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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

First Midwest Bancorp, Inc. (FMBI)

MICHAEL L. SCUDDER is the President and Chief Executive Officer of First Midwest Bancorp, Inc., and the Chairman of the board and Chief Executive Officer of First Midwest Bank. In his more than 20 years of service to First Midwest Bancorp, Mr. Scudder has served in many leadership and management capacities, including serving as the company's President and Chief Operating Officer, and its Chief Financial Officer. Mr. Scudder also previously served as Group Executive Vice President and Chief Financial Officer of First Midwest Bank. He earned a bachelor's degree in accounting from Illinois Wesleyan University in 1982, and an MBA from DePaul University in 1993. He serves in various leadership positions with several civic and charitable organizations in the metropolitan Chicago area. He is a Certified Public Accountant and a member of both the American Institute of Certified Public Accountants and the Illinois CPA Society. He has more than 26 years of experience in the banking and financial institution industry.

SECTOR — BANKING

TWST: Please begin with a brief overview of First Midwest, including your history, products and services.

Mr. Scudder: First Midwest Bancorp was formed in 1983. We operate in Illinois, predominately in the suburban Chicago marketplace, though our overall business stretches into northwest Indiana, as well as eastern Iowa. We have a sizable business with over $8 billion in assets and hold a top 10 market share in the suburban Chicago market.

We offer the full complement of financial services to the communities within our markets and have done so for well over 30 years. We have a very strong culture of client service, focused on meeting the financial needs of our clients. This has helped us receive a number of service and business accolades for the level of customer satisfaction and service that we provide to our clients, as well as the engagement of our colleagues. For example, this is the third year in a row we have been recognized as one of the "Top Work Places in Chicago" by the Chicago Tribune. This combination and client service, colleague engagement and market tenure has built a well-respected, relationship-based banking franchise.

TWST: You announced Q4 earnings, showed a disposal of about $172 million in problem loans and a pretax earnings of $28 million. Would you share with us some of your other highlights and give us your opinion on how 2013 is shaping up? Do you believe that the worst is now over in that part of the country?

Mr. Scudder: Let's take those questions in sequence. Let me give you some highlights in terms of the performance that we had for the quarter. We posted earnings of $0.18 per share for the fourth quarter, that's up from $0.05 the like quarter a year ago, and improved from the credit-driven loss posted during the third quarter. Our third quarter saw the accelerated remediation of some $170 million of both nonperforming and performing but potential problem credits. Our decisions here were designed to greatly improve to our credit risk profile and stabilize a very strong core earnings stream. In the fourth quarter, we saw continued credit improvement. Overall nonperforming loans decreased, dropping 17% on a linked-quarter basis, as well as significantly lower credit costs.

Other highlights for the quarter included a number of positive strategic business trends, which were partially masked by the closeout of certain credit actions. Over 2012, we have worked hard to both grow and diversify the mix of our loan portfolio as well as our revenue streams. We have done that through investment in our legacy platforms as well as investment in additional niche businesses. Benefits of these investments helped drive full year loan growth of 2%, with organic growth at roughly 7%, offset by movement of problem and potential problem assets. Our organic growth rate was very solid given the competitive environment and the market environment generally. At the same time, we continued to grow our fee-based revenues, with fees up 10% on a linked-quarter basis, 12% from a year ago. And again, this improvement reflected the benefits of investments made in our business, specifically in our residential mortgage and wealth management platforms. These sale activities combined with a peer-leading net interest margin, which stood at 3.84% for the quarter, helped offset the pressures of the current rate environment.

We characterize 2012 as a year of transition and as we closed 2012, we think we're well positioned for 2013. Our credit risk profile has significantly improved, creating momentum for improvement in our credit costs. Additionally, we expect to continue to leverage 2012 investments in our mortgage and wealth management businesses to drive continued growth in our fee-based revenues, while we anticipate organic loan growth will increase footings as opposed to offsetting problem assets.

TWST: What do you see changing in terms of the economic climate in the suburban Chicago market that you serve? What's going on there?

Mr. Scudder: First, on a national scale, there is still a lot of uncertainty surrounding Washington and the resolution of both fiscal and regulatory issues. That uncertainty continues to create a level of hesitancy in the business environment, which is influencing the pace of, what I believe, is a climate that generally is improving. Consumers are spending; home values are stabilizing and, in some areas, are improving. Locally, we see a number of the same elements. The rate of recovery has been very slow, particularly slow in some of the suburban Chicago markets, where the decline in residential activity and values has been particularly hard felt. However, the local economies seem to be improving.

continue to prepare ourselves for that by adding depth to our overall sales and management teams, and adding the resources to be larger in size than where we are today.

TWST: What differences are you seeing in Illinois versus Indiana and eastern Iowa where you operate? Is there much difference among them? And with so many locations, how do you maintain your bank's culture?

Mr. Scudder: Well, the culture is a great question. We spend a lot of time on culture within our company, so let me take that one first. We spend a significant amount of time, particularly so over the last five years, communicating, working with and developing our colleagues here at the First Midwest. Our mission is built around meeting the financial needs of our clients, and that serves as kind of the guiding light, if you will, of what we do. Because of that focus, we have a very high level of engagement and understanding of our mission, and what we're trying to accomplish. Frankly, that's what makes First Midwest a fun place to work. I mean, if you're looking to meet someone's financial needs, help them be more successful financially, whatever that definition of success is for them, that's makes for a fun place to work. That's trying to do the right thing and build relationships.

That culture resonates across all of our markets. As far as other differences between states, they are not that great given our contiguous locations. For example, northwest Indiana is part of the suburban Chicago marketplace. So while it is a different state, it is part of an overall larger Metro Chicago market area. Similarly, we're concentrated in what we call the Quad Cities area. Effectively they're connected cities, one-half in Iowa, and the other half in Illinois. So here again, our bi-state operation is effectively one market area.

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TWST: What are the potential home-runs over the next two years for First Midwest? Is there a scenario that may cause higher than expected growth or profitability for the company?

Mr. Scudder: In today's environment, there are both opportunities for growth and to build on your overall business, in terms of the disruption that's expected in the marketplace generally. I would expect to see consolidation in the Chicago marketplace over the next couple of years. We think we are a willing and able participant in that consolidation arena. Participation in that process will leverage our current infrastructure and enhance performance. Additionally, we have an extremely valuable, underlying core deposit base, and within that base we have the ability to continue to grow our revenues through cross-selling, as well as benefiting as interest rates move higher down the road.

TWST: In terms of consolidation, the regulatory agencies have determined that Dodd-Frank will apply to all banks, large or small, and the number of community banks in the Midwest could possibly shrink over the next two years. What strategies does First Midwest have to deal with those challenges?

Mr. Scudder: I think there will be tremendous opportunities that come from pressures that will come with an evolving regulatory burden. Additionally, you have shifting consumer preferences as technological capabilities change. We expect to see a shift not in terms of the importance of the overall branch network but in terms of the activity and the nature of business that goes on within the branch. These are just a few of what are a number of drivers that are pushing institutions toward greater leverage of technology and greater pursuit of efficiency. All of that in and of itself will drive consolidation. We

TWST: Which of the key ratios that you monitor on a continuing basis do you think may change for the better over the next year or two?

Mr. Scudder: The ratios we monitor are at a couple of levels. First, there's what I'll call execution or performance ratios. We focus very heavily on cross-sell ratios, client satisfaction levels and loyalty measures that gauge our customer service levels. That is critical as to how First Midwest differentiates itself. If you're a client of First Midwest, you're not going anywhere because you are satisfied with our service and level of commitment. We spend a significant amount of time measuring and making sure that our businesses and business lines are communicating and staying focused on meeting the financial needs of our clients. Second, we closely monitor our financial metrics, credit quality, our overall returns and efficiency. Our financial metrics will continue to improve with our improved credit profile, business investments and with clarity on regulatory guidelines and regulation surrounding overall capital levels.

TWST: What do you think may change in the wealth management services that you'll be offering over the next few years?

Mr. Scudder: I don't believe we will see material changes in terms of the nature of the service. We have the fourth largest trust business among Illinois banks and closed the year at almost $5 billion in assets under management. So we have the full complement of wealth management services, including estate planning, personal trust, employee benefits, as well investment advisory. In our case, we should continue to see growth in the sale of certain products, such as investment advisory, as we further leverage our existing client base.

TWST: What is your reaction to the way Wall Street is treating your stock compared to the four or five banks that are, in your view, closest to your operation?

Mr. Scudder: Investors have a tendency to compare us to the other banks here in Chicago, which is understandable. However, there is really quite a difference in our peers in the way we operate and where we operate within the Chicago area. Our business and our platform benefits from the recognition that we have a strong, balanced community banking franchise. We just hit the basics of good, solid banking and the results come from there. But it's the old football sweep, it's the same play, everybody knows its coming, you just run it better than everybody else and you are successful.

TWST: Tell us a little bit about your own background and perhaps the background of a few of your key colleagues.

Mr. Scudder: I've been the Chief Executive Officer of First Midwest Bank and First Midwest Bancorp since late 2008, though I have been with the company for some 27 years. Over that period of time we have been adding to what was already a very strong and tenured management team. Notably, I brought in Mark Sander in mid-2011 as our as Chief Operating Officer of the holding company and the bank. Mark Sander is a well-respected, 27-year Chicago banker. Together we have been working to both align the organization consistent with our growth strategies and the evolving environment. We have added senior leadership to our commercial, wealth management and retail businesses, as well as our risk-management areas.

TWST: What are your basic business principles, your personal management philosophy?

Mr. Scudder: We are very much a straightforward, a trustworthy company, and we've received public recognition for that. We try to do the right thing in the right way in terms of our communications, in terms of the way we act, in terms of the way we treat our clients and our colleagues. Philosophically, I believe taking and rewarding high-quality people to work toward a goal of meeting the needs of our clients is very powerful. Very early in the economic cycle, we talked to our colleagues and said, "look, we have one thing that we're focused on; while the world may change how we treat people, how we treat our clients and build relationships will be untouched by any change that's out there." It's the relationship that we have with our clients that is of the most value, and that's what we take great care of.

TWST: What's your biggest nightmare?

Mr. Scudder: No nightmares, just opportunities. In my circumstance, I assumed the CEO role here in a time of great turmoil, not just in the environment but also due to the passing of my predecessor, who was a tremendous leader and friend. Amidst all of that we have gone on to recover, complete five acquisitions and receive a number of business accolades. The realities of the world can be frustrating, but there are always opportunities that get created. So there are no nightmares; there are periodic problems that you have to deal with and opportunities to execute that better than everybody else.

TWST: Is there any aspect of the bank operation that may be misunderstood by investors or not fully appreciated?

Mr. Scudder: In today's environment, as we're going through and talking with investors, we spend a good deal of time highlighting what is the value of our business and where are we driving to in the long run. At different points in the cycle, focus has been very much on overall credit quality, not just for us but for the industry, shifting to loan footings, who's growing the quickest. And now given the low interest rate environment, it's very much about expense control and efficiency. Driving overall lower costs in a low interest rate environment. All of those are important and an ongoing focus for us, but it is also about balance. We have been trying to get out more frequently explain our strategies.

TWST: Would you care to comment on the value Wall Street's putting on FMBI stock?

Mr. Scudder: You're never going to hear me say we're overvalued. What we try to do is get Wall Street and the investing public to understand the underlying inherent value and the momentum that our company has. We point them toward — here's what we're doing, not just today but if you look past today, here's the flywheel within the company. We are in markets that are robust. There are numerous opportunities available to us as we look to grow and diversify our revenue streams. We have the advantage of a very strong overall core deposit base and a very solid customer service platform. I firmly believe there will be continuing opportunities to grow. And then as interest rates and the world normalize, we expect our earnings flywheel will build momentum and our valuations will grow.

TWST: In conclusion, give us your best summary statement. What compels investors to review FMBI and include it in their longer-term investment strategies?

Mr. Scudder: 2012 for First Midwest was a year of transition. We took significant and decisive credit actions to improve our risk profile, and we've added depth and strengthened our sales and management teams, diversified our sales platforms, and we're building momentum within our business. As we enter 2013 and look to the future, we've got a much stronger company. We have the ability to lever what we do well, and we have the capital, if you will, strength to be able to do that. While we believe core deposits and liquidity are undervalued in today's world, our business momentum is taking hold; as a result, we expect to continue to build stronger overall levels of performance and greater levels of return for our investors.

TWST: Is there anything you'd like to add?

Mr. Scudder: I think we've pretty well covered everything.

TWST: Thank you. (KL)

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