# 2005 annual report | First Midwest Bancorp, Inc.

## company profile

First Midwest is the premier relationship-based banking franchise in the growing Chicagoland banking market. As one of the Chicago metropolitan area's largest independent bank holding companies, First Midwest provides the full range of both business and retail banking and trust and investment management services through 70 offices located in 50 communities, primarily in northeastern Illinois, a network of 100 ATMs, and its on-line full service electronic banking center **www.firstmidwest.com**. First Midwest was the only bank honored by *Chicago* magazine as one of the 25 best places to work in Chicago.

First Midwest Bank, First Midwest Bancorp's sole banking subsidiary, has approximately $7.2 billion in assets, and its Trust Investment Management Division has over $2.5 billion in assets under management. Collectively, First Midwest has nearly 670,000 relationships serving almost a quarter of a million households and approximately 21,000 businesses. First Midwest is rooted deeply in the local communities it serves, and its sales team is intensely focused on providing value-enhancing and needs-satisfying financial services to its expanding client base.

## additional information

Visit the Investor Relations section of our website, **www.firstmidwest.com**, for stock and dividend information, quarterly earnings and news releases, on-line annual report, links to SEC filings, and other Company information.

First Midwest Bancorp, Inc.

## Consolidated Financial Highlights

($ in thousands, except per share data)

| Years Ended December 31, | 2005 | 2004 |
|---|---|---|
| **Net Income** | **$ 101,377** | $ 99,136 |
| **Per Common Share** | | |
| Diluted earnings per share | **$ 2.21** | $ 2.12 |
| Dividends declared | **1.015** | 0.900 |
| Book value at year end | **11.99** | 11.55 |
| Market price at year end | **35.06** | 36.29 |
| **Performance Ratios** | | |
| Return on average equity | **18.83%** | 18.68% |
| Return on average assets | **1.44%** | 1.45% |
| Net interest margin | **3.87%** | 3.91% |
| Efficiency ratio | **49.44%** | 50.11% |

| December 31, | 2005 | 2004 |
|---|---|---|
| **Balance Sheet Highlights** | | |
| Total assets | **$ 7,210,151** | $ 6,863,381 |
| Loans | **4,306,191** | 4,135,278 |
| Deposits | **5,147,832** | 4,905,378 |
| Stockholders' equity | **544,068** | 532,038 |

## Stock Performance and Dividend Information

| | 2005 | | | | 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| Quarter Ended | High | Low | Close | Dividends Declared | High | Low | Close | Dividends Declared |
| March 31 | **$36.75** | **$31.92** | **$32.48** | **$0.240** | $34.29 | $31.13 | $34.22 | $0.220 |
| June 30 | **36.45** | **31.25** | **35.08** | **0.250** | 36.03 | 32.33 | 35.21 | 0.220 |
| September 30 | **39.18** | **34.43** | **37.24** | **0.250** | 35.62 | 32.25 | 34.56 | 0.220 |
| December 31 | **39.25** | **34.66** | **35.06** | **0.275** | 38.30 | 33.70 | 36.29 | 0.240 |
| | | | | **$1.015** | | | | $0.900 |

**John M. O'Meara**
President and CEO
First Midwest Bancorp, Inc.

Dear Stockholders,

2005 was another year of outstanding financial and operating performance for First Midwest. Our Company produced record net income and earnings per share for the 14th consecutive year, every year since 1992.

Our tireless dedication to meeting and exceeding the banking needs of current and new customers has strengthened our position as the premier relationship-based bank in the Chicagoland market. In addition to organic growth within our existing branch network, we actively pursued new markets during 2005 through targeted strategic acquisitions. By bringing the First Midwest model to attractive new markets, we will broaden our distribution base, open up new avenues for product sales, and further enhance the value of our franchise. While we are pleased with our results for 2005, we are even more excited about the opportunities that lie ahead in 2006 and beyond.

## 2005 Review . . . The Year in Numbers

First Midwest had another year of record performance in 2005. The Company's net income increased 4.2% on a per diluted share basis to a record $101.4 million, or $2.21 per diluted share, from net income of $99.1 million, or $2.12 per diluted share in 2004. In 2005, First Midwest's return on average assets remained strong at 1.44% and its return on average equity was a solid 18.8%, both of which significantly exceed peer averages. The Company's profitability continues to benefit from a growing interest-earning asset base, solid credit quality, diligent cost control, careful risk management, and efficient use of capital.

The Company's total loans of $4.3 billion at December 31, 2005 were 4.1% higher than at December 31, 2004. First Midwest's loan growth in 2005 was influenced by a $312.1 million increase in corporate and real estate 1-4 family loans, offset by previously planned declines in consumer indirect lending totaling $134.5 million. Corporate loans, including commercial, real estate commercial, real estate construction and agricultural lending, increased by 8.2% from December 31, 2004.

Total deposits at December 31, 2005 were $5.1 billion, an increase of 4.9% from December 31, 2004. As of December 31, 2005, demand deposits increased 5.9% from December 31, 2004, and time deposit balances outstanding were $2.1 billion, an increase of 20.1% over the same period, largely due to targeted sales efforts.

First Midwest's noninterest income totaled $74.6 million, down from $79.4 million for 2004. Fee-based revenues, representing the aggregate of service charges on deposits, trust and investment management fees, other service charges and commissions, and card-based fees continued the positive trends of recent years increasing 8.4%. In response to the continued challenges of an unprecedented interest rate environment, and to better prepare the company for expected rate levels in 2006, we undertook a balance sheet restructuring in late 2005. This action, which involved the sale of approximately $200 million in underperforming securities, allowed us to reduce our short-term borrowings and acquire higher-yielding securities. These moves left our balance sheet in a much stronger position going forward. In the fourth quarter of 2005 we absorbed security losses of $6.2 million to implement this strategy. Total noninterest expense was $165.7 million, an increase of only 1.4% over 2004. Disciplined cost management helped First Midwest's efficiency ratio to improve to 49.4% for 2005, from 50.1% for 2004.

First Midwest improved its already strong credit quality in 2005. Nonperforming assets totaled $14.9 million as of December 31, 2005, down 35.2% from $22.9 million as of December 31, 2004. As of December 31, 2005, the ratio of nonperforming assets to total loans plus foreclosed real estate was 0.35%, improving from 0.55% as of December 31, 2004.

## 2005 Review . . . Accomplishments

In addition to producing another record year of financial performance, several important milestones were accomplished in 2005. As a result of our strong profitability and commitment to returning cash to our shareholders, we increased our dividend twice, by a total of 15%, during 2005. We have now increased our dividend on 15 occasions in the past 13 years resulting in a compound growth rate of 15.3%. In May, we announced a new stock repurchase plan, which authorized the repurchase of up to 2.5 million shares of our common stock. Over the course of the year we repurchased a total of 857 thousand shares.

In October 2005, our formal agreement with the Federal Reserve Bank of Chicago and the Illinois Department of Financial and Professional Regulation was terminated without financial penalties to our Company. The successful resolution to this issue was the product of the extraordinary efforts of our employees and the cooperation of federal and state regulators. We are pleased to have this matter resolved. First Midwest remains committed to full compliance with the Bank Secrecy Act and Anti-Money Laundering laws as well as all other Regulations. In the aftermath of the resolution of our formal Regulatory Agreement, First Midwest was, once again, allowed to pursue merger and acquisition activities. In November, we announced the acquisition of a former Elgin State Bank branch in Carpentersville, Illinois. This small acquisition enabled us to expand our presence in Kane County, specifically the growing market along the Interstate 90 corridor. In December, we announced our intent to acquire Bank Calumet, a $1.2 billion bank holding company headquartered in Lake County, Indiana. This acquisition, which is scheduled to close early in the second quarter of 2006, provides us with a significantly enhanced presence in the Chicagoland SMSA.

Through Bank Calumet's 30 branches, we will have presence in virtually all of the dynamic communities in Lake County, Indiana, allowing us to play a critical role in the continued redevelopment of this marketplace. In addition to its attractive markets, Bank Calumet provides a very rich depository base that is comprised of seventy-five percent transactional balances. Loan opportunities also appear to be very deep within the Bank Calumet marketplace. Bank Calumet also brings significant value to our combined franchise in the $848 million in trust assets which they manage. In combination with our $2.5 billion in assets under management, First Midwest Trust Division ranks sixth overall in terms of size in the state of Illinois. The employees of Bank Calumet are seasoned bank professionals with a clear focus on community development, which represents a large benefit as we integrate them with our staff.

## 2006 . . . A Look Ahead

First Midwest has ambitious goals for 2006. We have forecasted solid earnings growth through profitable loan expansion, increased fee-based business, disciplined cost management, and controlled credit costs.

Our disciplined, research-based sales culture has proven extremely effective at delivering loan growth, and we expect that trend to continue in 2006. In addition, the pending acquisition of Bank Calumet will provide an important catalyst for expansion by creating new relationships to which we can add value. It also provides us access to an attractive deposit base that will benefit margins while providing a marketplace for further expansion.

Our fee-based income has been a focus over the past several years and will continue to be in 2006. We expect to see double digit growth in our trust and alternative investment business as well as a continued expansion of our electronic banking business.

Our ability to effectively control costs will be another critical factor driving our success in 2006. Both operational costs and credit costs have trended positively over the past several years. Efficiencies generated as part of the Bank Calumet integration should help to sustain this direction. Based on our current view of our loan portfolio, we expect our credit costs to remain near the historic lows we experienced during 2005.

In summary, we expect to deliver another year of record performance in 2006. The intelligence, dedication, and hard work of our staff, officers, and directors, provide us the confidence to set our goals high for 2006 and beyond.

## Welcome

We welcome Ellen Rudnick to our Board of Directors and to our Nominating and Corporate Governance Committee. Ellen's diverse business background and entrepreneurial mindset has and will continue to play a critical role as we grow our business in this challenging economic and competitive environment.

## Gratitude

Thank you to each of you, our stockholders, for your confidence and support.

Yours very truly,

John M. O'Meara

John M. O'Meara
President and
Chief Executive Officer

## Report of Independent Registered Public Accounting Firm
**2.10.2006**

**To The Board of Directors**
**and Stockholders of First Midwest Bancorp, Inc.**

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of condition of First Midwest Bancorp, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 (not presented separately herein) and in our report dated February 10, 2006, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of First Midwest Bancorp's internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 10, 2006 (not presented separately herein) expressed an unqualified opinion thereon.

Ernst & Young LLP

Ernst & Young LLP
Chicago, Illinois

## Condensed Consolidated Statements of Condition

| December 31, | 2005 | 2004 |
|---|---|---|
| | ($ in thousands) | |
| **Assets** | | |
| Cash | $ **157,070** | $ 119,880 |
| Investment securities and other short-term investments | **2,349,310** | 2,248,595 |
| Corporate loans | **3,435,644** | 3,174,330 |
| Consumer loans | **870,547** | 960,948 |
| Reserve for loan losses | **(56,393)** | (56,718) |
| Net loans | **4,249,798** | 4,078,560 |
| Premises, furniture, and equipment | **95,345** | 89,003 |
| Investment in corporate owned life insurance | **156,441** | 151,359 |
| Other assets | **202,187** | 175,984 |
| **Total Assets** | $**7,210,151** | $6,863,381 |
| **Liabilities** | | |
| Noninterest-bearing deposits | $ **976,557** | $ 922,540 |
| Interest-bearing deposits | **4,171,275** | 3,982,838 |
| Borrowed funds | **1,294,532** | 1,218,332 |
| Junior subordinated debentures | **130,092** | 129,294 |
| Other liabilities | **93,627** | 78,339 |
| Total liabilities | **6,666,083** | 6,331,343 |
| **Stockholders' Equity** | **544,068** | 532,038 |
| **Total Liabilities and Stockholders' Equity** | $**7,210,151** | $6,863,381 |

## Condensed Consolidated Statements of Income

($ in thousands, except per share data)

| Years Ended December 31, | 2005 | 2004 | 2003 |
|---|---|---|---|
| **Interest Income** | | | |
| Loans | $ **266,925** | $ 225,099 | $ 200,013 |
| Investment securities | **99,775** | 90,243 | 91,054 |
| **Total Interest Income** | **366,700** | 315,342 | 291,067 |
| **Interest Expense** | | | |
| Deposits | **86,675** | 57,432 | 56,272 |
| Borrowed funds | **35,834** | 20,980 | 23,962 |
| Junior subordinated debentures | **8,341** | 8,066 | 1,079 |
| **Total Interest Expense** | **130,850** | 86,478 | 81,313 |
| **Net Interest Income** | **235,850** | 228,864 | 209,754 |
| **Provision for Loan Losses** | **8,930** | 12,923 | 10,805 |
| Net interest income after provision for loan losses | **226,920** | 215,941 | 198,949 |
| **Noninterest Income** | | | |
| Service charges and commissions | **47,771** | 43,984 | 44,111 |
| Trust and investment management fees | **12,593** | 11,888 | 10,810 |
| Card-based fees | **10,207** | 9,252 | 8,336 |
| Security (losses) gains, net | **(3,315)** | 8,222 | 2,988 |
| Losses on early extinguishment of debt | **-** | (2,653) | (6,025) |
| Other | **7,356** | 8,688 | 13,950 |
| **Total Noninterest Income** | **74,612** | 79,381 | 74,170 |
| **Noninterest Expense** | | | |
| Salaries and employee benefits | **95,179** | 92,171 | 84,284 |
| Occupancy and equipment | **25,173** | 24,862 | 22,487 |
| Other | **45,351** | 46,305 | 42,681 |
| **Total Noninterest Expense** | **165,703** | 163,338 | 149,452 |
| **Income Before Income Tax Expense** | **135,829** | 131,984 | 123,667 |
| Income tax expense | **34,452** | 32,848 | 30,889 |
| **Net Income** | $ **101,377** | $ 99,136 | $ 92,778 |
| **Basic Earnings Per Share** | $ **2.22** | $ 2.13 | $ 1.99 |
| **Diluted Earnings Per Share** | $ **2.21** | $ 2.12 | $ 1.97 |
| **Dividends Declared Per Share** | $ **1.015** | $ 0.900 | $ 0.790 |

First Midwest Bancorp, Inc.

## Five Year Performance Summary

($ in thousands, except per share data)

| Years Ended December 31, | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **Operating Results** | | | | | |
| Net interest income | $ **235,850** | $ 228,864 | $ 209,754 | $ 218,754 | $ 204,380 |
| Provision for loan losses | **8,930** | 12,923 | 10,805 | 15,410 | 19,084 |
| Noninterest income | **74,612** | 79,381 | 74,170 | 66,991 | 68,866 |
| Noninterest expense | **165,703** | 163,338 | 149,452 | 148,052 | 145,356 |
| Income tax expense | **34,452** | 32,848 | 30,889 | 32,133 | 26,668 |
| **Net Income** | $ **101,377** | $ 99,136 | $ 92,778 | $ 90,150 | $ 82,138 |
| **Per Common Share** | | | | | |
| Diluted earnings per share | $ **2.21** | $ 2.12 | $ 1.97 | $ 1.86 | $ 1.63 |
| Dividends declared | **1.015** | 0.900 | 0.790 | 0.700 | 0.650 |
| Book value at year end | **11.99** | 11.55 | 11.22 | 10.42 | 9.18 |
| Market price at year end | **35.06** | 36.29 | 32.43 | 26.71 | 29.19 |
| **Performance Ratios** | | | | | |
| Return on average equity | **18.83%** | 18.68% | 18.28% | 18.82% | 17.89% |
| Return on average assets | **1.44%** | 1.45% | 1.50% | 1.53% | 1.43% |
| Net interest margin | **3.87%** | 3.91% | 3.99% | 4.28% | 4.10% |
| Efficiency ratio | **49.44%** | 50.11% | 48.32% | 48.20% | 49.65% |

| December 31, | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **Balance Sheet Highlights** | | | | | |
| Total assets | $ **7,210,151** | $ 6,863,381 | $ 6,906,658 | $ 5,980,533 | $ 5,667,919 |
| Loans | **4,306,191** | 4,135,278 | 4,059,782 | 3,406,846 | 3,372,306 |
| Deposits | **5,147,832** | 4,905,378 | 4,815,108 | 4,172,954 | 4,193,921 |
| Stockholders' equity | **544,068** | 532,038 | 522,540 | 491,953 | 447,267 |
| Average equity to average assets | **7.65%** | 7.74% | 8.19% | 8.12% | 7.99% |

First Midwest Bancorp, Inc.

## Board of Directors

**Bruce S. Chelberg** (1, 3)
Retired Chairman and CEO
Whitman Corporation
(*Diversified, Multinational Holding Co.*)

**Joseph W. England** (1)
Retired Senior Vice President
Deere & Company
(*Mobile Power Equipment Manufacturer*)

**Brother James Gaffney, FSC** (3)
President
Lewis University
(*Independent Private Institution of Higher Education)*

**Thomas M. Garvin** (2, 3)
Retired President and CEO
G.G. Products Company
(*Food Business Acquiror*)

**Patrick J. McDonnell** (1)
President and CEO
McDonnell Company, LLC
(*Business Consulting Company*)

**John M. O'Meara**
President and CEO
First Midwest Bancorp, Inc.

**Robert P. O'Meara**
Chairman of the Board
First Midwest Bancorp, Inc.

**John E. Rooney** (1)
President and CEO
U.S. Cellular Corporation
(*Cellular Communications Provider*)

**Ellen A. Rudnick** (3)
Executive Director
Michael Polsky Center for Entrepreneurship
University of Chicago
(*Graduate School of Business*)

**John L. Sterling** (2)
President and Owner
Sterling Lumber Company
(*Lumber Distributor*)

**J. Stephen Vanderwoude** (1,2)
Chairman and CEO
Madison River Communications
(*Operator of Rural Telephone Companies*)

## Executive Management Group

### First Midwest Bancorp, Inc.

**Robert P. O'Meara**
Chairman of the Board

**John M. O'Meara**
President and CEO

**Michael L. Scudder**
Executive Vice President and CFO

### First Midwest Bank

**John M. O'Meara**
Chairman and CEO

**Kent S. Belasco**
Executive Vice President
and Chief Information Officer

**Mark M. Dietrich**
Group Executive Vice President
and Chief Operations Officer

**Michael J. Kozak**
Executive Vice President
and Chief Commercial Credit Officer

**Thomas J. Schwartz**
Group President, Commercial Banking

**Michael L. Scudder**
Group Executive Vice President
and Chief Financial Officer

**Janet M. Viano**
Group President, Retail Banking

**Stephanie R. Wise**
Executive Vice President, Business
and Institutional Services

**Board Committees:**
(1) Audit Committee
(2) Compensation Committee
(3) Nominating & Corporate Governance Committee

Form 10K | First Midwest Bancorp, Inc.