



# **First Midwest Bancorp, Inc.**

## **Reaffirming Our Foundations**

- **Risk & Regulation**
- **Culture & Governance**

**Federal Reserve Bank of Chicago  
DePaul Driehaus College of Business  
8<sup>th</sup> Annual Risk Conference  
March 31, 2015**

# **Today's Discussion**

- **Introduction**
- **First Midwest**
- **Managing Risk in Today's World**
- **Questions**



**Who We Are**

# First Midwest

## \$9.4 Billion in Assets

- 5<sup>th</sup> Largest IL-based, 99<sup>th</sup> in U.S. <sup>(1)</sup>

## \$7.7 Billion in Average Deposits

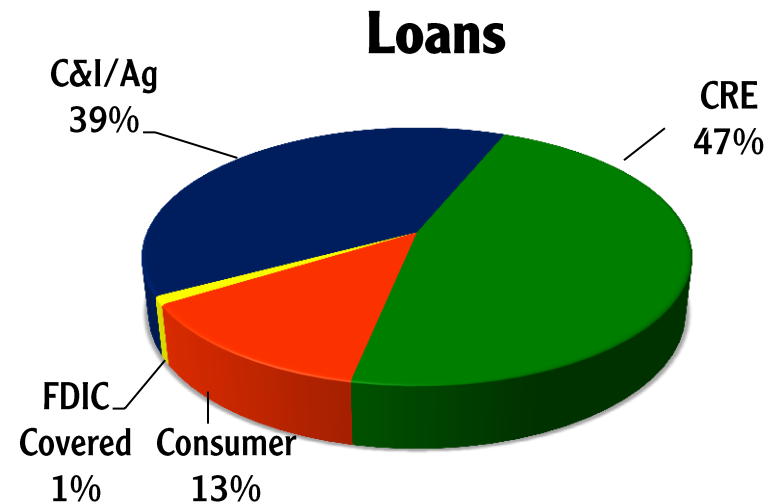
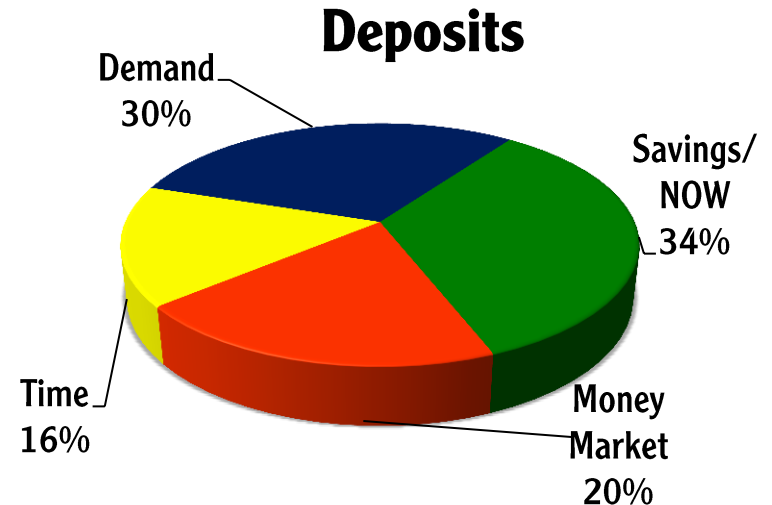
- Strong Core Deposits - 84% Low Cost

## \$6.7 Billion in Loans

- #1 Agricultural Lender in IL, #45 in U.S. <sup>(2)</sup>

## \$7.2 Billion in Trust Assets

- IL's 3<sup>rd</sup> Largest in Revenue <sup>(3)</sup>



Information as of December 31, 2014.

<sup>(1)</sup> From SNL Financial.

<sup>(2)</sup> From American Bankers Association.

<sup>(3)</sup> From Trust Performance Report.

# Operating in Premier Markets

## 70 Plus Years of Service

## Recognized Nationally and Locally

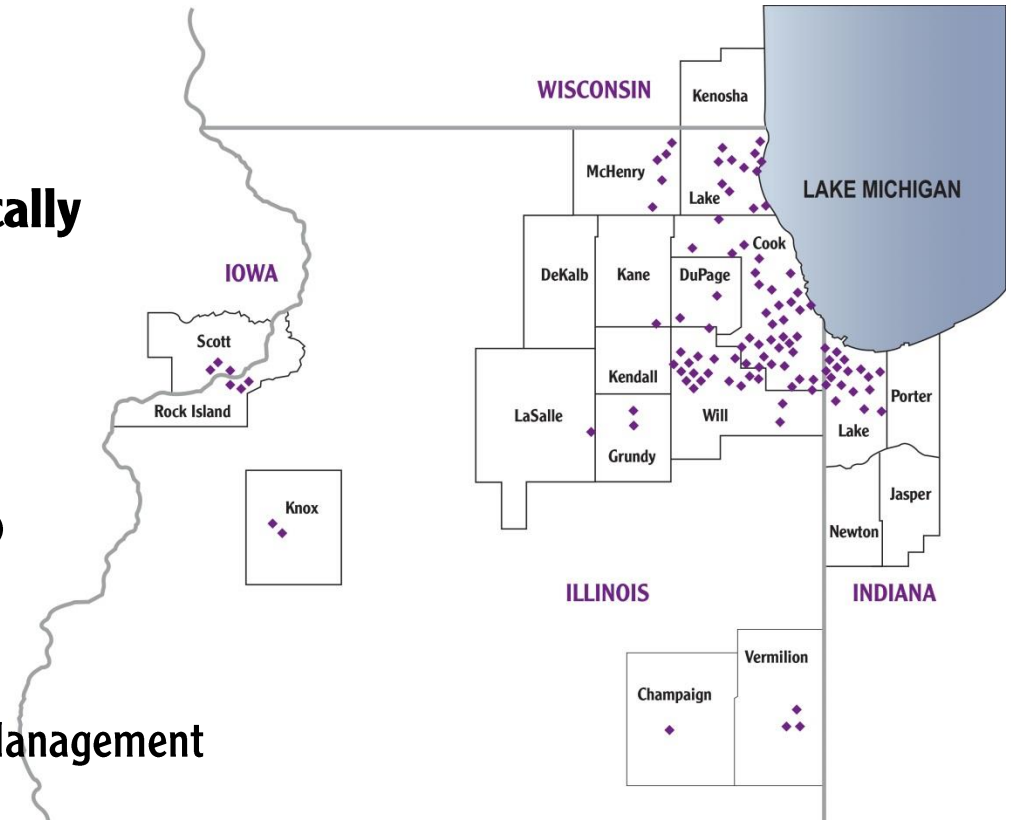
- 2014 J.D. Power Award

## Anchored in Metro Chicago

- 89% of Deposits
- #11 in Suburban Chicago MSA <sup>(1)</sup>

## Traditional Sales Platform

- Retail, Commercial and Wealth Management
- Approximately 110 Locations



<sup>(1)</sup> SNL Financial based on deposit balances as of June 30, 2014.

# With a Relationship Focus

We are in the business of **helping clients achieve financial success throughout their economic life...**

We believe that only if each of us **assumes personal responsibility for the financial success of every client ...**

We further believe that in fulfilling clients' financial needs we are **...creating value for ourselves and the company.**

The financial success of our clients, thusly, will define our success.

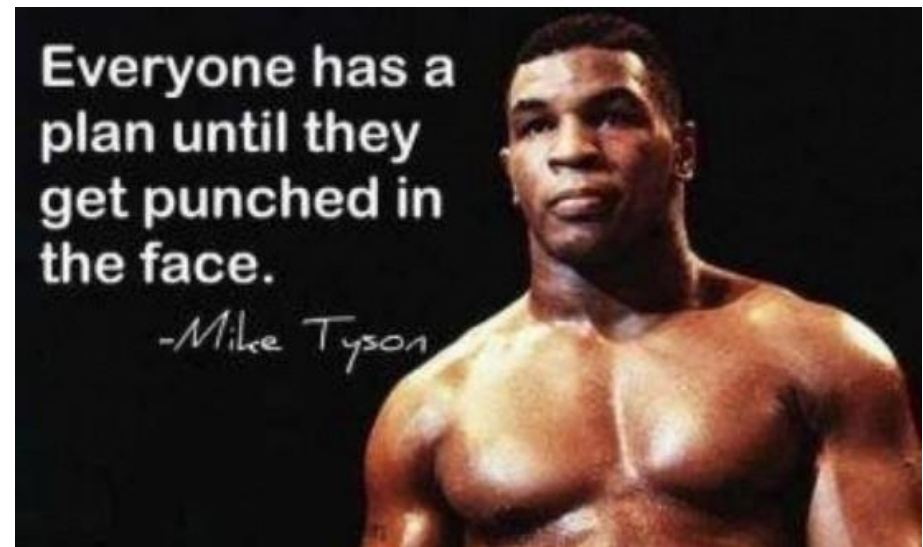


**“Highest Customer Satisfaction with Retail Banking in the Midwest”**

First Midwest Bank received the highest numerical score among retail banks in the Midwest region in the proprietary J.D. Power 2014 Retail Banking Satisfaction Study<sup>SM</sup>. The study is based on 80,445 total responses measuring 21 providers in the Midwest region (IA, IL, KS, MO, MN, WI) and measures opinions of consumers with their primary banking provider. Proprietary study results are based on experiences and perceptions of consumers surveyed January 2014. Individual experiences may vary. Visit [jdpower.com](http://jdpower.com).

# In 2008, Plans Changed

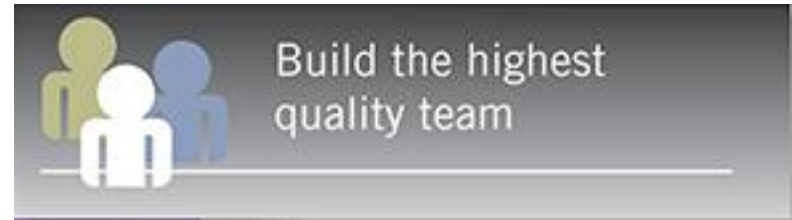
- We Knew CRE Would Weigh Heavily On Our Suburban Markets
- Leadership Changes
- In the Short Run We Had To:
  - Normalize Credit
    - \$400MM in Net C/O's 2008-12
  - Build Capital
    - \$200MM Equity Raise in 2011
  - Navigate > Regulatory Expectations
- We Also Knew Opportunities Were There
  - Lend, Build Core Deposits, Diversify Revenue
  - Balance Need for Efficiency w/ Investment in Risk



# In 2009, Reset Our Plan

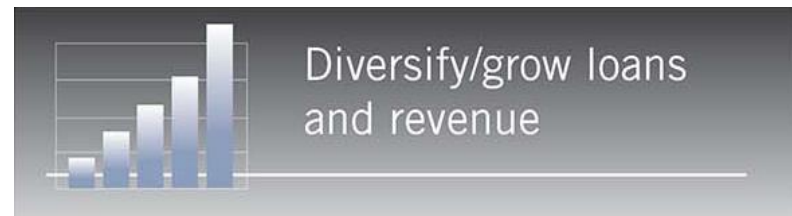
- **Started w/ Our Strategic Plan Process**

- Environmental Assessment
- Reaffirmed Mission



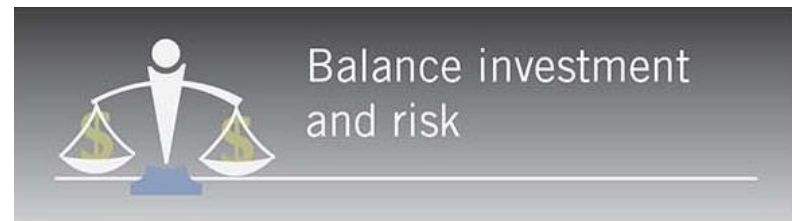
- **Included Active Dialogue with Constituents**

- Board, Colleagues
- Investors
- Regulators



- **Established Our Priorities**

- Talent, Diversification and Growth
- Enhance Framework to Manage Risk

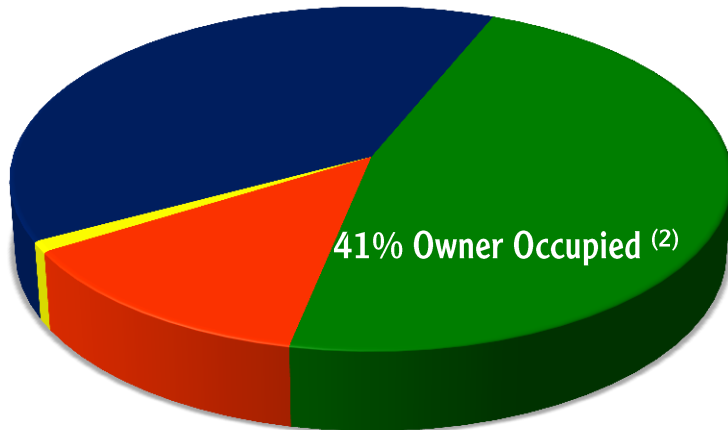


**Maximize Shareholder Value**



# Diversified Our Lending

\$6.7 Billion, Up 27% <sup>(1)</sup>



Category	\$	% of Total	Chg <sup>(1)</sup>
Commercial	\$2.6	39%	52%
Commercial RE	3.1	46%	7%
Consumer	0.9	13%	22%
Covered	0.1	1%	(41%)

<sup>(1)</sup> Change from December 31, 2008 to December 31, 2014.

<sup>(2)</sup> The percent reported does not include multi-family or construction loans.

Dollar amounts in billions.

## Realigned/ Expanded Commercial Team

- Business Banking, Middle Market
- Commercial Real Estate and Equipment Leasing
- Specialty Line

## Broadened Geography

- Downtown Chicago
- Midwest Expansion

## Built Opportunities Thru Specialty Lines

- Legacy: Agricultural, Healthcare
- Added: Asset-Based Lending
- Acquired National Machine Tool

## Broadened Consumer

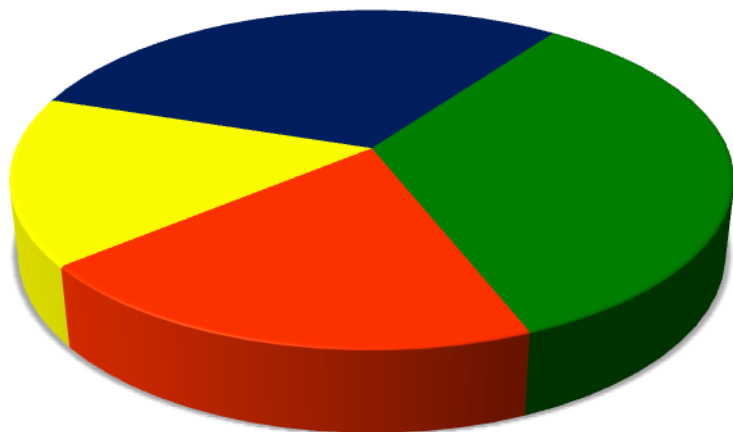
- Mortgage

## M&A Strengthened

- 2014 Acquisitions Add Almost \$800 Million

# Strengthened Our Core Deposit Base

\$7.7 Billion, Up 37% <sup>(1)</sup>



Category	\$	% of Total	Chg <sup>(1)</sup>
Demand	\$2.3	30%	124%
Savings/NOW	2.6	34%	58%
Money Market	1.5	20%	104%
Time	1.3	16%	(42)%

## Strong Base

- 84% Low Cost Transactional
- Lower Cost Funding: 13 bps In Total

## Driving Household Growth

- Core Checking, Penetration
- Mobile, Internet Expansion

## Better Positioned For Higher Rates

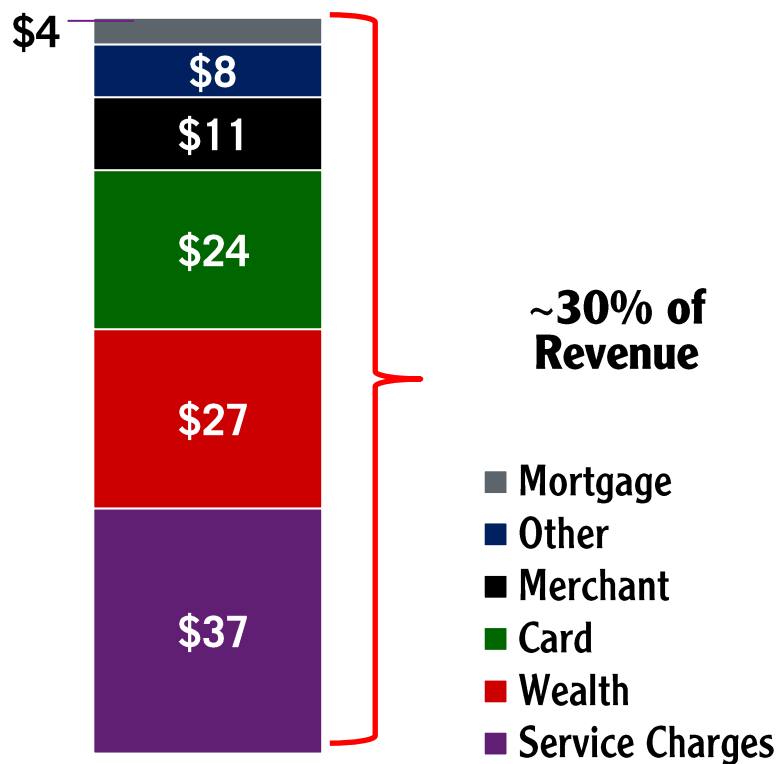
- Over 60% Retail Funded
- Average per Account = \$17,000
- Limited Wholesale Funding

## M&A Strengthened

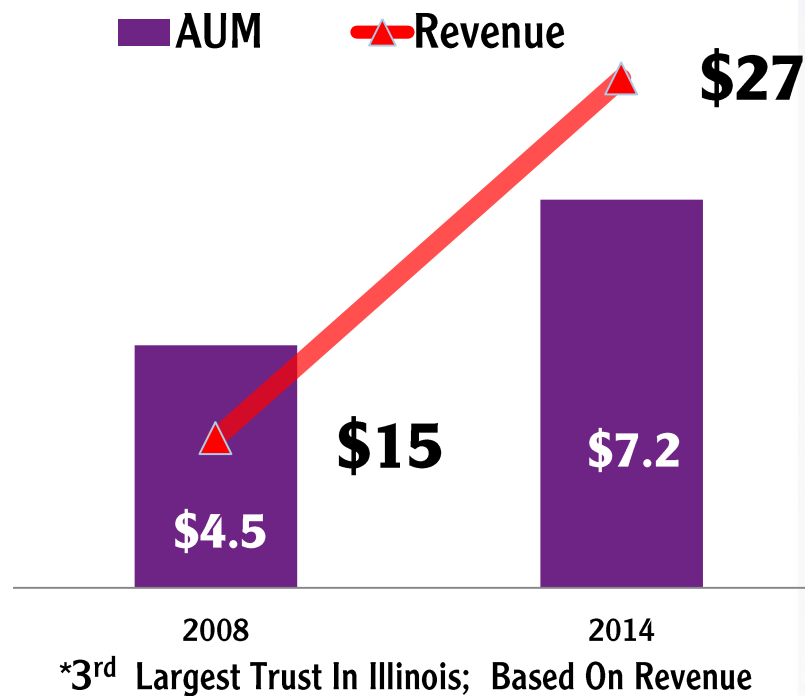
<sup>(1)</sup> Change from December 31, 2008 to December 31, 2014.

# Diversified Our Fee-Based Revenues

Fee Based Revenue, Up 17% (1)



Wealth Management, Up 80% (1)



(1) Compared to December 31, 2008.

# Supplemented w/ Acquisitions

**8 Transactions Add  
\$2.4 Billion in Assets**

August 2012

**Waukegan Savings Bank**

- \$86 million in assets

October 2011

**4 Chicago-area branches  
of Old National Bancorp**

- \$108 million in assets

August 2010

**Palos Bank & Trust Co.**

- \$485 million in assets

April 2010

**Peotone Bank & Trust Co.**

- \$129 million in assets

October 2009

**First DuPage Bank**

- \$261 million in assets

December 2014

**Great Lakes Bank**

- \$568 million in assets
- \$223 million in loans
- \$466 million in deposits

September 2014

**National Machine Tool Financial Corp**

- *Equipment Leasing Finance*
- *In Business for 28 Years*
- *Historic Production - \$40 million/yr*

August 2014

**12 Chicago-area branches of Popular  
Community Bank**

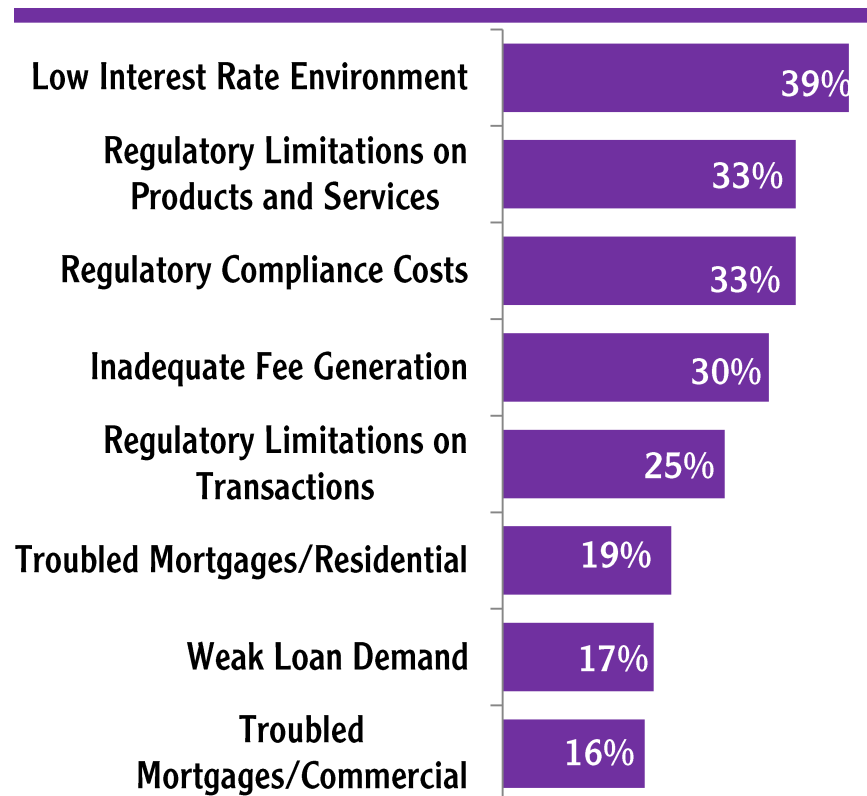
- \$762 million in assets
- \$549 million in loans
- \$732 million in deposits



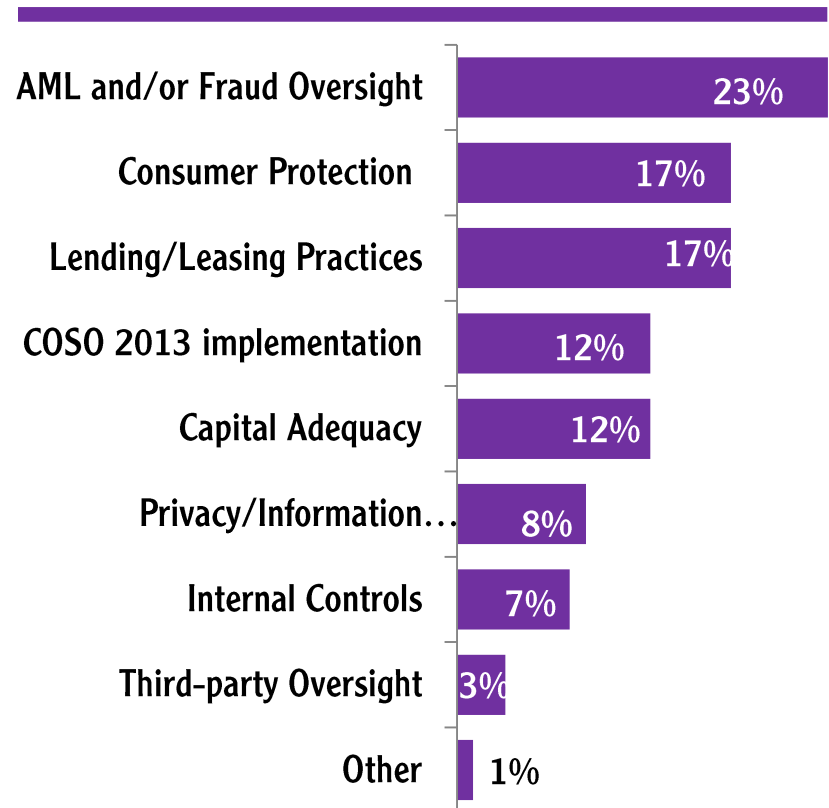
# Looking Ahead

# No Lack of Challenges

Q: Which Of The Following Are Having The Greatest Negative Impact On Growth For Your Bank?\*



Q: Which Regulatory Compliance Areas Is Having The Biggest Impact To Your Operating Costs?

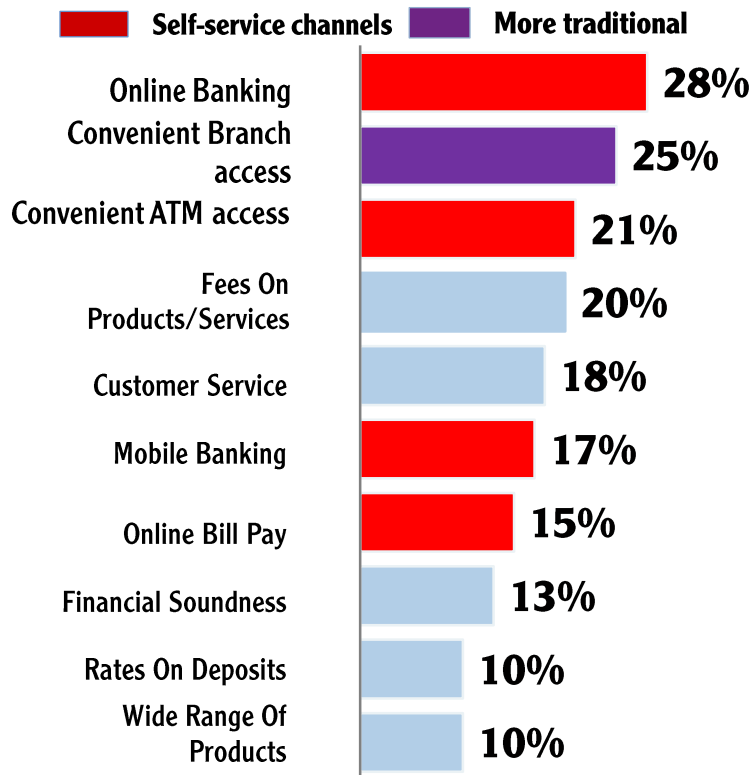


\*Multiple responses allowed

Source: KPMG Community Bank Survey: "Seeking Strategic Advantage", 2014

# Consumers Migrating To Self-service

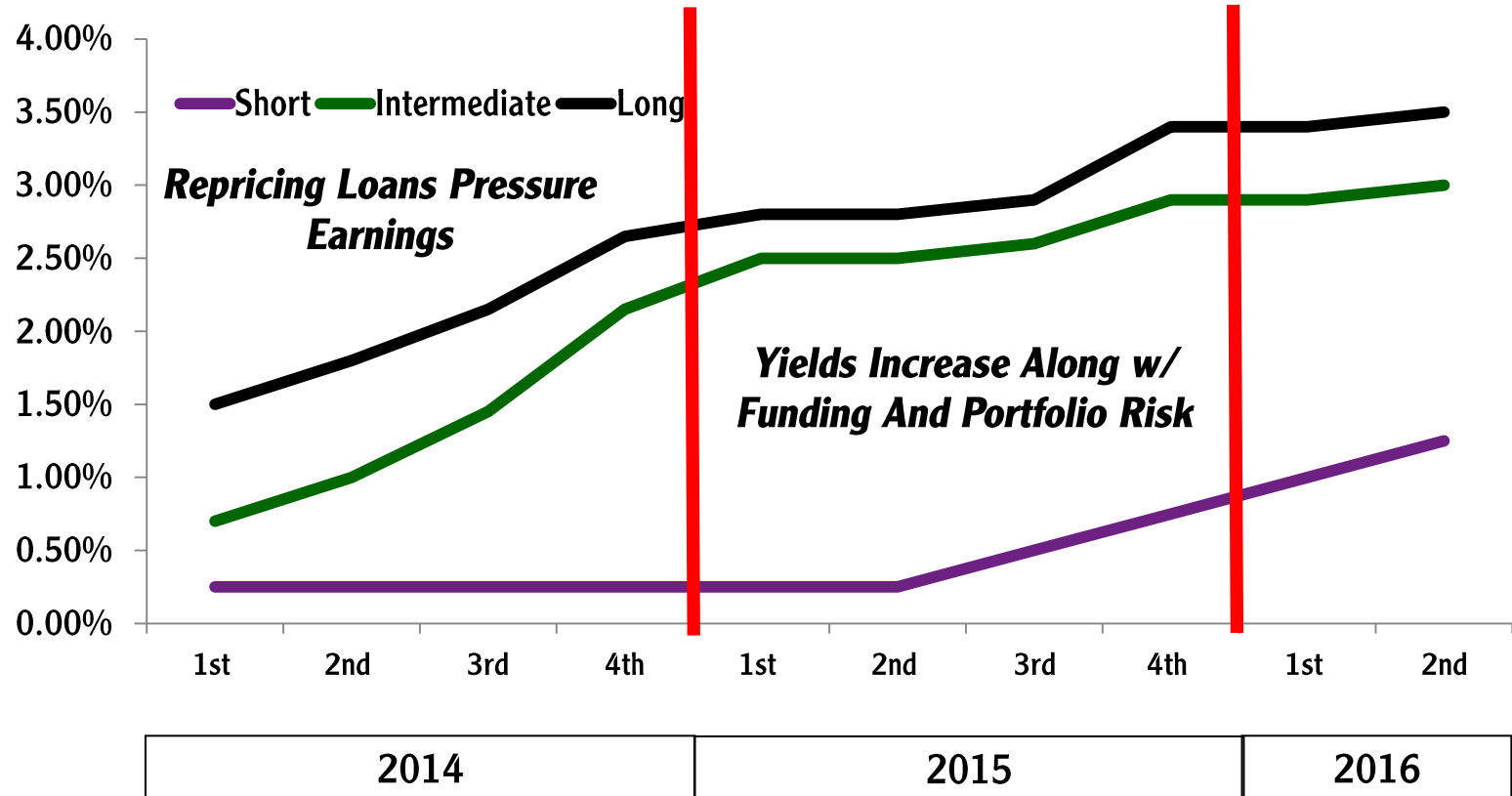
As Digital Offerings And Convenience Rank Highest Among Features When Choosing A New Primary Bank .



**46%**  
 Nearly half of all respondents said that they expect their bank to increase spending in information technology (IT)

Source: AlixPartners Financial Services Franchise Health Study 2Q14 (Mobile switchers N=254, Non-mobile switchers N=166, All switchers N=420)  
 Source: KPMG Community Bank Survey: "Seeking Strategic Advantage", 2014

# Transition to Rising Rates

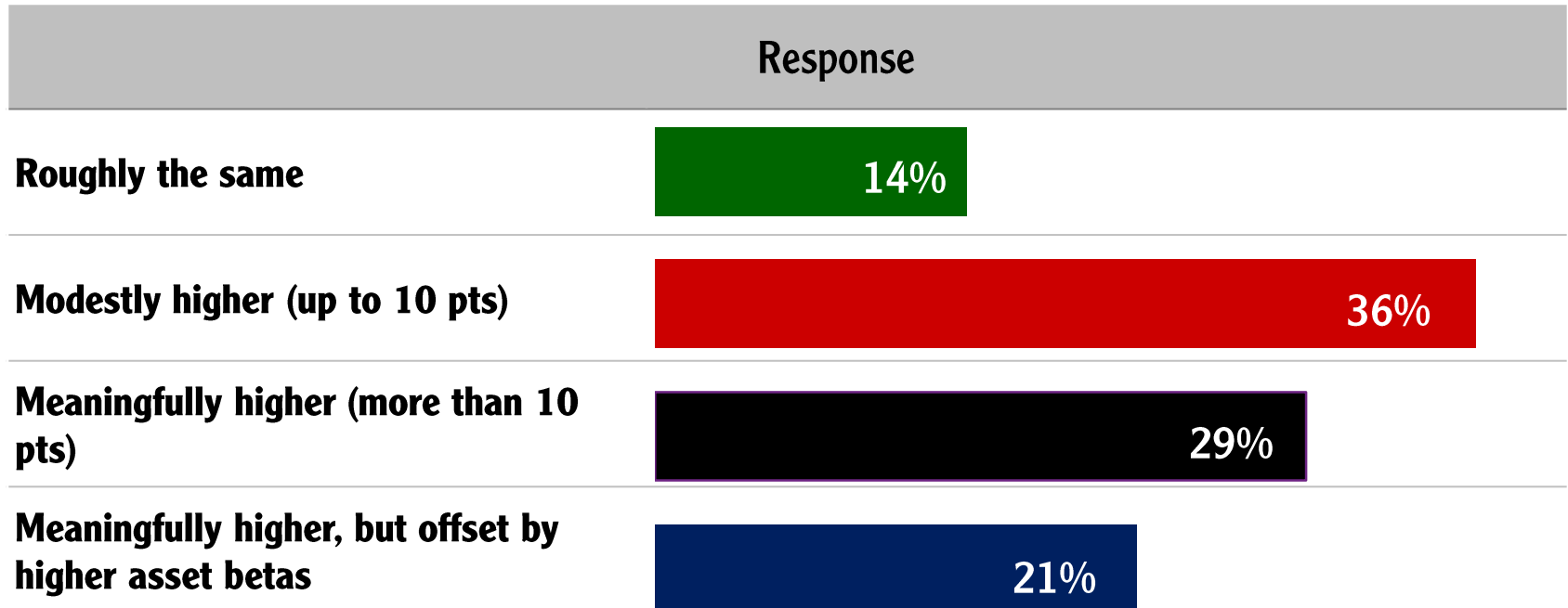


**Creates Heavy Competition, Will Occur in Our Lifetime**



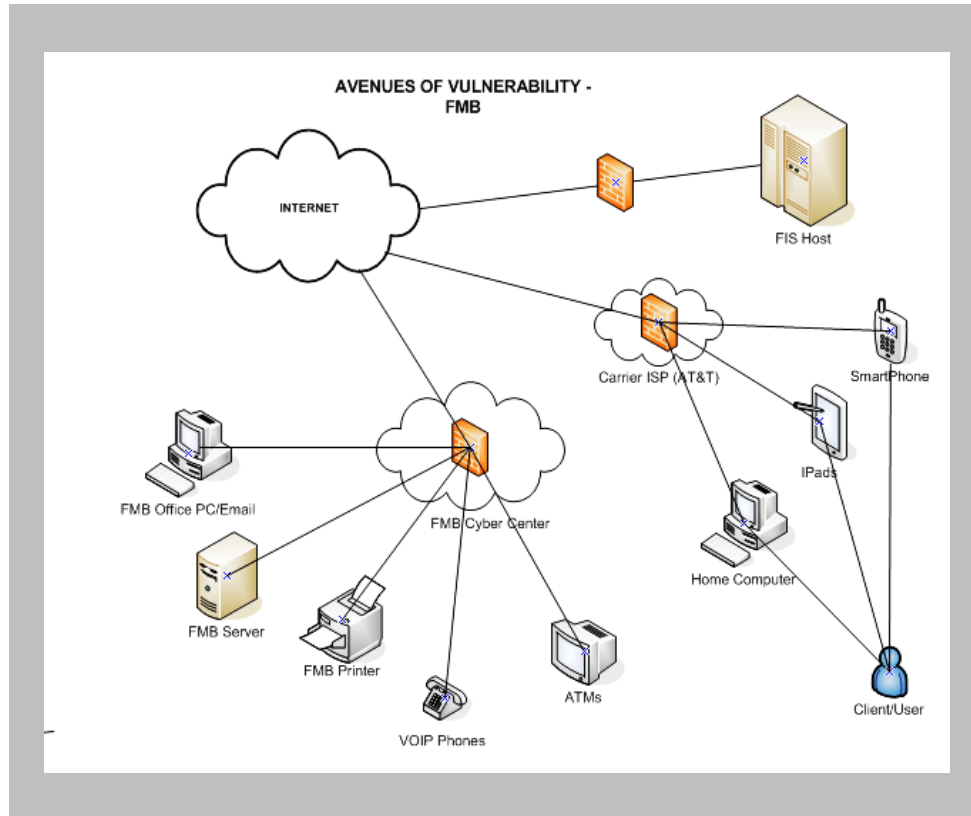
# Expecting Higher Deposit Betas Than 2004

Relative To The 2003-2007 Rate Rise, How Do You Expect Your Overall Deposit Portfolio Beta To Behave Over The Next Two Years?



Per Polling At J.P. Morgan's 2014 Bank CEO Conference:

# Cyber Risk Is Growing

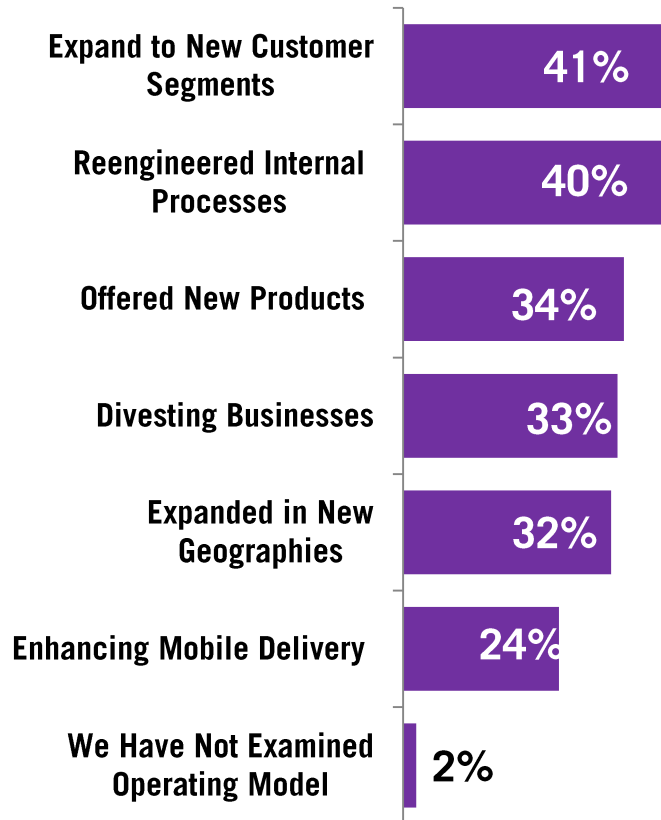


*Computers have enabled people to make more mistakes faster than almost any invention in history, with the possible exception of tequila and hand guns.* Mitch Ratcliffe

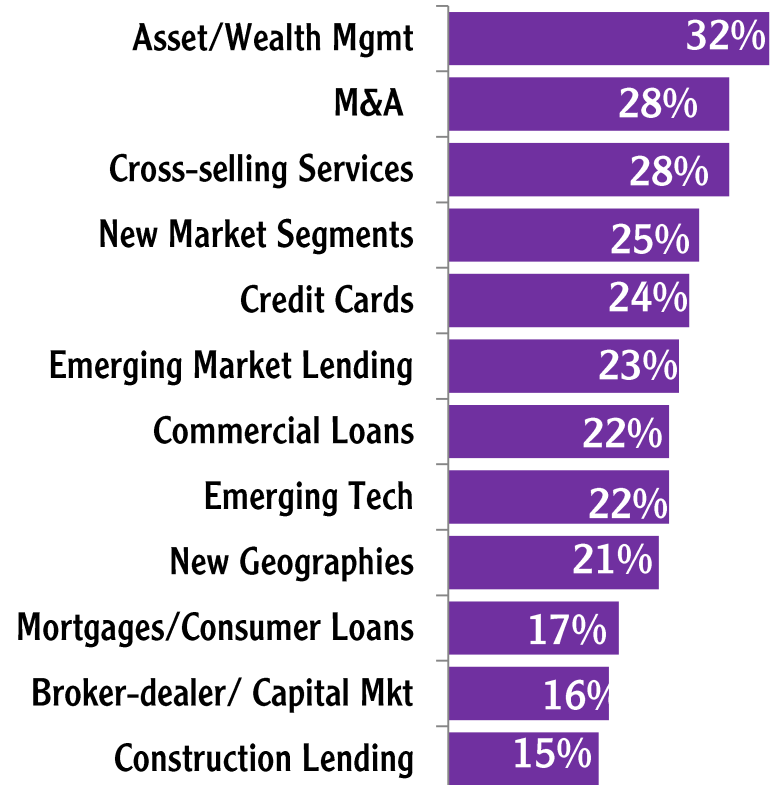
*There are two kinds of people in America today: those who have experienced a foreign cyber attack and know it, and those who have experienced a foreign cyber attack and don't know it.* Frank Wolf

# How the Industry Plans to React

Q: What areas of your bank's operating model as a result of the economy and regulatory pressures?\*



Q: Which Of The Following Will Be The Three Biggest Drivers Of Your Revenue Growth In The Next 1-3 Years?\*



\*Multiple responses allowed

Source: KPMG Community Bank Survey: "Seeking Strategic Advantage", 2014

# **Creates A Period of Transition, Adaptation**

- **Regulatory Expectations Taking Form, Continue to Evolve**
- **Credit Has Been a Tailwind**
- **Margin Pressures, Expense Savings Slowing**
- **Interest Rates Are Expected to Rise From Historic Lows**
- **Shifting Consumer Preferences**
- **Growing Technology Dependence and Cyber Risk**

**All Combine to Challenge Status Quo, Creating  
New Opportunities and Risks**



# **Balancing Investment and Risk**

# It is About Keeping the Circle Round

## Words to Live By Relative to Risk

### **Recognize Its Limitations**

- *We demand rigidly defined areas of doubt and uncertainty! Douglas Adams*

### **Understand Its Importance**

- *It's impossible that the improbable will never happen. Emil Gumbel*
- *A little risk management saves a lot of fan cleaning. Unknown*

### **Don't Be Afraid of It**

- *A bend in the road is not the end of the road...Unless you fail to make the turn.— Helen Keller*



# **It is Not About What You Don't Do**

## ***Essentials Of Risk Management***

- 1. Don't Do Anything Wrong Today!**
- 2. Don't Do Anything Wrong Tomorrow!**
- 3. Repeat!**

# It Is About What You Choose To Do and How

*“Risk derives from the early Italian risicare, which means 'to dare'. In this sense, risk is a choice rather than a fate. — Peter L. Bernstein*



**Life moves pretty fast.**

If you don't stop and look around  
once in a while, **you could miss it.**

Matthew Broderick  
in

***Ferris Bueller's Day Off***



# From A Risk Perspective, Balance Is Key

**“They’ve done studies, you know. Sixty percent of the time, it works every time.”**

**Ron Burgandy - Anchorman**



# Requires Ongoing Investment

## Framework

- **Organizational Foundation**
  - Based On Common Sense
  - Starts w/ Tone At the Top
    - My Job
    - Willingness to Reassess
  - Talent, Leadership
  - Structure
  - Process
- **Anchored to Our Strategic Plan**
  - Establishes Priorities
  - “Momentum Map” Empowers And Engages
  - Facilitates Dialogue
- **Active Oversight**
  - Executive
  - Board

## Key Investments

- **Hired** CRO and Expanded Role (2009-11)
  - Includes M&A Diligence
- **Formed** Executive Risk Committee (2009)
  - ✓ Developed “Dart” to Promote Discussion
  - Drafted Board Charter
- **Expanded** General Counsel Role, Resources (2012-14)
- **Expanded** Credit Oversight (2009 to 2014)
  - Formalized Credit Profile, System Upgrade
  - Added Resources, Depth of Experience
- **Expanded** Capital Stress and ALM Modeling (2009 to 2015)
- **Expanded** Cyber Preparedness (2015)
  - ✓ Independent Assessment

# It is About Keeping the Circle Round



- **Organizational Foundation**
  - Based On Common Sense
  - Starts w/ Tone At the Top
    - My Job
    - Willingness to Reassess
  - Talent, Leadership
  - Structure, Process
- **Anchored to Strategic Plan**
  - Environmental Assessment
  - Active Dialogue
- **Active Oversight**
  - Executive
  - Board



# Questions

# Forward Looking Statements

This presentation may contain certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by use of words such as “may,” “might,” “will,” “would,” “should,” “could,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “probable,” “potential,” “possible,” “target,” or “continue” and words of similar import. Forward-looking statements are not historical facts but instead express only management’s beliefs regarding future results or events, many of which, by their nature, are inherently uncertain and outside of management’s control. It is possible that actual results and events may differ, possibly materially, from the anticipated results or events indicated in these forward-looking statements. Forward-looking statements are not guarantees of future performance, and First Midwest cautions you not to place undue reliance on these statements. Forward-looking statements are made only as of the date of this presentation, and First Midwest undertakes no obligation to update any forward-looking statements contained in this presentation to reflect new information or events or conditions after the date hereof.

Forward-looking statements may be deemed to include, among other things, statements relating to First Midwest's future financial performance, the performance of First Midwest's loan or securities portfolio, the expected amount of future credit reserves or charge-offs, corporate strategies or objectives, anticipated trends in First Midwest's business, regulatory developments, acquisition transactions, including estimated synergies, cost savings and financial benefits of pending or consummated transactions, and growth strategies, including possible future acquisitions. These statements are subject to certain risks, uncertainties, and assumptions. For a discussion of these risks, uncertainties, and assumptions, you should refer to the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in First Midwest's Annual Report on Form 10-K for the year ended December 31, 2013, as well as First Midwest's subsequent filings made with the Securities and Exchange Commission. However, these risks and uncertainties are not exhaustive. Other sections of First Midwest’s filings describe additional factors that could adversely impact First Midwest's business and financial performance.