META FINANCIAL GROUP INC

FORM 10-Q
(Quarterly Report)

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Address	121 EAST FIFTH STREET P O BOX 1307
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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 December 31, 2001

**[ ] 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	42-1406262
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [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:	Outstanding at February 12, 2002:
Common Stock, $.01 par value	2,459,912 Common Shares

Transitional Small Business Disclosure Format: Yes [ ]; No [X]

FIRST MIDWEST FINANCIAL, INC.

FORM 10-Q

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Part I. Financial Information

Item I. Financial Statements

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

	December 31, 2001	September 30, 2001
Assets		
Cash and due from banks	$ 1,314,920	$ 1,016,111
Interest-bearing deposits in other financial institutions - short-term (cost approximates market value)	6,297,513	7,750,194
Total cash and cash equivalents	7,612,433	8,766,305
Securities available for sale, amortized cost of $161,187,183 at December 31, 2001 and $144,836,919 at September 30, 2001	160,676,665	145,374,339
Loans receivable - net of allowance for loan losses of $4,144,719 at December 31, 2001 and $3,868,664 at September 30, 2001	345,942,074	333,062,025
Foreclosed real estate, net	979,753	940,143
Accrued interest receivable	4,306,283	4,750,792
Federal Home Loan Bank stock, at cost	6,937,600	6,398,900
Premises and equipment, net	9,457,460	9,346,788
Excess of cost over net assets acquired	3,403,019	3,403,019
Other assets	11,596,523	11,140,752
Total Assets	$ 550,911,810	$ 523,183,063
Liabilities and Shareholders' Equity		
Liabilities		
Deposits	$ 342,957,168	$ 338,781,878
Advances from Federal Home Loan Bank	124,067,057	126,351,761
Securities sold under agreements to repurchase	28,392,720	1,992,720
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures	10,000,000	10,000,000
Advances from borrowers for taxes and insurance	321,246	446,397
Accrued interest payable	663,107	868,281
Other liabilities	1,410,135	1,014,816
Total Liabilities	507,811,433	479,455,853
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 2,459,912 shares outstanding at December 31, 2001; 2,957,999 shares issued and 2,469,727 shares outstanding at September 30, 2001	29,580	29,580
Additional paid-in capital	20,863,363	20,863,379
Retained earnings - substantially restricted	31,183,640	31,066,643
Accumulated other comprehensive income (loss)	(321,811)	338,427
Unearned Employee Stock Ownership Plan shares	(135,000)	(180,000)
Treasury stock, 498,087 and 488,272 common shares, at cost, at December 31, 2001 and September 30, 2001, respectively	(8,519,395)	(8,390,819)
Total Shareholders' Equity	43,100,377	43,727,210
Total Liabilities and Shareholders' Equity	$ 550,911,810	$ 523,183,063

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

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

	Three Months Ended December 31, 2001	Three Months Ended December 31, 2000
Interest and Dividend Income:		
Loans receivable, including fees	$ 6,794,813	$ 7,081,316
Securities available for sale	2,334,250	2,652,541
Dividends on Federal Home Loan Bank stock	70,222	148,204
Total interest and dividend income	9,199,285	9,882,061
Interest Expense:		
Deposits	3,804,005	4,520,175
FHLB advances and other borrowings	2,124,030	2,024,877
Total interest expense	5,928,035	6,545,052
Net interest income	3,271,250	3,337,009
Provision for loan losses	299,000	150,000
Net interest income after provision for loan losses	2,972,250	3,187,009
Noninterest income:		
Deposit service charges and other fees	296,152	227,645
Gain (loss) on sales of securities available for sale, net	6,879	--
Gain (loss) on sales of foreclosed real estate, net	(1,704)	(457)
Brokerage commissions	75,655	27,863
Other income	192,696	32,828
Total noninterest income	569,678	287,879
Noninterest expense:		
Employee compensation and benefits	1,851,407	1,550,573
Occupancy and equipment expense	454,466	346,772
Federal deposit insurance premium	15,781	15,964
Data processing expense	139,745	88,721
Other expense	474,846	473,989
Total noninterest expense	2,936,245	2,476,019
Income before income taxes	605,683	998,869
Income tax expense	168,898	392,563
Net income	$ 436,785	$ 606,306
Earnings per common share:		
Basic	$ 0.18	$ 0.25
Diluted	$ 0.18	$ 0.25

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 December 31, 2001	Three Months Ended December 31, 2000
Net income	$ 436,785	$ 606,306
Other comprehensive income (loss):		
Net change in net unrealized gains and losses on securities available for sale	(1,047,938)	$ 1,759,169
Deferred income tax expense (benefit)	(387,700)	654,633
Total other comprehensive income (loss)	(660,238)	1,104,536
Total comprehensive income (loss)	$ (223,453)	$ 1,710,842

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 Three Months Ended December 31, 2001

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax
Balance at September 30, 2001	$ 29,580	$ 20,863,379	$ 31,066,643	$ 338,427
Cash dividends declared on common stock ($0.13 per share)	--	--	(319,788)	--
Purchase of 12,315 common shares of treasury stock	--	--	--	--
3,750 common shares committed to be released under the ESOP	--	5,015	--	--
Issuance of 2,500 common shares from treasury stock due to exercise of stock options	--	(5,031)	--	--
Net change in net unrealized losses on securities available for sale, net of effect of income taxes of $(387,700)	--	--	--	(660,238)
Net income for the three months ended December 31, 2001	--	--	436,785	--
Balance at December 31, 2001	$ 29,580	$ 20,863,363	$ 31,183,640	$ (321,811)

	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 2001	$ (180,000)	$ (8,390,819)	$ 43,727,210
Cash dividends declared on common stock ($0.13 per share)	--	--	(319,788)
Purchase of 12,315 common shares of treasury stock	--	(161,326)	(161,326)
3,750 common shares committed to be released under the ESOP	45,000	--	50,015
Issuance of 2,500 common shares from treasury stock due to exercise of stock options	--	32,750	27,719
Net change in net unrealized losses on securities available for sale, net of effect of income taxes of $(387,700)	--	--	(660,238)
Net income for the three months ended December 31, 2001	--	--	436,785
Balance at December 31, 2001	$ (135,000)	$ (8,519,395)	$ 43,100,377

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

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

	Three Months Ended December 31, 2001	2000
Cash flows from operating activities:		
Net income	$ 436,785	$ 606,306
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amoritization and accretion, net	441,097	235,182
Provision for loan losses	299,000	150,000
(Gain) loss on sales of foreclosed real estate, net	1,704	457
(Gain) loss on sales of securities available for sale	(6,879)	--
Proceeds from sales of loans held for sale	8,982,122	1,501,909
Originations of loans held for sale	(8,982,122)	(1,501,909)
Net change in accrued interest receivable	444,509	40,936
Net change in other assets	161,160	425,758
Net change in accrued interest payable	(205,174)	32,223
Net change in accrued expenses and other liabilities	166,087	(466,791)
Net cash from operating activities	1,738,289	1,024,071
Cash flows from investing activities:		
Purchase of securities available for sale	(27,091,067)	--
Proceeds from maturities and principal repayments of securities available for sale	10,532,068	2,783,343
Net change in loans receivable	(6,696,745)	6,911,142
Loans purchased	(6,566,454)	(2,801,910)
Proceeds from sales of foreclosed real estate	53,146	404,596
Purchase of FHLB stock	(538,700)	--
Purchase of premises and equipment, net	(296,450)	(592,722)
Net cash from investing activities	(30,604,202)	6,704,449
Cash flows from financing activities:		
Net change in noninterest-bearing demand, savings, NOW, and money market demand deposits	6,770,290	5,119,950
Net change in other time deposits	(2,594,999)	10,205,475
Proceeds from advances from Federal Home Loan Bank	84,650,000	47,215,000
Repayments of advances from Federal Home Loan Bank	(86,934,704)	(63,569,952)
Proceeds from other borrowings	88,900,000	--
Repayments of other borrowings	(62,800,000)	--
Net change in securities sold under agreements to repurchase	300,000	(916,601)
Net change in advances from borrowers for taxes and insurance	(125,151)	59,208
Cash dividends paid	(319,788)	(315,865)
Proceeds from the exercise of stock options	27,719	--
Purchase of treasury stock	(161,326)	(17,778)
Net cash from financing activities	27,712,041	(2,220,563)
Net change in cash and cash equivalents	(1,153,872)	5,507,957
Cash and cash equivalents at beginning of period	8,766,305	6,922,531
Cash and cash equivalents at end of period	$ 7,612,433	$ 12,430,488
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 6,133,209	$ 6,512,829
Income taxes	9,200	9,500
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to foreclosed real estate	$ 94,459	$ 34,000

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, 2001.

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 ended December 31, 2001 and 2000 is presented below.

	Three Months Ended December 31, 2001	Three Months Ended December 31, 2000
Basic Earnings Per Common Share:		
Numerator:		
Net Income	$ 436,785	$ 606,306
Denominator:		
Weighted average common shares outstanding	2,466,639	2,429,727
Less: Weighted average unallocated ESOP shares	(13,750)	--
Weighted average common shares outstanding for basic earnings per share	2,452,889	2,429,727
Basic earnings per common share	$ 0.18	$ 0.25

	Three Months Ended December 31, 2000	1999
Diluted Earnings Per Common Share:		
Numerator:		
Net Income	$ 436,785	$ 606,306
Denominator:		
Weighted average common shares outstanding for basic earnings per common share	2,452,889	2,429,727
Add: Dilutive effects of assumed exercise of stock options, net of tax benefits	39,331	28,006
Weighted average common and dilutive potential common shares outstanding	2,492,220	2,457,733
Diluted earnings per common share	$ 0.18	$ 0.25

3. COMMITMENTS

At December 31, 2001 and September 30, 2001, the Company had outstanding commitments to originate and purchase loans totaling $24.2 million and $29.7 million, respectively, excluding undisbursed portions of loans in process. It is expected that outstanding loan commitments will be funded with existing liquid assets.

4. INTANGIBLE ASSETS

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

As of October 1, 2001, the Company has undertaken to identify those intangible assets that remain separable under the provisions of the new standard and those that are to be included in goodwill and has concluded that all amounts should be included in goodwill. In the year of adoption, SFAS 142 requires the first step of the goodwill impairment test to be completed within the first six months and the final step to be completed within twelve months of adoption. The Company has not completed the first step of the goodwill impairment test, but will perform the test during the second quarter of fiscal 2001.

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

	3 Months ended December 31, 2000		
	Net Income	Basic earnings Per Share	Diluted earnings Per share
Net Income:			
As reported	$606,306	$ .25	$ .25
Add: Goodwill amortization	92,187	.04	.03
Pro forma net income	$698,493	$ .29	$ .28

As of September 30, 2001 and December 31, 2001 the Company had intangible assets of $3,403,019, all of which has been determined to be goodwill. There was no goodwill impairment loss or amortization related to goodwill during the three months ended December 31, 2001.

Part I. Financial Information

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

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

GENERAL

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

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at December 31, 2001, compared to September 30, 2001, and the consolidated results of operations for the three months ended December 31, 2001, compared to the same period in 2000. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2001.

FINANCIAL CONDITION

Total assets increased by $27.7 million, or 5.3%, to $550.9 million at December 31, 2001, from $523.2 million at September 30, 2001.

The portfolio of securities available for sale increased $15.3 million, or 10.5%, to $160.7 million at December 31, 2001, from $145.4 million at September 30, 2001. The increase resulted from the purchase of securities available for sale in an amount greater than maturities and principal repayments received during the period.

The portfolio of net loans receivable increased by $12.8 million, or 3.8%, to $345.9 million at December 31, 2001, from $333.1 million at September 30, 2001. The increase was due to increases in commercial and multi-family real estate loans and commercial business loans, which were partially offset by decreases in single-family residential mortgage loans, consumer loans and agricultural loans.

Deposit balances increased by $4.2 million, or 1.2%, to $343.0 million at December 31, 2001, from $338.8 million at September 30, 2001. The increase in deposit balances resulted from increases in checking accounts, money market demand accounts, and savings accounts in the amounts of $4.3 million, $772,000, and $1.7 million, respectively. These increases were partially offset by a $2.6 million decrease in certificates of deposit.

The balance in advances from the Federal Home Loan Bank of Des Moines (FHLB) decreased by $2.3 million, or 1.8%, to $124.1 million at December 31, 2001 from $126.4 million at September 30, 2001. In addition, the balance in securities sold under agreements to repurchase increased by $26.4 million to $28.4 million at December 31, 2001 from $2.0 million at September 30, 2001. The increase in securities sold under agreements to repurchase reflects the use of alternative borrowing sources at comparatively lower costs to fund balance sheet growth during the quarter.

Total shareholders' equity decreased $627,000, or 1.4%, to $43.1 million at December 31, 2001 from $43.7 million at September 30, 2001. The decrease in shareholders' equity during the period was due primarily to an increase in the unrealized loss on securities available for sale in accordance with SFAS 115.

NON-PERFORMING ASSETS AND ALLOWANCE FOR LOAN LOSSES

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

At December 31, 2001, the Company had loans delinquent 30 days and over totaling $14.3 million, or 4.1% of total loans compared to $15.1 million, or 4.5% of total loans at September 30, 2001.

At December 31, 2001, commercial and multi-family real estate loans delinquent 30 days and over totaled $10.7 million, or 3.1% of the total loan portfolio as compared to $11.3 million, or 3.4% of total loans at September 30, 2001. 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 December 31, 2001, agricultural operating loans delinquent 30 days and over totaled $1.5 million, or 0.43% of the total loan portfolio as compared to $1.6 million, or 0.48% of total loans at September 30, 2001. Agricultural lending involves a greater degree of risk than one- to four-family residential mortgage loans because of the typically larger loan amounts. In addition, payments on loans are dependent on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. The success of the loan may also be affected by factors outside the control of the agricultural borrower, such as the weather and grain and livestock prices. Although management believes the Company's portfolio of agricultural real estate and operating loans is well structured and adequately secured, there can be no assurance that all loans will be fully collectible.

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

	December 31, 2001	September 30, 2001
	(Dollars in Thousands)	
Non-accruing loans:		
One-to four family	$ 154	$ 168
Commercial and multi-family	4,926	464
Agricultural real estate	--	--
Consumer	64	33
Agricultural operating	677	569
Commercial business	539	369
Total non-accruing loans	6,360	1,603
Accruing loans delinquent 90 days or more	--	--
Total non-performing loans	6,360	1,603
Restructured loans:		
Consumer	10	10
Agricultural operating	14	14
Commercial business	--	--
Total restructured loans	24	24
Foreclosed assets:		
Commercial real estate	931	889
Consumer	49	51
Total foreclosed assets	980	940
Less: Allowance for losses	--	--
Total foreclosed assets, net	980	940
Total non-performing assets	$7,364	$2,567

	======	======
Total as a percentage of total assets	1.34%	0.49%
	======	======

The increase in non-accruing loans at December 31, 2001 as compared to September 30, 2001 was primarily due to the transfer of a $4.5 million commercial real estate participation loan secured by a hotel to non-accrual status.

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

On the basis of management's review of its loans and other assets, at December 31, 2001, the Company had classified a total of $13.8 million of its assets as substandard, $181,000 as doubtful and none as loss as compared to classifications at September 30, 2001 of $7.2 million substandard, $49,000 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 low commodity prices. 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 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 the provision for loan losses.

At December 31, 2001, the Company has established an allowance for loan losses totaling $4.1 million. The allowance represents approximately 65% of the total non-performing loans at December 31, 2001 as compared to approximately 240% of the total non-performing loans at September 30, 2001.

The following table sets forth an analysis of the activity in the Company's allowance for loan losses for the three-month periods ended December 31, 2001 and December 31, 2000:

	2001	2000
	(In Thousands)	
Balance, September 30,	$ 3,869	$ 3,590
Charge-offs	(39)	(33)
Recoveries	16	26
Additions charged to operations	299	150
Balance, December 31,	$ 4,145	$ 3,733

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

RESULTS OF OPERATIONS

General. For the three months ended December 31, 2001, the Company recorded net income of $437,000 compared to net income of $606,000 for the same period in 2000. The decline in net income was the result of a reduction in net interest income due to a narrowing of the net interest margin and, in addition, was due to an increase in noninterest expense resulting from start-up costs associated with the opening of two new offices.

Net income for the three months ended December 31, 2001 was positively impacted by the adoption of Statement of Financial Accounting Standards No. 141 and 142 (SFAS 141 and 142) related to business combinations, goodwill and other intangible assets. The adoption of SFAS 141 and 142 on October 1, 2001 eliminated goodwill amortization, which increased earnings by $92,000, or $.04 per diluted share, for the three months ended December 31, 2001 as compared to the same period in 2000.

Net Interest Income. Net interest income decreased by $328,000, or 10.0%, to $2,960,000 for the three months ended December 31, 2001 from $3,288,000 for the same period in 2000. The decline in net interest income reflects a reduction in net yield on average interest-earning assets between the comparable periods. The net yield on average interest-earning assets for the three months ended December 31, 2001 was 2.30% compared to 2.68% for the comparable period in 2000.

Provision for Loan Losses. For the three-month period ended December 31, 2001, the provision for loan losses was $299,000 compared to $150,000 for the same period in 2000. 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 a best estimate of probable losses inherent in the loan portfolio.

Noninterest Income. Noninterest income increased $544,000, 161.4%, to $881,000 for the three months ended December 31, 2001 from $337,000 for the same period in 2000. The increase in noninterest income reflects an increase in fees collected from the origination and purchase of loans, and an increase in service charges collected on deposit accounts during the comparable periods. In addition, the increase reflects the accretion of income from bank owned life insurance during the three months ended December 31, 2001.

Noninterest Expense. Noninterest expense increased $460,000, or 18.6%, to $2,936,000 for the three months ended December 31, 2001, from $2,476,000 for the same period in 2000. The increase in noninterest expense reflects the costs associated with opening a new office in Sioux Falls, South Dakota, which moved into its newly constructed facilities in April 2001. In addition, the Company opened its third Des Moines location in November 2001. Noninterest expense also increased as a result of the Company's on-going effort to maintain and enhance its technology systems for the efficient delivery of products and customer service. This includes on-line banking, which was made available to customers in January 2002.

Income Tax Expense. Income tax expense was $169,000 for the three months ended December 31, 2001 compared to $393,000 for the same period in 2000. The decrease 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.

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 December 31, 2001, the Company had commitments to originate and purchase loans totaling $24.2 million. The Company believes that loan repayment and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

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

Regulations require First Federal and Security to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and a leverage ratio consisting of Tier 1 capital to average assets. The following table sets forth First Federal's and Security's actual capital and required capital amounts and ratios at December 31, 2001 which, at that date, exceeded the capital adequacy requirements:

	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
At December 31, 2001	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
Total Capital (to risk weighted assets):						
First Federal	$45,229	12.8%	$28,230	8.0%	$35,287	10.0%
Security	4,398	15.0	2,349	8.0	2,936	10.0
Tier 1 (Core) Capital (to risk weighted assets):						
First Federal	41,305	11.7	14,115	4.0	21,172	6.0
Security	4,086	13.9	1,175	4.0	1,762	6.0
Tier 1 (Core) Capital (to adjusted total assets):						
First Federal	41,305	8.4	19,748	4.0	24,685	5.0
Security	4,086	8.4	1,938	4.0	2,423	5.0
Tier 1 (Core) Capital (to average assets):						
First Federal	41,305	8.4	19,736	4.0	24,670	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 December 31, 2001, First Federal and Security exceeded minimum requirements for the well-capitalized category.

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.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Market Risk

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

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

The Company's primary objective for its investment portfolio is to provide the liquidity necessary to meet loan funding needs. This portfolio is used in the ongoing management of changes to the Company's asset/liability mix, while contributing to profitability through earnings flow. The investment policy generally calls for funds to be invested among various categories of security types and maturities based upon the Company's need for liquidity, desire to achieve a proper balance between 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 December 31, 2001 and September 30, 2001, is an analysis of the Company's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points. As illustrated in the table, the Company's NPV at December 31, 2001 is somewhat 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. At September 30, 2001, the Company's NPV was more sensitive to deelining interest rates than to increasing interest rate

		At December 31, 2001		At September 30, 2001	
Change in Interest Rates (Basis Points)	Board Limit % Change	$ Change	% Change	$ Change	% Change
		(Dollars in Thousands)			
+200 bp	(40)%	$ (6,294)	(15)%	$ (2,472)	(6)%
+100 bp	(25)	(2,623)	(6)	(698)	(2)
0 bp	--	--	--	--	--
-100 bp	(10)	(1,191)	(3)	(4,336)	(11)
-200 bp	(15)	(5,715)	(14)	(11,377)	(29)

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.

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Date:  February 14, 2002       By:    /s/ James S. Haahr
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                                      James S. Haahr, Chairman of the Board,
                                       President and Chief Executive Officer


Date:  February 14, 2002       By:    /s/ Donald J. Winchell
       -----------------              ------------------------------------------
                                      Donald J. Winchell, Senior Vice President,
                                       Treasurer and Chief Financial Officer
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End of Filing