 31, 2000, net income was \$1,525,000 compared to \$1,668,000 for the same period in 1999. The decrease in net income for the six-month period reflects a decrease in noninterest income and an increase in noninterest expense, which were partially offset by an increase in net interest income.

Interest and Dividend Income. Total interest and dividend income for the three months ended March 31, 2000 increased by \$960,000, or 11.2%, to \$9,545,000, compared to \$8,585,000 during the same period in 1999. For the six months ended March 31, 2000, interest and dividend income increased \$1,604,000, or 9.2%, to \$18,950,000 from \$17,346,000 for the same period in 1999. The increase for both periods was due primarily to higher interest earning asset balances during the 2000 periods as compared to the previous year as a result of increased purchases of securities available for sale and the increased origination and purchase of loans.

Interest Expense. Total interest expense for the three months ended March 31, 2000 increased by \$519,000, or 9.5%, to \$5,992,000 from \$5,473,000 during the same period in 1999. For the six months ended March 31, 2000, interest expense increased \$1,088,000, or 10.1%, to \$11,903,000 from \$10,815,000 for the same period in 1999. The increase in interest expense for both periods reflects a higher average balance in deposit accounts during the 2000 period due to internal growth of the deposit portfolio. In addition, the increase reflects an increase in borrowings from the Federal Home Loan Bank used to fund the purchase of securities available for sale and the origination and purchase of loans.

Net Interest Income. Net interest income increased by \$441,000, or 14.2%, to \$3,553,000 for the three months ended March 31, 2000 from \$3,112,000 for the same period in 1999. For the six months ended March 31, 2000, net interest income increased \$516,000, or 7.9%, to \$7,047,000 from \$6,531,000 for the same period in 1999. The increase in net interest income for both periods was due to the overall increase in net interest earning assets between the comparable periods and was due to an increase in the spread between interest-earning assets and interest-bearing liabilities.

Provision for Loan Losses. For the three-month and six-month periods ended March 31, 2000, the provision for loan losses was \$270,000 and \$595,000, respectively. For the comparable periods in 1999, the provision for loan losses was \$358,000 and \$601,000, respectively. Management believes that, based on a detail review of the loan portfolio, historic loan losses, current economic conditions, and other factors, the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate allowance against currently anticipated losses from the loan portfolio.

Noninterest Income. Noninterest income decreased by \$330,000, or 51.1%, to \$316,000 for the three months ended March 31, 2000, from \$646,000 for the same period in 1999. For the six months ended March 31, 2000, noninterest income decreased \$365,000, or 33.4%, to \$729,000 from \$1,094,000 for the same period in 1999. The decrease for both periods reflects a reduction in realized gains on the sale of securities available for sale and a reduction in the collection of fees from the origination, purchase and prepayment of loans.

Noninterest Expense. Noninterest expense increased \$246,000, or 11.6%, to \$2,375,000 for the three months ended March 31, 2000, from \$2,129,000 for the same period in 1999. For the six months ended March 31, 2000, noninterest expense increased \$422,000, or 10.0%, to \$4,658,000 from \$4,236,000 for the same period in 1999. The increase in noninterest expense for both periods reflects an increase in employee compensation

and benefits expense due primarily to the addition of personnel and the enhancement of expertise in existing positions to support current and anticipated growth of the Company. In addition, increases in occupancy and equipment expense and data processing expense reflects the Company's on-going efforts to maintain and enhance its technology systems for the efficient delivery of products and customer service.

**Income Tax Expense.** Income tax expense was \$464,000 for the three months ended March 31, 2000 as compared to \$513,000 for the same period in 1999. For the six months ended March 31, 2000, income tax expense was \$997,000 as compared to \$1,121,000 in 1999. The decrease for both periods reflects the decrease in the level of taxable income between the comparable periods.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

Federal regulations require First Federal to maintain 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, government 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 at March 31, 2000 and September 30, 1999, were 9.5% and 9.1%, respectively.

The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity, and to meet operating expenses. At March 31, 2000, the Company had commitments to originate and purchase loans totaling \$24.7 million. The Company believes that loan repayment and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

Regulations require First Federal to maintain minimum amounts and ratios of tangible capital and leverage capital to average assets, and risk-based capital to risk-weighted assets. The following table sets forth First Federal's actual capital and required capital amounts and ratios at March 31, 2000 which, at that date, exceeded the capital adequacy requirements:

At March 31, 2000 -----	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount -----	Ratio -----	Amount -----	Ratio -----	Amount -----	Ratio -----
(Dollars in Thousands)						
Total Capital (to risk weighted assets)	\$35,145	11.7%	\$24,090	8.0%	\$30,113	10.0%
Tier 1 (Core) Capital (to risk weighted assets)	\$32,155	10.7%	\$12,045	4.0%	\$18,068	6.0%
Tier 1 (Core) Capital (to adjusted total assets)	\$32,155	6.9%	\$18,527	4.0%	\$23,159	5.0%
Tier 1 (Core) Capital (to average assets)	\$32,155	6.9%	\$18,518	4.0%	\$23,148	5.0%

Regulations require Security to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets and a leverage ratio consisting of Tier 1 capital to average assets. The following table sets forth Security's actual capital and required capital amounts and ratios at March 31, 2000 which, at that date, exceeded the capital adequacy requirements:

At March 31, 2000 -----	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount -----	Ratio -----	Amount -----	Ratio -----	Amount -----	Ratio -----
(Dollars in Thousands)						
Total Capital (to risk weighted assets)	\$3,990	14.1%	\$2,256	8.0%	\$2,820	10.0%
Tier 1 Capital (to risk weighted assets)	\$3,741	13.3%	\$1,128	4.0%	\$1,692	6.0%
Tier 1 Capital (to average assets)	\$3,741	8.7%	\$1,719	4.0%	\$2,149	5.0%

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established five regulatory capital categories and authorized the banking regulators to take prompt corrective action with respect to institutions in an undercapitalized category. At March 31, 2000, First Federal and Security exceeded minimum requirements for the well-capitalized category.

### The Year 2000 Issue

The Company has been aware for some time of the issues associated with the programming code in existing computer systems with the rollover to the year 2000. The issue was whether computer systems would properly recognize date sensitive information when the year changed to 2000. Systems that would not properly recognize such information could generate erroneous data or cause a system to fail. The Company expended considerable time and effort prior to the date rollover to ensure a smooth transition to the year 2000. As such, the Company experienced no significant issues with its internal or third party computer systems with the rollover to the year 2000.

Based on the Company's experience subsequent to December 31, 1999, management believes there will be no additional material direct costs associated with the rollover to the year 2000.

Although management believes the Company's computer systems and service providers will continue to function properly going forward into the year 2000, there can be no assurance that these systems, or those systems of other companies on which the Company's systems rely, will not experience some type of problem related to the date rollover. Such failure could have a significant adverse impact on the financial condition and results of operations 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.

## **I. Financial Information**

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

#### **Market Risk**

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

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

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

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

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

Presented below, as of March 31, 2000, is an analysis of the Company's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points. As illustrated in the table, the Company's NPV is more sensitive to increasing rate changes than declining rates. This occurs primarily because, as rates rise, the market value of the Company's fixed-rate loans and mortgage-backed securities declines due both to the interest rate increase and the related slowing of prepayments. When rates decline, the Company does not experience a significant rise in market value for these loans and mortgage-backed securities because borrowers prepay at relatively higher rates. The value of the Company's deposits and borrowings change in approximately the same proportion in rising and falling interest rate scenarios.

Change in Interest Rates (Basis Points)	Board Limit % Change	At March 31, 2000		At September 30, 1999	
		\$ Change	% Change	\$ Change	% Change
+200 bp	(40)%	\$ (9,986)	(24)%	\$ (10,919)	(25)%
+100 bp	(25)	(4,650)	(11)	(5,200)	(12)
0 bp	-	-	-	-	-
-100 bp	(10)	3,594	9	4,441	10
-200 bp	(15)	4,040	10	5,095	12

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets such as adjustable-rate mortgage loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayments and early withdrawal levels would likely deviate from those assumed in calculating the tables. Finally, the ability of some borrowers to service their debt may decrease in the event of an interest rate increase. The Company considers all of these factors in monitoring its exposure to interest rate risk.

**FIRST MIDWEST FINANCIAL, INC.**

**PART II - OTHER INFORMATION**

**FORM 10-Q**

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

(a) Exhibits: None

(b) Reports on Form 8-K: None

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

**FIRST MIDWEST FINANCIAL, INC.**

**SIGNATURES**

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

**FIRST MIDWEST FINANCIAL, INC.**

*Date:    May 12, 2000*  
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*By:    /s/ James S. Haahr*  
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*James S. Haahr, Chairman of the Board,*  
*President and Chief Executive Officer*

*Date:    May 12, 2000*  
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*By:    /s/ Donald J. Winchell*  
-----  
*Donald J. Winchell, Senior Vice President,*  
*Treasurer and Chief Financial Officer*

## ARTICLE 9

PERIOD TYPE	6 MOS
FISCAL YEAR END	SEP 30 2000
PERIOD END	MAR 31 2000
CASH	1,260,120
INT BEARING DEPOSITS	3,770,111
FED FUNDS SOLD	0
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	169,926,799
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	311,481,238
ALLOWANCE	3,209,074
TOTAL ASSETS	509,000,784
DEPOSITS	313,225,812
SHORT TERM	47,662,213
LIABILITIES OTHER	2,543,577
LONG TERM	107,782,705
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	29,580
OTHER SE	37,756,897
TOTAL LIABILITIES AND EQUITY	509,000,784
INTEREST LOAN	12,703,915
INTEREST INVEST	6,245,883
INTEREST OTHER	0
INTEREST TOTAL	18,949,798
INTEREST DEPOSIT	7,510,580
INTEREST EXPENSE	11,903,294
INTEREST INCOME NET	7,046,504
LOAN LOSSES	595,000
SECURITIES GAINS	(5,000)
EXPENSE OTHER	4,658,141
INCOME PRETAX	2,522,705
INCOME PRE EXTRAORDINARY	1,525,427
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,525,427
EPS BASIC	.62
EPS DILUTED	.60
YIELD ACTUAL	2.86
LOANS NON	566,082
LOANS PAST	0
LOANS TROUBLED	0
LOANS PROBLEM	4,478,615
ALLOWANCE OPEN	3,092,628
CHARGE OFFS	555,653
RECOVERIES	77,099
ALLOWANCE CLOSE	3,209,074
ALLOWANCE DOMESTIC	2,981,074
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	228,000

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