MB FINANCIAL INC /MD
Form 10-Q
May 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-24566-01

MB FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

36-4460265

(I.R.S. Employer Identification No.)

800 West Madison Street, Chicago, Illinois 60607

(Address of principal executive offices)

Registrant s telephone number, including area code: **(888) 422-6562**

Indicate by check mark whether the registrant (1) has 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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

There were outstanding 54,676,487 shares of the registrant s common stock as of May 2, 2012.

MB FINANCIAL, INC. AND SUBSIDIARIES

FORM 10-Q

March 31, 2012

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PART I. - FINANCIAL INFORMATION

Item 1. - Financial Statements

MB FINANCIAL, INC. & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data) (Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 128,411	$ 144,228
Interest earning deposits with banks	272,553	100,337
Total cash and cash equivalents	400,964	244,565
Investment securities:		
Securities available for sale, at fair value	1,833,611	1,929,297
Securities held to maturity, at amortized cost ($515,644 and $511,022 fair value at March 31, 2012 and December 31, 2011, respectively)	498,767	499,283
Non-marketable securities - FHLB and FRB stock	65,541	80,832
Total investment securities	2,397,919	2,509,412
Loans held for sale	3,364	4,727
Loans:		
Total loans, excluding covered loans	5,169,237	5,288,451
Covered loans	620,528	662,544
Total loans	5,789,765	5,950,995
Less: Allowance for loan loss	125,431	126,798
Net loans	5,664,334	5,824,197
Lease investment, net	124,748	135,490
Premises and equipment, net	212,589	210,705
Cash surrender value of life insurance	126,226	125,309
Goodwill, net	387,069	387,069
Other intangibles, net	28,237	29,494
Other real estate owned, net	63,077	78,452
Other real estate owned related to FDIC transactions	53,703	60,363
FDIC indemnification asset	72,161	80,830
Other assets	137,209	142,459
Total assets	$ 9,671,600	$ 9,833,072
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Noninterest bearing	$ 1,874,028	$ 1,885,694
Interest bearing	5,760,674	5,761,913
Total deposits	7,634,702	7,647,607
Short-term borrowings	269,691	219,954
Long-term borrowings	256,456	266,264
Junior subordinated notes issued to capital trusts	158,530	158,538

Accrued expenses and other liabilities		136,791		147,682
Total liabilities		8,456,170		8,440,045
STOCKHOLDERS EQUITY				
Preferred stock, ($0.01 par value, authorized 1,000,000 shares at March 31, 2012 and December 31, 2011; series A, 5% cumulative perpetual, 196,000 shares issued and outstanding at December 31, 2011, $1,000 liquidation value)				194,719
Common stock, ($0.01 par value; authorized 70,000,000 shares at March 31, 2012 and December 31, 2011; issued 54,852,275 shares at March 31, 2012 and 54,824,912 at December 31, 2011)		549		548
Additional paid-in capital		732,613		731,248
Retained earnings		445,233		427,956
Accumulated other comprehensive income		37,935		39,150
Less:175,253 and 160,419 shares of Treasury stock, at cost, at March 31, 2012 and December 31, 2011, respectively		(3,326)		(3,044)
Controlling interest stockholders equity		1,213,004		1,390,577
Noncontrolling interest		2,426		2,450
Total stockholders equity		1,215,430		1,393,027
Total liabilities and stockholders equity	$	9,671,600	$	9,833,072

See accompanying Notes to Consolidated Financial Statements.

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MB FINANCIAL, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except common share and per share data) (Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Interest income:		
Loans	$ 71,648	$ 87,167
Investment securities:		
Taxable	10,884	7,752
Nontaxable	6,739	3,345
Other interest earning accounts	169	470
Total interest income	89,440	98,734
Interest expense:		
Deposits	8,760	13,359
Short-term borrowings	206	217
Long-term borrowings and junior subordinated notes	3,381	2,953
Total interest expense	12,347	16,529
Net interest income	77,093	82,205
Provision for credit losses	3,100	40,000
Net interest income after provision for credit losses	73,993	42,205
Other income:		
Loan service fees	1,339	1,126
Deposit service fees	9,408	10,030
Lease financing, net	6,958	5,783
Brokerage fees	1,255	1,419
Trust and asset management fees	4,404	4,431
Net loss on sale of investment securities available for sale	(3)	(3)
Increase in cash surrender value of life insurance	917	968
Net (loss) gain on sale of assets	(17)	357
Accretion of FDIC indemnification asset	475	1,831
Card fees	2,044	1,788
Net loss recognized on other real estate owned	(6,589)	(372)
Other operating income	2,663	1,785
Total other income	22,854	29,143
Other expenses:		
Salaries and employee benefits	40,429	37,775
Occupancy and equipment expense	9,570	9,394
Computer services and telecommunication expense	3,653	3,445
Advertising and marketing expense	2,066	1,719
Professional and legal expense	1,413	1,225
Other intangibles amortization expense	1,257	1,425
FDIC insurance premiums	2,643	3,428
Branch impairment charges		1,000
Other real estate expense, net	1,243	398
Other operating expenses	5,057	7,055
Total other expenses	67,331	66,864
Income before income taxes	29,516	4,484
Income taxes	8,430	(2,460)
Net income	21,086	6,944
Dividends and discount accretion on preferred shares	3,269	2,601

Net income available to common stockholders	$	17,817	$	4,343

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	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Common share data:		
Basic earnings allocated to common stock per common share	$ 0.39	$ 0.13
Impact of preferred stock dividends on basic earnings per common share	(0.06)	(0.05)
Basic earnings per common share	0.33	0.08
Diluted earnings allocated to common stock per common share	0.39	0.13
Impact of preferred stock dividends on diluted earnings per common share	(0.06)	(0.05)
Diluted earnings per common share	0.33	0.08
Weighted average common shares outstanding for basic earnings per common share	54,155,856	53,961,176
Weighted average common shares outstanding for diluted earnings per common share	54,411,916	54,254,876

See Accompanying Notes to Consolidated Financial Statements.

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MB FINANCIAL, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands) (Unaudited)

	Three Months Ended	
	March 31, 2012	March 31, 2011
Net income	$ 21,086	$ 6,944
Unrealized holding (losses) gains on investment securities, net of tax	(1,217)	331
Reclassification adjustments for losses included in net income, net of tax	2	2
Other comprehensive (loss) income, net of tax	(1,215)	333
Comprehensive income	$ 19,871	$ 7,277

See Accompanying Notes to Consolidated Financial Statements.

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MB FINANCIAL, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Three Months Ended March 31, 2012 and 2011

(Amounts in thousands, except per share data) (Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Treasury Stock	Noncontrolling Interest	Total Stock-holders Equity
Balance at December 31, 2010	$ 194,104	$ 546	$ 725,400	$ 402,810	$ 22,233	$ (2,828)	$ 2,521	$ 1,344,786
Net income				6,944			66	7,010
Other comprehensive income, net of tax					333			333
Cash dividends declared on common shares ($0.01 per share)				(544)				(544)
Dividends and discount accretion on preferred shares	151			(2,601)				(2,450)
Restricted common stock activity, net of tax			43					43
Stock option activity, net of tax			(109)	(15)		103		(21)
Repurchase of common shares in connection with employee benefit plans						(79)		(79)
Repurchase of common shares held in trust for deferred compensation plan			41			(41)		
Stock-based compensation expense			1,229					1,229
Distributions to noncontrolling interest							(71)	(71)
Balance at March 31, 2011	$ 194,255	$ 546	$ 726,604	$ 406,594	$ 22,566	$ (2,845)	$ 2,516	$ 1,350,236
Balance at December 31, 2011	$ 194,719	$ 548	$ 731,248	$ 427,956	$ 39,150	$ (3,044)	$ 2,450	$ 1,393,027
Net income				21,086			66	21,152
Other comprehensive loss, net of tax					(1,215)			(1,215)
Cash dividends declared on common shares ($0.01 per share)				(548)				(548)
Dividends and discount accretion on preferred shares	1,281			(3,269)				(1,988)
Repurchase of preferred shares	(196,000)							(196,000)
Restricted common stock activity, net of tax		1	(169)	8		172		12
Stock option activity, net of tax			103					103
Repurchase of common shares in connection with employee benefit plans						(288)		(288)
Repurchase of common shares held in trust for deferred compensation plan			166			(166)		
Stock-based compensation expense			1,265					1,265
Distributions to noncontrolling interest							(90)	(90)
Balance at March 31, 2012	$	$ 549	$ 732,613	$ 445,233	$ 37,935	$ (3,326)	$ 2,426	$ 1,215,430

See Accompanying Notes to Consolidated Financial Statements.

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MB FINANCIAL, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands) (Unaudited)

	Three months ended March 31, 2012	March 31, 2011
Cash Flows From Operating Activities:		
Net income	$ 21,086	$ 6,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	3,736	3,154
Depreciation of leased equipment	10,134	10,001
Impairment charges on branch facilities		1,000
Compensation expense for restricted stock awards	882	781
Compensation expense for stock option grants	383	456
Gain on sales of premises and equipment and leased equipment	(186)	(624)
Amortization of other intangibles	1,257	1,425
Provision for credit losses	3,100	40,000
Deferred income tax expense (benefit)	7,118	(2,259)
Amortization of premiums and discounts on investment securities, net	10,315	8,937
Accretion of premiums and discounts on loans, net	(61)	(123)
Accretion of FDIC indemnification asset	(475)	(1,831)
Net loss on sale of investment securities available for sale	3	3
Proceeds from sale of loans held for sale	19,076	11,201
Origination of loans held for sale	(17,328)	(11,062)
Net gain on sale of loans held for sale	(373)	(139)
Net gain on sales of other real estate owned	(416)	(945)
Fair value adjustments on other real estate owned	4,764	1,314
Net loss on sales of other real estate owned related to FDIC-assisted transactions	2,241	3
Increase in cash surrender value of life insurance	(917)	(968)
Increase in other assets, net	(12,783)	(7,832)
Decrease in other liabilities, net	(23,551)	(10,426)
Net cash provided by operating activities	28,005	49,010
Cash Flows From Investing Activities:		
Proceeds from sales of investment securities available for sale	6	
Proceeds from maturities and calls of investment securities available for sale	134,979	102,598
Purchase of investment securities available for sale	(35,537)	(231,294)
Purchase of investment securities held to maturity	(908)	(102,215)
Redemption of non-marketable securities - FHLB and FRB stock	15,291	
Net decrease in loans	146,403	138,148
Purchases of premises and equipment	(5,637)	(3,511)
Re-writes (purchases) of leased equipment	1,149	(12,606)
Proceeds from sales of premises and equipment		1,343
Proceeds from sales of leased equipment	630	693
Proceeds from sale of other real estate owned	13,137	16,167
Proceeds from sale of other real estate owned related to FDIC-assisted transactions	5,249	4,504
Principal paid on lease investments	(969)	(98)
Net proceeds from FDIC related covered assets	27,528	68,977
Net cash provided by (used in) investing activities	301,321	(17,294)
Cash Flows From Financing Activities:		
Net decrease in deposits	(12,905)	(260,952)
Net increase in short-term borrowings	49,738	26,336

Proceeds from long-term borrowings		1,160		867
Principal paid on long-term borrowings		(10,968)		(10,613)
Treasury stock transactions, net		(274)		10
Repurchase of preferred stock		(196,000)		
Stock options exercised		103		38
Excess tax deficits from share-based payment arrangements				(8)
Dividends paid on preferred stock		(3,239)		(2,450)
Dividends paid on common stock		(542)		(544)
Net cash used in financing activities		(172,927)		(247,316)
Net increase (decrease) in cash and cash equivalents	$	156,399	$	(215,600)
Cash and cash equivalents:				
Beginning of period		244,565		844,159
End of period	$	400,964	$	628,559

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MB FINANCIAL, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Amounts in Thousands)

	Three months ended March 31, 2012		Three months ended March 31, 2011	
Supplemental Disclosures of Cash Flow Information:				
Cash payments for:				
Interest paid to depositors and other borrowed funds	$	12,701	$	17,009
Income tax payments, net		70		233
Supplemental Schedule of Noncash Investing Activities:				
Loans transferred to other real estate owned	$	2,110	$	25,167
Loans transferred to other real estate owned related to FDIC-assisted transactions		8,054		21,282
Loans transferred to repossessed vehicles		256		336
Loans transferred to loans held for sale				11,533

See Accompanying Notes to Consolidated Financial Statements.

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MB FINANCIAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012 and 2011

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

These unaudited consolidated financial statements include the accounts of MB Financial, Inc., a Maryland corporation (the Company), and its subsidiaries, including its wholly owned national bank subsidiary, MB Financial Bank, N.A. (MB Financial Bank), based in Chicago, Illinois. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods have been made. The results of operations for the three months months ended March 31, 2012 are not necessarily indicative of the results to be expected for the entire fiscal year.

These unaudited interim financial statements have been prepared in conformity with U.S. GAAP and industry practice. Certain information in footnote disclosure normally included in financial statements prepared in accordance with U.S. GAAP and industry practice has been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s December 31, 2011 audited financial statements filed on Form 10-K.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of income and expenses during the reported periods. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications did not result in any changes to previously reported net income or stockholders equity.

NOTE 2. EARNINGS PER COMMON SHARE

Earnings per common share is computed using the two-class method. Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Participating securities include non-vested restricted stock awards and restricted stock units, though no actual shares of common stock related to restricted stock units have been issued, to the extent holders of these securities receive non-forfeitable dividends or dividend equivalents at the same rate as holders of the Company s common stock. Diluted earnings per share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method.

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The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share (amounts in thousands, except common share data).

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Distributed earnings allocated to common stock	$ 548	$ 543
Undistributed earnings allocated to common stock	20,537	6,387
Net earnings allocated to common stock	21,085	6,930
Less: preferred stock dividends and discount accretion	3,269	2,601
Net earnings allocated to common stock	17,816	4,329
Net earnings allocated to participating securities	1	14
Net earnings allocated to common stock and participating securities	$ 17,817	$ 4,343
Weighted average shares outstanding for basic earnings per common share	54,155,856	53,961,176
Dilutive effect of stock compensation	256,060	293,700
Weighted average shares outstanding for diluted earnings per common share	54,411,916	54,254,876
Basic earnings allocated to common stock per common share	$ 0.39	$ 0.13
Impact of preferred stock dividends on basic earnings per common share	(0.06)	(0.05)
Basic earnings per common share	0.33	0.08
Diluted earnings allocated to common stock per common share	0.39	0.13
Impact of preferred stock dividends on diluted earnings per common share	(0.06)	(0.05)
Diluted earnings per common share	0.33	0.08

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NOTE 3. INVESTMENT SECURITIES

Carrying amounts and fair values of investment securities are summarized as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2012:				
Available for Sale				
U.S. Government sponsored agencies and enterprises	$ 39,503	$ 2,567	$	$ 42,070
States and political subdivisions	547,262	34,920	(462)	581,720
Residential mortgage-backed securities	1,117,065	24,457	(964)	1,140,558
Commercial mortgage-backed securities	51,275	1,415		52,690
Corporate bonds	5,686			5,686
Equity securities	10,520	368	(1)	10,887
	1,771,311	63,727	(1,427)	1,833,611
Held to Maturity				
States and political subdivisions	239,526	9,826		249,352
Residential mortgage-backed securities	259,241	7,051		266,292
	498,767	16,877		515,644
Total	$ 2,270,078	$ 80,604	$ (1,427)	$ 2,349,255
December 31, 2011:				
Available for Sale				
U.S. Government sponsored agencies and enterprises	$ 39,640	$ 2,761	$	$ 42,401
States and political subdivisions	500,979	34,922	(241)	535,660
Residential mortgage-backed securities	1,256,696	26,483	(1,373)	1,281,806
Commercial mortgage-backed securities	51,324	1,361		52,685
Corporate bonds	5,899			5,899
Equity securities	10,457	389		10,846
	1,864,995	65,916	(1,614)	1,929,297
Held to Maturity				
States and political subdivisions	240,183	7,489	(8)	247,664
Residential mortgage-backed securities	259,100	5,032	(774)	263,358
	499,283	12,521	(782)	511,022
Total	$ 2,364,278	$ 78,437	$ (2,396)	$ 2,440,319

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Unrealized losses on investment securities and the fair value of the related securities at March 31, 2012 are as follows (in thousands):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale						
States and political subdivisions	$ 28,517	$ (254)	$ 659	$ (208)	$ 29,176	$ (462)
Residential mortgage-backed securities	101,491	(963)	284	(1)	101,775	(964)
Equity securities	39	(1)			39	(1)
Total	$ 130,047	$ (1,218)	$ 943	$ (209)	$ 130,990	$ (1,427)

The total number of security positions in the investment portfolio in an unrealized loss position at March 31, 2012 was 46. Declines in the fair value of available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) whether or not the Company is more likely than not to sell the security before recovery of its cost basis.

As of March 31, 2012, management does not have the intent to sell any of the securities in the table above and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of March 31, 2012, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in the Company s consolidated income statement.

Realized net losses on the sale of investment securities available for sale are summarized as follows (in thousands):

	Three Months Ended March 31,	
	2012	2011
Realized gains	$	$
Realized losses	(3)	(3)
Net losses	$ (3)	$ (3)

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The amortized cost and fair value of investment securities as of March 31, 2012 by contractual maturity are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties. Therefore, mortgage-backed securities are not included in the maturity categories in the following maturity summary.

(In thousands)		Amortized Cost		Fair Value
Available for sale:				
Due in one year or less	$	15,050	$	15,286
Due after one year through five years		200,465		216,167
Due after five years through ten years		142,154		156,360
Due after ten years		234,782		241,663
Equity securities		10,520		10,887
Residential and commercial mortgage-backed securities		1,168,340		1,193,248
		1,771,311		1,833,611
Held to maturity:				
Due after five years through ten years		10,422		10,811
Due after ten years		229,104		238,541
Residential mortgage-backed securities		259,241		266,292
		498,767		515,644
Total	$	2,270,078	$	2,349,255

Investment securities available for sale with carrying amounts of $962.8 million and $924.9 million at March 31, 2012 and December 31, 2011, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

NOTE 4. LOANS

Loans consist of the following at (in thousands):

		March 31, 2012		December 31, 2011
Commercial loans	$	1,040,340	$	1,113,123
Commercial loans collateralized by assignment of lease payments		1,209,942		1,208,575
Commercial real estate		1,877,380		1,853,788
Residential real estate		309,644		316,787
Construction real estate		128,040		183,789
Indirect vehicle		186,736		187,481
Home equity		327,450		336,043
Consumer loans		89,705		88,865
Gross loans, excluding covered loans		5,169,237		5,288,451
Covered loans		620,528		662,544
Total loans(1)	$	5,789,765	$	5,950,995

(1) Gross loan balances at March 31, 2012 and December 31, 2011 were net of unearned income, including net deferred loan fees of $934 thousand and $1.0 million, respectively.

Loans are made to individuals as well as commercial and tax exempt entities. Specific loan terms vary as to interest rate, repayment, and collateral requirements based on the type of loan requested and the credit worthiness of the prospective borrower. Credit risk tends to be geographically concentrated in that a majority of the loan customers are located in the markets serviced by MB Financial Bank.

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The Company s extension of credit is governed by its Credit Risk Policy which was established to control the quality of the Company s loans. These policies and procedures are reviewed and approved by the Board of Directors on a regular basis.

Commercial and Industrial Loans. Commercial credit is extended primarily to middle market customers. Such credits typically comprise working capital loans, loans for physical asset expansion, asset acquisition loans and other business loans. Loans to closely held businesses will generally be guaranteed in full or for a meaningful amount by the businesses major owners. Commercial loans are made based primarily on the historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Minimum standards and underwriting guidelines have been established for all commercial loan types.

Lease Loans. The Company makes lease loans to both investment grade and non-investment grade companies. Investment grade lessees are companies who are rated in one of the four highest categories by Moody s Investor Services or Standard & Poor s Rating Services or, in the event the related lessee has not received any such rating, where the related lessee would be viewed under the underwriting polices of the company as an investment grade company. Whether or not companies fall into this category, each lease loan is considered on its individual merit based on financial information available at the time of underwriting.

Commercial Real Estate Loans. The Company s goal is to create and maintain a high quality portfolio of commercial real estate loans. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.

Construction Real Estate Loans. The Company defines construction loans as loans where the loan proceeds are controlled by the Company and used exclusively for the improvement of real estate in which the Company holds a mortgage. Due to the inherent risk in this type of loan, they are subject to other industry specific policy guidelines outlined in the Company s Credit Risk Policy and are monitored closely.

Consumer Loans. The Company originates direct and indirect consumer loans including principally residential real estate, home equity lines and loans, credit cards, and indirect motorcycle loans using a matrix-based credit analysis as part of the underwriting process. Each loan type has a separate specified matrix which consists of several factors including debt to income, type of collateral and loan to collateral value, credit history and Company relationship with the borrower. Indirect loan and credit card underwriting use risk-based pricing in the underwriting process.

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The following table presents the contractual aging of the recorded investment in past due loans by class of loans as of March 31, 2012 and December 31, 2011 (in thousands):

	Current	30-59 Days Past Due	60-89 Days Past Due	Loans past due 90 days or more	Total Past Due	Total
March 31, 2012:						
Commercial	$ 1,031,865	$ 4,159	$ 281	$ 4,035	$ 8,475	$ 1,040,340
Commercial collateralized by assignment of lease payments	1,196,112	12,380	1,398	52	13,830	1,209,942
Commercial real estate						
Healthcare	181,375			5,431	5,431	186,806
Industrial	469,884	780		7,078	7,858	477,742
Multifamily	378,482	1,446	1,668	4,665	7,779	386,261
Retail	409,773	4,137	1,769	3,773	9,679	419,452
Office	181,407	438		2,083	2,521	183,928
Other	218,337	677	3,548	629	4,854	223,191
Residential real estate	304,430	365	152	4,697	5,214	309,644
Construction real estate	123,822	1,158	1,329	1,731	4,218	128,040
Indirect vehicle	185,448	702	249	337	1,288	186,736
Home equity	315,695	4,486	2,018	5,251	11,755	327,450
Consumer	89,691	7		7	14	89,705
Gross loans, excluding covered loans (1)	5,086,321	30,735	12,412	39,769	82,916	5,169,237
Covered loans	402,249	12,029	17,900	188,350	218,279	620,528
Total loans	$ 5,488,570	$ 42,764	$ 30,312	$ 228,119	$ 301,195	$ 5,789,765
Nonperforming loan aging	$ 74,323	$ 9,023	$ 6,993	$ 34,351	$ 50,367	$ 124,690
Non-covered loans related to FDIC transactions (2)	$ 17,736	$ 257	$ 3,020	$ 5,419	$ 8,696	$ 26,432
December 31, 2011:						
Commercial	$ 1,105,139	$ 2,178	$ 188	$ 5,618	$ 7,984	$ 1,113,123
Commercial collateralized by assignment of lease payments	1,202,323	3,409	2,463	380	6,252	1,208,575
Commercial real estate						
Healthcare	176,594					176,594
Industrial	450,029	1,013	1,700	6,642	9,355	459,384
Multifamily	383,882	2,398	1,845	2,772	7,015	390,897
Retail	421,079	2,376	480	3,624	6,480	427,559
Office	181,960			1,544	1,544	183,504
Other	214,137	457	595	661	1,713	215,850
Residential real estate	311,256	1,231	767	3,533	5,531	316,787
Construction real estate	180,471			3,318	3,318	183,789
Indirect vehicle	185,363	1,376	386	356	2,118	187,481
Home equity	325,173	2,812	2,314	5,744	10,870	336,043
Consumer	88,854	3	3	5	11	88,865
Gross loans, excluding covered loans (1)	5,226,260	17,253	10,741	34,197	62,191	5,288,451
Covered loans	443,332	14,332	12,618	192,262	219,212	662,544
Total loans	$ 5,669,592	$ 31,585	$ 23,359	$ 226,459	$ 281,403	$ 5,950,995
Nonperforming loan aging	$ 91,752	$ 5,916	$ 5,142	$ 26,581	$ 37,639	$ 129,391

Non-covered loans related to FDIC transactions (2)	$ 19,656	$ 1,958	$ 283	$ 7,617	$ 9,858	$ 29,514

(1) Includes loans related to the InBank FDIC-assisted transaction completed by MB Financial Bank in 2009.

(2) Loans related to the InBank FDIC-assisted transaction completed by MB Financial Bank in 2009.

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The following table presents the recorded investment in nonaccrual loans and loans past due ninety days or more and still accruing by class of loans as of March 31, 2012 and December 31, 2011 (in thousands):

	March 31, 2012		December 31, 2011	
	Nonaccrual	Loans past due 90 days or more and still accruing	Nonaccrual	Loans past due 90 days or more and still accruing
Commercial	$ 32,468	$	$ 34,813	$
Commercial collateralized by assignment of lease payments	1,951	52	2,116	66
Commercial real estate:				
Healthcare	5,431		6,892	
Industrial	23,279		29,637	
Multifamily	9,294		9,145	
Office	17,057		2,826	
Retail	3,219		15,333	
Other	12,607	52	12,718	
Residential real estate	5,220	574	4,300	
Construction real estate	1,553		1,145	
Indirect vehicles	1,420	1	1,288	16
Home equity	10,501		9,087	
Consumer	11		9	
Total	$ 124,011	$ 679	$ 129,309	$ 82

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company s risk rating system, the Company classifies problem and potential problem loans as Special Mention, Substandard, and Doubtful. Substandard loans include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management s close attention are deemed to be Special Mention. Risk ratings are updated at least annually and any time the situation warrants.

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Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans. Loans listed as not rated are included in groups of homogeneous loans with similar risk and loss characteristics. The following tables present the risk category of loans by class of loans based on the most recent analysis performed and the contractual aging as of March 31, 2012 and December 31, 2011 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2012:					
Commercial	$ 927,909	$ 35,210	$ 76,355	$ 866	$ 1,040,340
Commercial collateralized by assignment of lease payments	1,203,713		6,229		1,209,942
Commercial real estate					
Healthcare	181,375			5,431	186,806
Industrial	399,863	21,653	56,226		477,742
Multifamily	339,684	27,455	17,151	1,971	386,261
Retail	376,508	2,651	40,293		419,452
Office	156,059	6,678	21,191		183,928
Other	193,849	1,883	27,459		223,191
Construction real estate	113,600	1,478	12,962		128,040
Total	$ 3,892,560	$ 97,008	$ 257,866	$ 8,268	$ 4,255,702
December 31, 2011:					
Commercial	$ 983,935	$ 56,550	$ 69,292	$ 3,346	$ 1,113,123
Commercial collateralized by assignment of lease payments	1,203,933		4,642		1,208,575
Commercial real estate					
Healthcare	169,702			6,892	176,594
Industrial	370,760	26,294	62,330		459,384
Multifamily	328,617	43,256	15,732	3,292	390,897
Retail	384,590	4,031	38,938		427,559
Office	159,162	3,924	20,418		183,504
Other	183,490	3,822	28,538		215,850
Construction real estate	167,907	4,362	11,520		183,789
Total	$ 3,952,096	$ 142,239	$ 251,410	$ 13,530	$ 4,359,275

Approximately $106.7 million and $114.7 million of the substandard and doubtful loans were non-performing as of March 31, 2012 and December 31, 2011, respectively.

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For consumer, residential real estate, home equity, and indirect vehicle loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in those loan classes based on payment activity as of March 31, 2012 and December 31, 2011 (in thousands):

	Performing	Non-performing	Total
March 31, 2012:			
Residential real estate	$ 303,850	$ 5,794	$ 309,644
Indirect vehicles	185,315	1,421	186,736
Home equity	316,949	10,501	327,450
Consumer	89,694	11	89,705
Total	$ 895,808	$ 17,727	$ 913,535
December 31, 2011:			
Residential real estate	$ 312,487	$ 4,300	$ 316,787
Indirect vehicles	186,177	1,304	187,481
Home equity	326,956	9,087	336,043
Consumer	88,856	9	88,865
Total	$ 914,476	$ 14,700	$ 929,176

Non-performing loans are those on nonaccrual or past due 90 days or more and still accruing interest.

The following tables present loans individually evaluated for impairment by class of loans as of March 31, 2012 and December 31, 2011 (in thousands):

	March 31, 2012					
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:						
Commercial	$ 47,579	$ 28,472	$ 19,107	$	$ 27,710	$ 105
Commercial collateralized by assignment of lease payments	114	114			124	2
Commercial real estate:						
Healthcare						
Industrial	29,651	19,971	9,680		25,290	29
Multifamily	2,180	2,175	5		2,194	
Retail	9,688	9,324	364		9,747	
Office	756	756			793	
Other	6,369	6,369			7,113	
Residential real estate	6,883	6,883			6,895	
Construction real estate						
Indirect vehicles						
Home equity	16,172	16,172			16,163	
Consumer	241	241			241	

With an allowance recorded:						
Commercial	4,019	3,996	23	1,382	3,262	
Commercial collateralized by assignment of lease payments	1,735	1,735		342	1,789	32
Commercial real estate:						
Healthcare	10,935	5,431	5,504	2,321	5,474	
Industrial	7,287	3,308	3,979	509	3,437	
Multifamily	16,256	7,851	8,405	3,024	6,911	23
Retail	9,042	8,091	951	3,018	7,563	
Office	2,746	2,463	283	239	2,337	
Other	6,381	6,238	143	1,672	6,173	4
Residential real estate						
Construction real estate	3,927	1,553	2,374	915	1,715	
Indirect vehicles						
Home equity	1,289	1,227	62	312	1,289	
Consumer						
Total	$ 183,250	$ 132,370	$ 50,880	$ 13,734	$ 136,220	$ 195

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	December 31, 2011					
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:						
Commercial	$ 47,784	$ 28,774	$ 19,010	$	$ 22,952	$ 211
Commercial collateralized by assignment of lease payments	107	107			696	32
Commercial real estate:						
Healthcare					1,818	
Industrial	35,338	25,865	9,473		37,436	64
Multifamily	1,975	1,975			10,641	164
Retail	23,656	23,652	4		26,783	
Office	779	779			5,755	
Other	6,901	6,901			16,303	
Residential real estate	7,157	7,157			6,580	
Construction real estate					56,846	
Indirect vehicles						
Home equity	11,297	11,297			7,309	
Consumer	241	241			122	
With an allowance recorded:						
Commercial	10,016	6,038	3,978	1,711	10,025	80
Commercial collateralized by assignment of lease payments	2,077	2,077		390	475	71
Commercial real estate:						
Healthcare	11,750	6,892	4,858	1,560	292	
Industrial	7,739	3,773	3,966	680	7,780	
Multifamily	14,387	7,720	6,667	1,757	10,614	208
Retail	11,232	10,672	560	2,394	9,688	
Office	2,330	2,047	283	77	4,586	
Other	5,979	5,816	163	1,514	10,489	2
Residential real estate						
Construction real estate	3,519	1,145	2,374	721	20,259	
Indirect vehicles						
Home equity						
Consumer					355	5
Total	$ 204,264	$ 152,928	$ 51,336	$ 10,804	$ 267,804	$ 837

Impaired loans included accruing restructured loans of $24.1 million and $38.0 million that have been modified and are performing in accordance with those modified terms as of March 31, 2012 and December 31, 2011, respectively. In addition, impaired loans included $34.7 million and $42.5 million of non-performing, restructured loans as of March 31, 2012 and December 31, 2011, respectively.

Periodically, the Company will restructure a note into two separate notes (A/B structure), charging off the entire B portion of the note. The A note is structured with appropriate loan-to-value and cash flow coverage ratios that provide for a high likelihood of repayment. The A note is classified as a non-performing note until the borrower has displayed a historical payment performance for a reasonable time prior to and subsequent to the restructuring. A period of sustained repayment for at least six months generally is required to return the note to accrual status provided that management has determined that the performance is reasonably expected to continue. The A note will be classified as a restructured note (either performing or nonperforming) through the calendar year of the restructuring that the historical payment performance has been established.

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The following tables present loans that have been restructured during the three months ended March 31, 2012 (dollars in thousands):

	Three Months Ended March 31, 2012			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Commercial real estate:				
Multifamily	1	$ 155	$ 155	$
Retail	1	236	236	
Home equity	22	4,397	4,397	
Total	24	$ 4,788	$ 4,788	$
Non-Performing:				
Commercial	2	$ 185	$ 185	$ 61
Commercial real estate:				
Multifamily	1	149	149	40
Retail	2	599	599	
Home equity	5	950	921	29
Total	10	$ 1,883	$ 1,854	$ 130

Loans may be restructured in an effort to maximize collections. We use various restructuring techniques, including, but not limited to, deferral of past due interest or principal, implementing an A/B note structure, redeeming past due taxes, reduction of interest rates, extending maturities and modification of amortization schedules.

Impairment analyses are performed on commercial loan troubled debt restructurings in conjunction with the normal allowance for loan loss process. Consumer loan troubled debt restructurings are analyzed to ensure adequate cash flow or collateral supports the outstanding loan balance. Of the troubled debt restructurings entered into during the past twelve months, $305 thousand subsequently defaulted during the first quarter of 2012. Redefaults are defined as loans that were performing troubled debt restructurings that became 90 days or more past due post restructuring.

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The following table presents the activity in the allowance for credit losses, balance in allowance for credit losses and recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2012 and 2011 (in thousands):

	Commercial	**Commercial collateralized by assignment of lease payments**	**Commercial real estate**	**Residential real estate**	**Construction real estate**	**Indirect vehicles**	**Home equity**	**Consumer**	**Unfunded Commitments**	**Total**
March 31, 2012:										
Allowance for credit losses:										
Beginning balance	$ 21,106	$ 7,561	$ 68,695	$ 3,935	$ 15,639	$ 1,834	$ 7,333	$ 695	$ 9,177	$ 135,975
Transfer to (from) allowance for unfunded credit commitments					1,132				(1,132)	
Charge-offs	(539)		(3,003)	(294)	(3,436)	(715)	(1,072)	(258)		(9,317)
Recoveries	2,038	256	162	34	565	311	20	111		3,497
Provision	(3,446)	(327)	8,748	(660)	(2,745)	396	745	610	(221)	3,100
Ending balance	$ 19,159	$ 7,490	$ 74,602	$ 3,015	$ 11,155	$ 1,826	$ 7,026	$ 1,158	$ 7,824	$ 133,255
Ending allowance balance attributable to loans:										
Individually evaluated for impairment	$ 1,382	$ 342	$ 10,783	$	$ 915	$	$ 312	$	$ 3,127	$ 16,861
Collectively evaluated for impairment	17,777	7,148	61,920	2,848	10,240	1,826	6,714	1,158	4,697	114,328
Acquired and accounted for under ASC 310-30 (1)			1,899	167						2,066
Total ending allowance balance	$ 19,159	$ 7,490	$ 74,602	$ 3,015	$ 11,155	$ 1,826	$ 7,026	$ 1,158	$ 7,824	$ 133,255
Loans:										
Individually evaluated for impairment	$ 32,468	$ 1,849	$ 71,977	$ 6,883	$ 1,553	$	$ 17,399	$ 241	$	$ 132,370
Collectively evaluated for impairment	985,666	1,208,093	1,805,403	298,535	126,487	186,736	310,051	89,464		5,010,435
Acquired and accounted for under ASC 310-30 (1)	103,907		312,412	7,808	174,996		643	47,194		646,960
Total ending loans balance	$ 1,122,041	$ 1,209,942	$ 2,189,792	$ 313,226	$ 303,036	$ 186,736	$ 328,093	$ 136,899	$	$ 5,789,765
March 31, 2011:										
Allowance for credit losses:										
Beginning balance	$ 28,747	$ 6,424	$ 105,875	$ 5,104	$ 37,215	$ 3,157	$ 5,062	$ 633	$	$ 192,217
Charge-offs	(3,151)		(29,775)	(3,562)	(21,094)	(718)	(1,907)	(544)		(60,751)
Recoveries	2,565	66	1,534	7	2,026	325	48	373		6,944
Provision	(1,571)	22	26,160	4,001	9,373	384	1,491	140		40,000
Ending balance	$ 26,590	$ 6,512	$ 103,794	$ 5,550	$ 27,520	$ 3,148	$ 4,694	$ 602	$	$ 178,410

Ending allowance balance attributable to loans:										
Individually evaluated for impairment	$ 6,802	$ 170	$ 20,262	$	$ 10,307	$	$	$ 513	$	$ 38,054
Collectively evaluated for impairment	19,788	6,342	83,532	5,550	17,213	3,148	4,694	89		140,356
Acquired and accounted for under ASC 310-30 (1)										
Total ending allowance balance	$ 26,590	$ 6,512	$ 103,794	$ 5,550	$ 27,520	$ 3,148	$ 4,694	$ 602	$	$ 178,410
Loans:										
Individually evaluated for impairment	$ 38,659	$ 1,694	$ 175,203	$ 6,221	$ 97,847	$	$ 3,077	$ 121	$	$ 322,822
Collectively evaluated for impairment	1,138,350	1,036,813	2,129,235	329,202	289,754	175,058	368,031	125,894		5,592,337
Acquired and accounted for under ASC 310-30 (1)	93,427		160,238		192,624			6,548		452,837
Total ending loans balance	$ 1,270,436	$ 1,038,507	$ 2,464,676	$ 335,423	$ 580,225	$ 175,058	$ 371,108	$ 132,563	$	$ 6,367,996

(1) Loans acquired in FDIC-assisted transactions and accounted for under ASC Subtopic 310-30 Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality.

Purchased loans acquired in a business combination, including loans purchased in our FDIC-assisted transactions, are recorded at estimated fair value on their purchase date without a carryover of the related allowance for loan losses. Purchased credit-impaired loans are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration as of the purchase date may include factors such as past due and non-accrual status. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reduction of the remaining portion of any allowance for loan losses previously established and/or a reclassification of the difference from non-accretable to accretable with a positive impact on interest income prospectively.

During the three months ended March 31, 2012 there was a provision for credit losses of $3.8 million and net charge-offs of $2.6 million in relation to six pools of purchased loans with a total carrying amount of $187.2 million as of March 31, 2012. There was $2.1 million in allowance for loan losses related to these purchased loans at March 31, 2012 and $827 thousand at December 31, 2011. The provision for credit losses and accompanying charge-offs are included in the table above.

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Changes in the accretable yield for loans acquired in FDIC-assisted transactions and accounted for under ASC 310-30 were as follows for the three months ended March 31, 2012 and 2011 (in thousands):

	Three Months Ended March 31, 2012	2011
Balance at beginning of period	$ 18,703	$ 44,103
Accretion	(5,373)	(8,590)
Other		(143)
Balance at end of period	$ 13,330	$ 35,370

In our FDIC-assisted transactions, the fair value of purchased credit-impaired loans, on the acquisition date, was determined based on assigned risk ratings, expected cash flows and the fair value of loan collateral. The fair value of loans that were not credit-impaired was determined based on estimates of losses on defaults and other market factors. Due to the loss-share agreements with the FDIC, MB Financial Bank recorded a receivable (FDIC indemnification asset) from the FDIC equal to the present value of the corresponding reimbursement percentages on the estimated losses embedded in the loan portfolio.

When cash flow estimates are adjusted downward for a particular loan pool, the FDIC indemnification asset is increased. An allowance for loan losses is established for the impairment of the loans. A provision for loan losses is recognized for the difference between the increase in the FDIC indemnification asset and the decrease in cash flows.

When cash flow estimates are adjusted upward for a particular loan pool, the FDIC indemnification asset is decreased. The difference between the decrease in the FDIC indemnification asset and the increase in cash flows is accreted over the estimated life of the loan pool.

When cash flow estimates are adjusted downward for covered foreclosed real estate, the FDIC indemnification asset is increased. A charge is recognized for the difference between the increase in the FDIC indemnification asset and the decrease in cash flows.

When cash flow estimates are adjusted upward for covered foreclosed real estate, the FDIC indemnification asset is decreased. Any write-down after the transfer to covered foreclosed real estate is reversed.

In both scenarios, the clawback liability (the amount the FDIC requires MB Financial Bank to pay back if certain thresholds are met) will increase or decrease accordingly.

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The carrying amount of covered loans and other purchased non-covered loans at March 31, 2012 consisted of purchased credit-impaired loans and non-credit-impaired loans as shown in the following table (in thousands):

	Purchased Credit-Impaired Loans	Purchased Non-Credit-Impaired Loans	Total
Covered loans:			
Commercial related (1)	$ 28,896	$ 18,066	$ 46,962
Commercial	10,458	24,281	34,739
Commercial real estate	137,385	175,027	312,412
Construction real estate	151,107	23,890	174,997
Other	5,004	46,414	51,418
Total covered loans	$ 332,850	$ 287,678	$ 620,528
Estimated receivable amount from the FDIC under the loss-share agreement (2)	$ 35,408	$ 29,740	$ 65,148
Non covered loans:			
Commercial related (3)	$ 5,257	$ 16,949	$ 22,206
Other	161	4,065	4,226
Total non-covered loans	$ 5,418	$ 21,014	$ 26,432

(1) Covered commercial related loans include commercial, commercial real estate and construction real estate loans for Heritage and Benchmark.

(2) Estimated reimbursable amounts from the FDIC under the loss-share agreement exclude $7.0 million in reimbursable amounts related to covered other real estate owned.

(3) Non covered commercial related loans include commercial, commercial real estate and construction real estate for InBank.

Outstanding balances on purchased loans from the FDIC were $732.3 million and $795.6 million as of March 31, 2012 and December 31, 2011, respectively. The related carrying amount on loans purchased from the FDIC was $647.0 million and $692.1 million as of March 31, 2012 and December 31, 2011, respectively.

NOTE 5. GOODWILL AND INTANGIBLES

The excess of the cost of an acquisition over the fair value of the net assets acquired consists of goodwill, and core deposit and client relationship intangibles. Under ASC Topic 350, goodwill is subject to at least annual assessments for impairment by applying a fair value based test. The Company reviews goodwill and other intangible assets to determine potential impairment annually, or more frequently if events and circumstances indicate that the asset might be impaired, by comparing the carrying value of the asset with the anticipated future cash flows.

The Company s annual assessment date is as of December 31. No impairment losses were recognized during the three months ended March 31, 2012 or 2011. Goodwill is tested for impairment at the reporting unit level. All of our goodwill is allocated to MB Financial, Inc., which is the Company s only applicable reporting unit for purposes of testing goodwill impairment.The carrying amount of goodwill was $387.1 million at March 31, 2012 and December 31, 2011.

The Company has other intangible assets consisting of core deposit and client relationship intangibles that had, as of March 31, 2012, a remaining weighted average amortization period of approximately five years.

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The following table presents the changes during the three months ended March 31, 2012 in the carrying amount of core deposit and client relationship intangibles, gross carrying amount, accumulated amortization, and net book value as of March 31, 2012 (in thousands):

	March 31, 2012
Balance at beginning of period	$ 29,494
Amortization expense	(1,257)
Other intangibles from business combinations	
Balance at end of period	$ 28,237
Gross carrying amount	$ 71,560
Accumulated amortization	(43,323)
Net book value	$ 28,237

The following presents the estimated future amortization expense of other intangible assets (in thousands):

	Amount
Year ending December 31,	
2012	$ 3,753
2013	4,530
2014	3,514
2015	3,090
2016	2,747
Thereafter	10,603
	$ 28,237

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NOTE 6. NEW AUTHORITATIVE ACCOUNTING GUIDANCE

ASC Topic 860 Transfers and Servicing. New authoritative accounting guidance under ASC Topic 860, Transfers and Servicing amended prior guidance on the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The new authoritative guidance removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and the collateral maintenance implementation guidance related to that criterion. The new guidance does not change any other existing criteria applicable to the assessment of effective control. The Company adopted this new authoritative guidance on January 1, 2012, and it did not have an impact on the Company s statements of income and financial condition.

ASC Topic 820 Fair Value Measurement. New authoritative accounting guidance under ASC Topic 820, Fair Value Measurement amended prior guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The new authoritative guidance clarifies the highest and best use and valuation premise, measuring the fair value of an instrument classified in a reporting entity s shareholders equity, measuring the fair value of financial instruments that are managed within a portfolio, and the application of premiums and discounts in a fair value measurement. The new authoritative guidance also requires additional disclosures about fair value measurements. The Company adopted this new authoritative guidance on January 1, 2012, and it did not have an impact on the Company s statements of income and financial condition. See Note 14 for the additional disclosures required by this new authoritative guidance.

ASC Topic 220 Comprehensive Income. New authoritative accounting guidance under ASC Topic 220, Comprehensive Income amended prior guidance to increase the prominence of items reported in other comprehensive income. The new guidance requires that all changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance does not change the items that must be reported in other comprehensive income. The Company adopted this new authoritative guidance on January 1, 2012, and it did not have an impact on the Company s statements of income and financial condition. See the Consolidated Statements of Comprehensive Income included in the Consolidated Financial Statements.

ASC Topic 350 Intangibles Goodwill and Other. New authoritative accounting guidance under ASC Topic 350, Intangibles Goodwill and Other amended prior guidance to allow an entity to use a qualitative approach to test goodwill for impairment. The new guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not (having a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount as basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Company adopted this new authoritative guidance on January 1, 2012, and it did not have an impact on the Company s statements of income and financial condition.

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NOTE 7. STOCK-BASED COMPENSATION

ASC Topic 718 requires that the grant date fair value of equity awards to employees be recognized as compensation expense over the period during which an employee is required to provide service in exchange for such award.

The following table summarizes the impact of the Company s share-based payment plans in the financial statements for the periods shown (in thousands):

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Total cost of share-based payment plans during the period	$ 1,265	$ 1,229
Amount of related income tax benefit recognized in income	$ 506	$ 501

The Company adopted the Omnibus Incentive Plan (the Omnibus Plan) in 1997. In June 2011, the Company s stockholders approved an amendment and restatement of the Omnibus Plan to add 2,300,000 authorized shares for a total of 8,300,000 shares of common stock for issuance to directors, officers, and employees of the Company or any of its subsidiaries. Equity grants under the Omnibus Plan can be in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and other stock-based awards. Shares awarded in the form of restricted stock, restricted stock units, performance shares, performance units, or other stock-based awards generally will reduce the shares available under the Omnibus Plan on a 2-for-1 basis. As of March 31, 2012, there were 2,794,943 shares available for future grants.

Annual equity-based incentive awards are typically granted to selected officers and employees mid-year. Options are granted with an exercise price equal to no less than the market price of the Company s shares at the date of grant; those option awards generally vest based on four years of continuous service and have 10-year contractual terms. Equity awards may also be granted at other times throughout the year in connection with the recruitment and retention of officers and employees. Restricted shares granted to officers and employees typically vest over a two or three year period. Directors currently may elect, in lieu of cash, to receive up to 70% of their fees in stock options with a five-year term which are fully vested on the grant date (provided that the director may not sell the underlying shares for at least six months after the grant date), and up to 100% of their fees in restricted stock, which vests one year after the grant date.

The following table summarizes stock options outstanding for the three months ended March 31, 2012:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (in thousands)

Options outstanding as of December 31, 2011	2,935,810	$	27.64			
Granted	6,743		20.99			
Exercised	(11,627)		17.41			
Expired or cancelled	(47,245)		29.91			
Forfeited	(5,806)		17.48			
Options outstanding as of March 31, 2012	2,877,875	$	27.65	4.57	$	1,999
Options exercisable as of March 31, 2012	1,693,068	$	31.35	2.80	$	461

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The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model based on certain assumptions. Expected volatility is based on historical volatilities of Company shares. The risk free interest rate for periods within the contractual term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life of options is estimated based on historical employee behavior and represents the period of time that options granted are expected to remain outstanding.

The following assumptions were used for options granted during the three months ended March 31, 2012:

		March 31, 2012
Risk-free interest rate		1.00%
Expected volatility of Company s stock		53.55%
Expected dividend yield		2.00%
Expected life of options		4.0 years
Weighted average fair value per option of options granted during the period	$	7.68

The total intrinsic value of options exercised during the three months ended March 31, 2012 and 2011 was $11 thousand and $30 thousand, respectively.

The following is a summary of changes in restricted shares for the three months ended March 31, 2012:

	Number of Shares		Weighted Average Grant Date Fair Value
Shares Outstanding at December 31, 2011	664,502	$	14.37
Granted	21,920		19.95
Vested	(13,720)		18.83
Forfeited	(3,290)		16.30
Shares Outstanding at March 31, 2012	669,412	$	14.46

The Company issued 92,717 shares, 66,193 shares and 164,401 shares of market-based restricted stock in 2011, 2010 and 2009, respectively. The market component of the vesting terms for each award requires that, for ten consecutive trading days, the closing price of the Company s stock be at least $27.00 for awards issued in 2011, $25.80 for awards issued in 2010 and $18.14 for awards issued in 2009. The market components for awards issued in 2011 and 2010 have not been satisfied as of March 31, 2012. The market component for awards issued in 2009 has been satisfied; therefore, the 2009 awards generally will vest in full in 2012, on the third anniversary of the grant date. A Monte Carlo simulation model was used to value the market-based restricted stock awards at the time of issuance.

Effective January 1, 2010, the Company began issuing shares of common stock under the Omnibus Plan as Salary Stock, classified as other stock-based awards, to certain executive officers. This stock is fully vested as of the grant date and the related expense is included in salaries and employee benefits on the Consolidated Statements of Operations. Holders of Salary Stock have all of the rights of a stockholder, including the right to vote the shares and the right to receive any dividends that may be paid thereon. As a condition of receiving the Salary Stock, the holders entered into agreements with the Company providing that they may not sell or otherwise transfer the shares of Salary Stock for two years, except in the event of disability or death. During the three months ended March 31, 2012, the Company issued 5,885 shares of Salary Stock at a weighted average issuance price of $19.67.

As of March 31, 2012, there was $6.8 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements (including share option and nonvested share awards) granted under the Omnibus Plan. At March 31, 2012, the weighted-average period over which the unrecognized compensation expense is expected to be recognized was approximately 1.2 years.

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NOTE 8. DEPOSITS

The following table sets forth the composition of our deposits at the dates indicated (dollars in thousands):

	March 31, 2012		December 31, 2011	
	Amount	Percent	Amount	Percent
Demand deposit accounts, noninterest bearing	$ 1,874,028	25%	$ 1,885,694	25%
NOW and money market accounts	2,702,636	35%	2,645,334	34%
Savings accounts	786,357	10%	753,610	10%
Certificates of deposit	1,820,266	24%	1,925,608	25%
Brokered deposit accounts	451,415	6%	437,361	6%
Total	$ 7,634,702	100%	$ 7,647,607	100%

NOTE 9. SHORT-TERM BORROWINGS

Short-term borrowings are summarized as follows as of March 31, 2012 and December 31, 2011 (dollars in thousands):

	March 31, 2012		December 31, 2011	
	Weighted Average Cost	Amount	Weighted Average Cost	Amount
Customer repurchase agreements	0.24%	$ 232,925	0.30%	$ 216,439
Federal Home Loan Bank advances	3.66%	1,766	3.66%	3,515
Line of credit	2.24%	35,000	0.00%	
	0.52%	$ 269,691	0.35%	$ 219,954

Securities sold under agreements to repurchase are agreements in which the Company acquires funds by selling assets to another party under a simultaneous agreement to repurchase the same assets at a specified price and date. The Company enters into repurchase agreements and also offers a demand deposit account product to customers that sweeps their balances in excess of an agreed upon target amount into overnight repurchase agreements. All assets sold under agreements to repurchase are recorded on the face of the balance sheet.

The Company had Federal Home Loan Bank advances with maturity dates less than one year consisting of $1.8 million in fixed rate advances at March 31, 2012 and $3.5 million in fixed rate advances at December 31, 2011. At March 31, 2012, the Company had fixed rate advances with effective interest rates ranging from 3.60% to 3.70%. At March 31, 2012, these advances had a maturity of June 2012.

On March 9, 2012, the Company entered into a $35.0 million unsecured line of credit with a correspondent bank. As of March 31, 2012, the line was fully drawn. Interest is payable at a rate of one month LIBOR + 2.00%. The line matures on March 8, 2013.

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NOTE 10. LONG-TERM BORROWINGS

The Company had Federal Home Loan Bank advances with original contractual maturities greater than one year of $137.7 million and $144.6 million at March 31, 2012 and December 31, 2011, respectively. As of March 31, 2012, the advances had fixed terms with effective interest rates, net of discounts, ranging from 3.23% to 5.87%. At March 31, 2012, the advances had maturities ranging from April 2013 to April 2035.

A collateral pledge agreement exists whereby at all times, the Company must keep on hand, free of all other pledges, liens, and encumbrances, first mortgage loans and home equity loans with unpaid principal balances aggregating no less than 133% for first mortgage loans and 250% for home equity loans of the outstanding advances from the Federal Home Loan Bank. The Company may also pledge certain investment securities as collateral for advances based on market value. As of March 31, 2012 and December 31, 2011, the Company had $186.0 million and $197.4 million, respectively, of loans pledged as collateral for long-term Federal Home Loan Bank advances. Additionally, as of March 31, 2012 and December 31, 2011, the Company had $33.3 million and $33.8 million, respectively, of investment securities pledged as collateral for long-term advances from the Federal Home Loan Bank. The Company could borrow an additional amount of approximately $314.2 million and $319.4 million from the Federal Home Loan Bank as of March 31, 2012 and December 31, 2011, respectively.

The Company had notes payable to banks totaling $28.1 million and $31.0 million at March 31, 2012 and December 31, 2011, respectively, which as of March 31, 2012, were accruing interest at rates ranging from 3.00% to 12.00%. Lease investments includes equipment with an amortized cost of $40.0 million and $42.6 million at March 31, 2012 and December 31, 2011, respectively, that is pledged as collateral on these notes.

The Company had a $40.0 million ten-year structured repurchase agreement as of March 31, 2012, which bears interest at a fixed rate borrowing of 4.75% and expires in 2016.

As of March 31, 2012, MB Financial Bank had a $50.0 million outstanding subordinated debt facility. Interest is payable at a rate of three month LIBOR + 1.70%. The debt matures on October 1, 2017.

NOTE 11. JUNIOR SUBORDINATED NOTES ISSUED TO CAPITAL TRUSTS

The Company has established statutory trusts for the sole purpose of issuing trust preferred securities and related trust common securities. The proceeds from such issuances were used by the trusts to purchase junior subordinated notes of the Company, which are the sole assets of each trust. Concurrently with the issuance of the trust preferred securities, the Company issued guarantees for the benefit of the holders of the trust preferred securities. The Company s outstanding trust preferred securities qualify, and are treated by the Company, as Tier 1 regulatory capital. The Company owns all of the common securities of each trust. The trust preferred securities issued by each trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the notes has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment.

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The table below summarizes the outstanding junior subordinated notes and the related trust preferred securities issued by each trust as of March 31, 2012 (in thousands):

	Coal City Capital Trust I	**MB Financial Capital Trust II**	**MB Financial Capital Trust III**	**MB Financial Capital Trust IV**
Junior Subordinated Notes:				
Principal balance	$25,774	$36,083	$10,310	$20,619
Annual interest rate	3-mo LIBOR +1.80%	3-mo LIBOR +1.40%	3-mo LIBOR +1.50%	3-mo LIBOR +1.52%
Stated maturity date	September 1, 2028	September 15, 2035	September 23, 2036	September 15, 2036
Call date	September 1, 2008	December 15, 2010	September 23, 2011	September 15, 2011
Trust Preferred Securities:				
Face Value	$25,000	$35,000	$10,000	$20,000
Annual distribution rate	3-mo LIBOR +1.80%	3-mo LIBOR +1.40%	3-mo LIBOR +1.50%	3-mo LIBOR +1.52%
Issuance date	July 1998	August 2005	July 2006	August 2006
Distribution dates (1)	Quarterly	Quarterly	Quarterly	Quarterly

[redacted]				
Junior Subordinated Notes:				
[redacted]				
Annual interest rate	3-mo LIBOR +1.30%	3-mo LIBOR +1.30%	10.60%	3-mo LIBOR +2.80%
[redacted]				
Call date	December 15, 2012	October 30, 2012	September 7, 2010	January 23, 2009
[redacted]				
Trust Preferred Securities:				
[redacted]				
Annual distribution rate	3-mo LIBOR +1.30%	3-mo LIBOR +1.30%	10.60%	3-mo LIBOR +2.80%
[redacted]				
Distribution dates (1)	Quarterly	Quarterly	Semi-annual	Quarterly

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(1) All distributions are cumulative and paid in cash.

(2) Amount does not include purchase accounting adjustments totaling a premium of $279 thousand associated with FOBB Statutory Trust I and III.

(3) Callable at a premium through 2020.

(4) FOBB Statutory Trusts I and III were established by First Oak Brook Bancshares, Inc. (FOBB) prior to the Company s acquisition of FOBB, and the junior subordinated notes issued by FOBB to FOBB Statutory Trusts I and III were assumed by the Company upon completion of the acquisition.

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated notes at the stated maturity date or upon redemption on a date no earlier than the call dates noted in the table above. Prior to these respective redemption dates, the junior subordinated notes may be redeemed by the Company (in which case the trust preferred securities would also be redeemed) after the occurrence of certain events that would have a negative tax effect on the Company or the trusts, would cause the trust preferred securities to no longer qualify as Tier 1 capital, or would result in a trust being treated as an investment company. Each trust s ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated notes.

The Company s obligation under the junior subordinated notes and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each trust s obligations under the trust preferred securities issued by each trust. The Company has the right to defer payment of interest on the notes and, therefore, distributions on the trust preferred securities, for up to five years, but not beyond the stated maturity date in the table above. During any such deferral period the Company may not pay cash dividends on its stock and generally may not repurchase its stock.

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NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company offers various derivatives, including interest rate swaps and foreign currency forward contracts, to our customers and mitigate our exposure to market risk through the execution of off-setting positions with inter-bank dealer counterparties. This permits the Company to offer customized risk management solutions to our customers. These customer accommodations and any offsetting financial contracts are treated as stand-alone derivative instruments which do not qualify for hedge accounting.

Interest rate swap and foreign currency forward contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. The net amount payable or receivable under interest rate swaps is accrued as an adjustment to interest income. The net amount payable for March 31, 2012 was approximately $23 thousand, and the net amount payable for December 31, 2011 was approximately $23 thousand. The Company s credit exposure on interest rate swaps is limited to the Company s net favorable value and interest payments of all swaps to each counterparty. In such cases, collateral is generally required from the counterparties involved if the net value of the swaps exceeds a nominal amount. At March 31, 2012, the Company s credit exposure relating to interest rate swaps was approximately $22.7 million, which is secured by the underlying collateral on customer loans.

The Company also enters into mortgage banking derivatives which are designated as stand-alone derivatives. These derivatives include interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market and forward commitments for the future delivery of such loans. It is the Company s practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of future changes in interest rates on its commitments to fund the loans as well as on its portfolio of mortgage loans held-for-sale.

The Company had fair value commercial loan interest rate swaps, to hedge its interest rate risk, with an aggregate notional amount of $7.1 million at March 31, 2012. For fair value hedges, the changes in fair values of both the hedging derivative and the hedged item were recorded in current earnings as other income and other expense.

The Company s derivative financial instruments are summarized below as of March 31, 2012 and December 31, 2011 (in thousands):

	Asset Derivatives				Liability Derivatives			
	March 31, 2012		December 31, 2011		March 31, 2012		December 31, 2011	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Derivative instruments designated as hedges of fair value:								
Interest rate swap contracts (1)	$	$	$	$	$ 7,109	$ (261)	$ 7,204	$ (315)
Stand-alone derivative instruments (2)								
Interest rate swap contracts	342,259	22,576	343,132	25,931	343,395	(22,690)	344,294	(26,053)
Interest rate options contracts	21,214	189	4,287	32	21,214	(189)	4,287	(32)

Foreign exchange contracts	8,786	457	8,567	240	7,904	(422)	8,498	(206)
Mortgage banking derivatives	5,962	68	2,626	48	2,050	(10)	2,000	(18)
Total stand-alone derivative instruments	378,221	23,290	358,612	26,251	374,563	(23,311)	359,079	(26,309)
Total	$ 378,221	$ 23,290	$ 358,612	$ 26,251	$ 381,672	$ (23,572)	$ 366,283	$ (26,624)

(1) Hedged fixed-rate commercial real estate loans

(2) These portfolio swaps are not designated as hedging instruments under ASC Topic 815.

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Amounts included in the other income in the consolidated statements of income related to derivative financial instruments were as follows (dollars in thousands):

	Three Months Ended March 31, 2012	2011
Derivative instruments designated as hedges of fair value:		
Interest rate swap contracts	$ (61)	$ 1
Stand-alone derivative instruments:		
Interest rate swap contracts	66	15
Interest rate options contracts		
Foreign exchange contracts	2	
Mortgage banking derivatives	27	
Total stand-alone derivative instruments	95	15
Total	$ 34	$ 16

Methods and assumptions used by the Company in estimating the fair value of its interest rate swaps are discussed in Note 14 below.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Commitments: The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company s exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At March 31, 2012 and December 31, 2011, the following financial instruments were outstanding, the contractual amounts of which represent off-balance sheet credit risk (in thousands):

	Contractual Amount March 31, 2012	December 31, 2011
Commitments to extend credit:		
Home equity lines	$ 274,908	$ 275,357
Other commitments	810,579	741,815
Letters of credit:		
Standby	68,344	67,720

Commercial	1,093	818

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. The commitments for home equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management s credit evaluation of the customer.

The Company, in the normal course of its business, regularly offers standby and commercial letters of credit to its bank customers. Standby and commercial letters of credit are a conditional but irrevocable form of guarantee.

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Under letters of credit, the Company typically guarantees payment to a third party beneficiary upon the default of payment or nonperformance by the bank customer and upon receipt of complying documentation from that beneficiary.

Both standby and commercial letters of credit may be issued for any length of time, but normally do not exceed a period of five years. These letters of credit may also be extended or amended from time to time depending on the bank customer s needs. As of March 31, 2012, the maximum remaining term for any standby letters of credit was December 31, 2016. A fee is charged to the bank customer and is recognized as income over the life of the letter of credit, unless considered non-rebatable under the terms of a letter of credit application.

At March 31, 2012, the aggregate contractual amount of these letters of credit, which represents the maximum potential amount of future payments that the Company would be obligated to pay, increased $900 thousand to $69.4 million from $68.5 million at December 31, 2011. Of the $69.4 million in commitments outstanding at March 31, 2012, approximately $18.8 million of the letters of credit have been issued or renewed since December 31, 2011.

Letters of credit issued on behalf of bank customers may be done on either a secured, partially secured or an unsecured basis. If a letter credit is secured or partially secured, the collateral can take various forms including bank accounts, investments, fixed assets, inventory, accounts receivable or real estate, among other things. The Company takes the same care in making credit decisions and obtaining collateral when it issues letters of credit on behalf of its customers, as it does when making other types of loans.

As of March 31, 2012, the Company had approximately $1.4 million in capital expenditure commitments outstanding which relate to various projects to renovate existing branches.

Concentrations of credit risk: The majority of the loans, commitments to extend credit and standby letters of credit have been granted to customers in the Company s market area. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit are granted primarily to commercial borrowers.

Contingencies: In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from pending proceedings would not be expected to have a material adverse effect on the Company s consolidated financial statements.

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NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

ASC Topic 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert expected future amounts, such as cash flows or earnings, to a single present value amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Company s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. Our valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company s monthly and/or quarterly valuation process.

Financial Instruments Recorded at Fair Value on a Recurring Basis

Securities Available for Sale. The fair values of securities available for sale are determined by quoted prices in active markets, when available, and classified as Level 1. If quoted market prices are not available, the fair value is determined by a matrix pricing, which is a mathematical technique, widely used in the industry to value debt

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securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities and classified as Level 2. In cases where significant credit valuation adjustments are incorporated into the estimation of fair value, reported amounts are classified as Level 3 inputs.

Loans Held for Sale. Mortgage loans originated and held for sale in the secondary market are carried at fair value. The fair value of loans held for sale is determined using quoted secondary market prices and classified as level 2.

Assets Held in Trust for Deferred Compensation and Associated Liabilities. Assets held in trust for deferred compensation are recorded at fair value and included in Other Assets on the consolidated balance sheets. These assets are invested in mutual funds and classified as Level 1. Deferred compensation liabilities, also classified as Level 1, are carried at the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets.

Derivatives. Currently, we use interest rate swaps to manage our interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative and classified as Level 2. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including LIBOR rate curves. We also obtain dealer quotations for these derivatives for comparative purposes to assess the reasonableness of the model valuations. We also offer other derivatives, including foreign currency forward contracts and interest rate lock commitments, to our customers and offset our exposure from such contracts by purchasing other financial contracts, which are valued using market consensus prices.

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The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2012				
Financial assets				
Securities available for sale:				
U.S Government sponsored agencies and enterprises	$ 42,070	$	$ 42,070	$
States and political subdivisions	581,720		581,720	
Residential mortgage-backed securities	1,140,558		1,139,509	1,049
Commercial mortgage-backed securities	52,690		52,690	
Corporate bonds	5,686			5,686
Equity securities	10,887	10,887		
Loans held for sale	3,364		3,364	
Assets held in trust for deferred compensation	7,747	7,747		
Derivative financial instruments	23,290		23,290	
Financial liabilities				
Other liabilities (1)	7,747	7,747		
Derivative financial instruments	23,572		23,572	
December 31, 2011				
Financial assets				
Securities available for sale:				
U.S Government sponsored agencies and enterprises	$ 42,401	$	$ 42,401	$
States and political subdivisions	535,660		535,660	
Residential mortgage-backed securities	1,281,806		1,280,713	1,093
Commercial mortgage-backed securities	52,685		52,685	
Corporate bonds	5,899			5,899
Equity securities	10,846	10,846		
Loans held for sale	4,727		4,727	
Assets held in trust for deferred compensation	6,808	6,808		
Derivative financial instruments	26,251		26,251	
Financial liabilities				
Other liabilities (1)	6,808	6,808		
Derivative financial instruments	26,624		26,624	

(1) Liabilities associated with assets held in trust for deferred compensation

The significant unobservable inputs used in the Level 3 fair value measurements of the Company s residential mortgage-backed securities and corporate bonds included in the table above primarily relate to the constant pre-payment rates and credit assumptions used in the discounted cash flows valuation, respectively. As of March 31, 2012, those constant pre-payment rates ranged from six to twelve and the credit assumption averaged a 15% loss.

The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during the three months ended March 31, 2012. The Company s policy for determining transfers between levels occurs at the end of the reporting period when circumstances in the underlying valuation criteria change and result in transfer between levels.

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The following table presents additional information about financial assets measured at fair value on a recurring basis for which the Company used significant unobservable inputs (Level 3):

(in thousands)	Three Months Ended March 31, 2012	2011
Balance, beginning of period	$ 6,992	$ 7,476
Transfer into Level 3		
Net unrealized losses		
Other comprehensive income	37	21
Principal payments	(294)	(199)
Impairment charge		
	$ 6,735	$ 7,298

Financial Instruments Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain financial assets and financial liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market value that were recognized at fair value below cost at the end of the period.

Impaired Loans. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 310. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At March 31, 2012, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with ASC Topic 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. For a majority of impaired real estate loans, the Company obtains a current external appraisal. Other valuation techniques are used as well, including internal valuations, comparable property analysis and contractual sales information.

Non-Financial Assets and Non-Financial Liabilities Recorded at Fair Value

The Company has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis include foreclosed assets and non-financial long-lived assets.

Other Real Estate and Repossessed Vehicles Owned (Foreclosed Assets). Foreclosed assets, upon initial recognition, are measured and reported at fair value through a charge-off to the allowance for possible loan losses based upon the fair value of the foreclosed asset. The fair value of foreclosed assets, upon initial recognition, are estimated using Level 3 inputs based on customized discounting criteria.

Non-Financial Long-Lived Assets. During the three months ended March 31, 2011, the Company recognized a $1.0 million branch impairment caused by the decision to close a branch. The fair value of the branch was estimated using Level 3 inputs based on internal appraisals.

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Assets measured at fair value on a nonrecurring basis as of March 31, 2012 and December 31, 2011 are included in the table below (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2012				
Financial assets:				
Impaired loans	$ 76,007	$	$	$ 76,007
Foreclosed assets	116,861			116,861
December 31, 2011				
Financial assets:				
Impaired loans	$ 96,089	$	$	$ 96,089
Foreclosed assets	138,971			138,971
Non-financial long-lived assets	2,901			2,901

The significant unobservable inputs used in the Level 3 fair value measurements of the Company s impaired loans and foreclosed assets included in the table above primarily relate to internal valuations or analyses.

ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The estimated fair value approximates carrying value for cash and cash equivalents, accrued interest and the cash surrender value of life insurance policies. The methodologies for other financial assets and financial liabilities are discussed below:

The following methods and assumptions were used by the Company in estimating the fair values of its other financial instruments:

Cash and due from banks and interest bearing deposits with banks: The carrying amounts reported in the balance sheet approximate fair value.

Securities held to maturity: The fair values of securities held to maturity are determined by quoted prices in active markets, when available. If quoted market prices are not available, the fair value is determined by a matrix pricing, which is a mathematical technique, widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities.

Non-marketable securities FHLB and FRB Stock: The carrying amounts reported in the balance sheet approximate fair value.

Loans: The fair values for loans are estimated using discounted cash flow analyses, using the corporate bond curve adjusted for liquidity for commercial loans and the swap curve adjusted for liquidity for retail loans.

Non-interest bearing deposits: The fair values disclosed are equal to their balance sheet carrying amounts, which represent the amount payable on demand.

Interest bearing deposits: The fair values disclosed for deposits with no defined maturities are equal to their carrying amounts, which represent the amounts payable on demand. Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies the Company s current incremental borrowing rates for similar terms.

Short-term borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements and other short-term borrowings with maturities of 90 days or less approximate their fair values. The fair value of short-term borrowings greater than 90 days is based on the discounted value of contractual cash flows.

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Long-term borrowings: The fair values of the Company s long-term borrowings (other than deposits) are estimated using discounted cash flow analyses, based on the Company s current incremental borrowing rates for similar types of borrowing arrangements.

Junior subordinated notes issued to capital trusts: The fair values of the Company s junior subordinated notes issued to capital trusts are estimated based on the quoted market prices, when available, of the related trust preferred security instruments, or are estimated based on the quoted market prices of comparable trust preferred securities.

Accrued interest: The carrying amount of accrued interest receivable and payable approximate their fair values.

The estimated fair values of financial instruments are as follows (in thousands):

			March 31, 2012		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and due from banks	$ 128,411	$ 128,411	$ 128,411	$	$
Interest bearing deposits with banks	272,553	272,553	272,553		
Investment securities available for sale	1,833,611	1,833,611	10,887	1,815,989	6,735
Investment securities held to maturity	498,767	515,644		515,644	
Non-marketable securities - FHLB and FRB stock	65,541	65,541			65,541
Loans held for sale	3,364	3,364		3,364	
Loans, net	5,664,334	5,658,959			5,658,959
Accrued interest receivable	35,019	35,019	35,019		
Derivative financial instruments	23,290	23,290		23,290	
Financial Liabilities:					
Non-interest bearing deposits	$ 1,874,028	$ 1,874,028	$ 1,874,028	$	$
Interest bearing deposits	5,760,674	5,759,255			5,759,255
Short-term borrowings	269,691	269,699			269,699
Long-term borrowings	256,456	269,604			269,604
Junior subordinated notes issued to capital trusts	158,530	97,245			97,245
Accrued interest payable	4,164	4,164	4,164		
Derivative financial instruments	23,572	23,572		23,572	

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	December 31, 2011 Carrying Amount		Estimated Fair Value	
Financial Assets:				
Cash and due from banks	$	144,228	$	144,228
Interest bearing deposits with banks		100,337		100,337
Investment securities available for sale		1,929,297		1,929,297
Investment securities held to maturity		499,283		511,022
Non-marketable securities - FHLB and FRB stock		80,832		80,832
Loans held for sale		4,727		4,727
Loans, net		5,824,197		5,734,017
Accrued interest receivable		35,870		35,870
Derivative financial instruments		26,251		26,251
Financial Liabilities:				
Non-interest bearing deposits	$	1,885,694	$	1,885,694
Interest bearing deposits		5,761,913		5,790,963
Short-term borrowings		219,954		219,983
Long-term borrowings		266,264		279,124
Junior subordinated notes issued to capital trusts		158,538		113,635
Accrued interest payable		4,518		4,518
Derivative financial instruments		26,624		26,624

NOTE 15. COMMON AND PREFERRED STOCK

The Series A Preferred Stock was issued on December 5, 2008 as part of the Troubled Asset Relief Program (TARP) Capital Purchase Program of the United States Department of the Treasury (Treasury). The Series A Preferred Stock qualified as Tier 1 capital and provided for cumulative dividends on the liquidation preference amount on a quarterly basis at a rate of 5% per annum for the first five years, and 9% per annum thereafter. Concurrent with issuing the Series A Preferred Stock, the Company issued to the Treasury a ten year warrant (the Warrant) to purchase 1,012,048 shares (subsequently reduced to 506,024 shares, as described below) of the Company s Common Stock at an exercise price of $29.05 per share.

On September 17, 2009, the Company completed a public offering of its common stock by issuing 12,578,125 shares of common stock for aggregate gross proceeds of $201.3 million. The net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses were approximately $190.9 million. With the proceeds from this offering and the proceeds received by the Company from issuances pursuant to its Dividend Reinvestment and Stock Purchase Plan, the Company received aggregate gross proceeds from Qualified Equity Offerings in excess of the $196.0 million aggregate liquidation preference amount of the Series A Preferred Stock. As a result, the number of shares of the Company s common stock underlying the Warrant was reduced by 50%, from 1,012,048 shares to 506,024 shares.

On March 14, 2012, the Company repurchased all $196.0 million of the Series A Preferred Stock. On May 2, 2012, the Company repurchased in full the Warrent for approximately $1.5 million.

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

The following is a discussion and analysis of MB Financial, Inc. s financial condition and results of operations and should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. The words the Company, we, our and us refer to MB Financial, Inc. and its majority owned subsidiaries, unless we indicate otherwise.

Overview

The profitability of our operations depends primarily on our net interest income after provision for credit losses, which is the difference between interest earned on interest earning assets and interest paid on interest bearing liabilities less provision for credit losses. The provision for credit losses is dependent on changes in our loan portfolio and management s assessment of the collectability of our loan portfolio as well as prevailing economic and market conditions. Our net income is also affected by other income and other expenses. During the periods under report, non-interest income or other income consisted of loan service fees, deposit service fees, net lease financing income, brokerage fees, trust and asset management fees, net losses on the sale of investment securities available for sale, increase in cash surrender value of life insurance, net (loss) gain on sale of assets, accretion of the indemnification asset, card fees, net loss recognized on other real estate owned and other operating income. During the periods under report, other expenses included salaries and employee benefits, occupancy and equipment expense, computer and telecommunication services expense, advertising and marketing expense, professional and legal expense, other intangibles amortization expense, FDIC insurance premiums, branch impairment charges, other real estate expenses (net of rental income) and other operating expenses. Additionally, dividends and discount accretion on preferred shares reduced net income available to common stockholders.

Net interest income is affected by changes in the volume and mix of interest earning assets, interest earned on those assets, the volume and mix of interest bearing liabilities and interest paid on interest bearing liabilities. Other income and other expenses are impacted by growth of operations and changes in the number of loan and deposit accounts through both acquisitions and dispositions and core banking business growth. Growth in operations affects other expenses primarily as a result of additional employees, branch facilities and promotional marketing expense. Changes in the number of loan and deposit accounts affects other income, including service fees as well as other expenses such as computer services, supplies, postage, telecommunications and other miscellaneous expenses. Changes in the levels of non-performing assets affect salaries and benefits because of changes in problem loan remediation staffing needs. Changes in the levels of non-performing assets also affect legal expenses and other real estate owned expenses.

The Company had net income of $21.1 million and net income available to common stockholders of $17.8 million for the first quarter of 2012, compared to a net income of $6.9 million and net income available to common stockholders of $4.3 million for the first quarter of 2011. Our 2012 first quarter results generated an annualized return on average assets of 0.87% and an annualized return on average common equity of 5.94%, compared to 0.28% and 1.53%, respectively, for the same period in 2011. Fully diluted earnings per common share for the first quarter of 2012 were $0.33 compared to $0.08 per common share in the 2011 first quarter.

On March 14, 2012, we repurchased all $196.0 million of preferred stock issued in 2008 to the U.S. Department of Treasury as part of the Troubled Asset Relief Program (TARP) Capital Purchase Program. No equity or long term debt was issued in conjunction with the repurchase. The repurchase resulted in a one-time, non-cash after-tax charge of approximately $1.2 million or $0.02 per common share in the first quarter of 2012, related to unaccreted discount recorded at the date of issuance.

Critical Accounting Policies

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which we operate. This preparation requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, actual results could differ from the estimates, assumptions, and judgments reflected in the financial statements. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. Management

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believes the following policies are both important to the portrayal of our financial condition and results of operations and require subjective or complex judgments; therefore, management considers the following to be critical accounting policies. Management has reviewed the application of these polices with the Audit Committee of our Board of Directors.

Allowance for Loan Losses. Subject to the use of estimates, assumptions, and judgments in management s evaluation process used to determine the adequacy of the allowance for loan losses, which combines several factors: management s ongoing review and grading of the loan portfolio, consideration of past loan loss experience, trends in past due and nonperforming loans, risk characteristics of the various classifications of loans, existing economic conditions, the fair value of underlying collateral, and other qualitative and quantitative factors which could affect probable credit losses. Because current economic conditions can change and future events are inherently difficult to predict, the anticipated amount of estimated loan losses, and therefore the adequacy of the allowance, could change significantly. As an integral part of their examination process, various regulatory agencies also review the allowance for loan losses. Such agencies may require that certain loan balances be charged off when their credit evaluations differ from those of management or require that adjustments be made to the allowance for loan losses, based on their judgments about information available to them at the time of their examination. We believe the allowance for loan losses is adequate and properly recorded in the financial statements. See Allowance for Loan Losses section below for further analysis.

Residual Value of Our Direct Finance, Leveraged, and Operating Leases. Lease residual value represents the present value of the estimated fair value of the leased equipment at the termination date of the lease. Realization of these residual values depends on many factors, including management s use of estimates, assumptions, and judgment to determine such values. Several other factors outside of management s control may reduce the residual values realized, including general market conditions at the time of expiration of the lease, whether there has been technological or economic obsolescence or unusual wear and tear on, or use of, the equipment and the cost of comparable equipment. If, upon the expiration of a lease, we sell the equipment and the amount realized is less than the recorded value of the residual interest in the equipment, we will recognize a loss reflecting the difference. On a quarterly basis, management reviews the lease residuals for potential impairment. If we fail to realize our aggregate recorded residual values, our financial condition and profitability could be adversely affected. At March 31, 2012, the aggregate residual value of the equipment leased under our direct finance, leveraged, and operating leases totaled $54.6 million. See Note 1 and Note 7 of the notes to our December 31, 2011 audited consolidated financial statements contained in our Annual Report Form 10-K for the year ended December 31, 2011 for additional information.

Income Tax Accounting. ASC Topic 740 provides guidance on accounting for income taxes by prescribing the minimum recognition threshold that a tax position must meet to be recognized in the financial statements. ASC Topic 740 also provides guidance on measurement, recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of March 31, 2012, the Company had $91 thousand of uncertain tax positions. The Company elects to treat interest and penalties recognized for the underpayment of income taxes as income tax expense. However, interest and penalties imposed by taxing authorities on issues specifically addressed in ASC Topic 740 will be taken out of the tax reserves up to the amount allocated to interest and penalties. The amount of interest and penalties exceeding the amount allocated in the tax reserves will be treated as income tax expense. As of March 31, 2012, the Company had $8 thousand of accrued interest related to tax reserves. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time. As such, changes in our subjective assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of income.

Fair Value of Assets and Liabilities. ASC Topic 820 defines fair value as the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date.

The degree of management judgment involved in determining the fair value of assets and liabilities is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. In addition, changes in market conditions may reduce the availability of quoted

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prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, the Company would use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement.

Goodwill. The excess of the cost of an acquisition over the fair value of the net assets acquired consists of goodwill, and core deposit and client relationship intangibles. See Note 9 of the notes to our December 31, 2011 audited consolidated financial statements contained in our Annual Report Form 10-K for the year ended December 31, 2011 for additional information regarding core deposit and client relationship intangibles. The Company reviews goodwill and other intangible assets to determine potential impairment annually, or more frequently if events and circumstances indicate that the asset might be impaired, by comparing the carrying value of the asset with the anticipated future cash flows.

The Company s annual assessment date is December 31. No impairment losses were recognized during the three months ended March 31, 2012 and 2011.

Goodwill is tested for impairment at the reporting unit level. All of our goodwill is allocated to MB Financial, Inc., which is the Company s only applicable reporting unit for purposes of testing goodwill impairment. Fair value was computed by estimating the future cash flows of the Company and present valuing those cash flows at an interest rate equal to our cost of capital. In addition, we compared our fair value calculation with our stock price adjusted for a control premium for reasonableness relative to our fair value calculation. Key assumptions used in estimating future cash flows included loan and deposit growth, the interest rate environment, credit spreads on new and renewed loans, future deposit pricing, loan charge-offs, provision for loan losses, fee income growth and operating expense growth. Our future cash flows estimates assumed similar credit performance to what we experienced in the last two quarters of 2011.

Results of Operations

First Quarter Results

The Company had net income of $21.1 million and net income available to common stockholders of $17.8 million for the first quarter of 2012 compared to net income of $6.9 million and net income available to common stockholders of $4.3 million for the first quarter of 2011. The results for the first quarter of 2012 generated an annualized return on average assets of 0.87% and an annualized return on average common equity of 5.94% compared to 0.28% and 1.53%, respectively, for the same period in 2011.

Net interest income on a tax equivalent basis was $81.8 million for the three months ended March 31, 2012, a decrease of $3.0 million, or 3.5% from $84.8 million for the comparable period in 2011. The decrease was primarily due to a decline in the level of interest earning assets. See Net Interest Margin section below for further analysis.

Provision for credit losses was $3.1 million in the first quarter of 2012 as compared to $40.0 million in first quarter of 2011. The decrease in the provision for credit losses was due to lower migration to nonperforming status and fewer decreases in valuations. Net charge-offs were $5.8 million in the quarter ended March 31, 2012 compared to $53.8 million in the quarter ended March 31, 2011.

See Asset Quality below for further analysis of the allowance for loan losses.

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Other Income (in thousands):

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Increase/ (Decrease)	Percentage Change
Other income:				
Loan service fees	$ 1,339	$ 1,126	$ 213	19%
Deposit service fees	9,408	10,030	(622)	(6)%
Lease financing, net	6,958	5,783	1,175	20%
Brokerage fees	1,255	1,419	(164)	(12)%
Trust and asset management fees	4,404	4,431	(27)	(1)%
Net loss on sale of investment securities available for sale	(3)	(3)		0%
Increase in cash surrender value of life insurance	917	968	(51)	(5)%
Net (loss) gain on sale of other assets	(17)	357	(374)	(105)%
Accretion of FDIC indemnification asset	475	1,831	(1,356)	(74)%
Card fees	2,044	1,788	256	14%
Net loss recognized on other real estate owned	(6,589)	(372)	(6,217)	NM
Other operating income	2,663	1,785	878	49%
Total other income	$ 22,854	$ 29,143	$ (6,289)	(22)%

(NM Not meaningful)

Other income decreased for the first quarter of 2012 compared to the first quarter of 2011. Other income was primarily impacted by higher losses recognized on other real estate owned. Deposit services fees decreased during the first quarter of 2012 due to decreases in NSF and overdraft fees. Net lease financing income increased primarily due to an increase in the sales of third party equipment maintenance contracts and related income. Accretion of indemnification asset decreased as a result of a corresponding decrease in the indemnification asset balance during 2011 and the first quarter of 2012. Net loss recognized on other real estate owned increased due to updated appraisals with lower valuations on land and construction projects. Other operating income increased due to increased income from a Small Business Investment Company (SBIC) investment.

Other Expenses (in thousands):

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Increase / (Decrease)	Percentage Change
Other expenses:				
Salaries and employee benefits	$ 40,429	$ 37,775	$ 2,654	7%
Occupancy and equipment expense	9,570	9,394	176	2%
Computer services and telecommunication expense	3,653	3,445	208	6%
Advertising and marketing expense	2,066	1,719	347	20%
Professional and legal expense	1,413	1,225	188	15%
Other intangibles amortization expense	1,257	1,425	(168)	(12)%
FDIC insurance premiums	2,643	3,428	(785)	(23)%

Branch impairment charges				1,000		(1,000)	(100)%
Other real estate expense, net		1,243		398		845	212%
Other operating expenses		5,057		7,055		(1,998)	(28)%
Total other expenses	$	67,331	$	66,864	$	467	1%

Other expense for the first quarter of 2012 was consistent with the first quarter of 2011. Salaries and employee benefits expense increased due to employee raises, higher health insurance claims and one extra day in the first quarter of 2012. FDIC insurance premiums decreased due to lower deposits, a change in the assessment computation during the second quarter of 2011, and the impact of improved credit quality on the computation. Branch impairment charges during the first quarter of 2011 included a $1.0 million fixed asset impairment charge caused by our decision to close a branch. Other real estate expense, net increased as a result of increased holding

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costs related to other real estate owned. The decrease in other operating expenses was primarily due to a $1.7 million decrease in the clawback liability related to our loss share agreements with the FDIC.

Income Taxes

The Company had an income tax expense of $8.4 million for the three months ended March 31, 2012 compared to an income tax benefit of $2.5 million for the same period in 2011. The income tax benefit for the first quarter of 2011 included $2.1 million of income tax benefit due to an increase in deferred tax assets as a result of an increase in the Illinois corporate income tax rate that was enacted and became effective in the first quarter of 2011.

Net Interest Margin

The following table presents, for the periods indicated, the total dollar amount of interest income from average interest earning assets and the resultant yields, as well as the interest expense on average interest bearing liabilities, and the resultant costs, expressed both in dollars and rates (dollars in thousands):

	Three Months Ended March 31,					
	2012			2011		
	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Interest Earning Assets:						
Loans (1) (2) (3)	$ 5,543,495	$ 69,556	5.05%	$ 6,258,228	$ 85,637	5.55%
Loans exempt from federal income taxes (4)	260,033	3,219	4.90	202,409	2,353	4.65
Taxable investment securities	1,702,766	10,884	2.56	1,313,061	7,752	2.36
Investment securities exempt from federal income taxes (4)	742,570	10,368	5.58	348,831	5,146	5.90
Other interest earning deposits	258,351	169	0.26	747,013	471	0.26
Total interest earning assets	8,507,215	$ 94,196	4.45	8,869,542	$ 101,359	4.63
Non-interest earning assets	1,229,487			1,329,084		
Total assets	$ 9,736,702			$ 10,198,626		
Interest Bearing Liabilities:						
Deposits:						
NOW and money market deposit accounts	$ 2,649,671	$ 1,207	0.18%	$ 2,726,599	$ 2,486	0.37%
Savings deposits	772,335	248	0.13	710,455	420	0.24
Time deposits	2,332,218	7,305	1.26	2,896,697	10,453	1.46
Short-term borrowings	214,212	206	0.39	265,844	217	0.33
Long-term borrowings and junior subordinated notes	418,022	3,381	3.20	436,975	2,953	2.70
Total interest bearing liabilities	6,386,458	$ 12,347	0.78	7,036,570	$ 16,529	0.95
Non-interest bearing deposits	1,851,211			1,672,003		
Other non-interest bearing liabilities	136,412			143,775		

Stockholders equity		1,362,621					1,346,278		
Total liabilities and stockholders equity	$	9,736,702				$	10,198,626		
Net interest income/interest rate spread (5)			$	81,849	3.67%			$	84,830	3.68%
Taxable equivalent adjustment				4,756					2,625	
Net interest income, as reported			$	77,093				$	82,205	
Net interest margin (6)					3.64%					3.76%
Tax equivalent effect					0.23%					0.12%
Net interest margin on a fully tax equivalent basis (6)					3.87%					3.88%

(1) Non-accrual loans are included in average loans.

(2) Interest income includes amortization of deferred loan origination fees of $877 thousand and $1.3 million for the three months ended March 31, 2012 and 2011, respectively.

(3) Loans held for sale are included in the average loan balance listed. Related interest income is included in loan interest income.

(4) Non-taxable loan and investment income is presented on a fully tax equivalent basis assuming a 35% tax rate.

(5) Interest rate spread represents the difference between the average yield on interest earning assets and the average cost of interest bearing liabilities and is presented on a fully tax equivalent basis.

(6) Net interest margin represents net interest income as a percentage of average interest earning assets.

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Net interest income on a tax equivalent basis was $81.8 million for the three months ended March 31, 2012, a decrease of $3.0 million, or 3.5%, from $82.2 million for the comparable period in 2011. The decrease in net interest income was due to a lower level of interest earning assets which declined $362.3 million from December 31, 2011. The net interest margin during the first quarter of 2012 was 3.87% compared to 3.88% during the first quarter of 2011. The decrease in the margin was a result of lower yields on interest earning assets, as balances shifted from loans to investment securities and yields on covered loans declined. The decrease was offset by lower cost of funds as a result of a favorable change in the funding mix and repricing of certificates of deposit. In addition, our non-performing loans reduced our net interest margin during the first quarter of 2012 and the first quarter of 2011 by approximately 9 basis points and 19 basis points, respectively.

Balance Sheet

Total assets decreased $161.5 million, or 1.6%, from $9.8 billion at December 31, 2011 to $9.7 billion at March 31, 2012. Interest earning cash increased $172.2 million to $272.6 million at March 31, 2012 compared to $100.3 million at December 31, 2011 as a result of the decreases in investment securities and loans. Investment securities decreased $111.5 million from December 31, 2011 to March 31, 2012 primarily due to cash flows on mortgage-backed securities. Total loans decreased by $161.2 million, or 2.7%, to $5.8 billion at March 31, 2012 from $6.0 billion at December 31, 2011 due to slow loan growth typically experienced in the first quarter as well as the run-off of the construction loan portfolio.

Total liabilities increased by $16.1 million from $8.4 billion at December 31, 2011 to $8.5 billion at March 31, 2012. Total deposits decreased by $12.9 million at March 31, 2012 from $7.6 billion at December 31, 2011. Short-term borrowings increased $50.0 million to $270.0 million at March 31, 2012 mainly as a result of the line of credit entered into during the first quarter of 2012 to supplement holding company cash. Total stockholders equity decreased $177.6 million to $1.2 billion at March 31, 2012 compared to $1.4 billion at December 31, 2011 as a result of the repurchase of all $196.0 million of preferred stock issued as part of the TARP Capital Purchase Program of the U.S. Department of the Treasury. The repurchase was made with cash on hand as of the repurchase date.

Loan Portfolio

The following table sets forth the composition of the loan portfolio, excluding loans held for sale, as of the dates indicated (dollars in thousands):

	March 31, 2012		**December 31, 2011**		**March 31, 2011**	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
Commercial related credits:						
Commercial loans	$ 1,040,340	18%	$ 1,113,123	19%	$ 1,154,451	18%
Commercial loans collateralized by assignment of lease payments	1,209,942	21%	1,208,575	20%	1,038,507	16%
Commercial real estate	1,877,380	32%	1,853,788	31%	2,084,651	33%
Construction real estate	128,040	2%	183,789	3%	356,579	6%
Total commercial related credits	4,255,702	73%	4,359,275	73%	4,634,188	73%
Other loans:						
Residential real estate	309,644	5%	316,787	5%	335,423	5%
Indirect vehicle	186,736	3%	187,481	3%	175,058	3%

Home equity		327,450	6%		336,043	6%	371,108	6%
Consumer loans		89,705	2%		88,865	2%	74,585	1%
Total other loans		913,535	16%		929,176	16%	956,174	15%
Gross loans excluding covered loans		5,169,237	89%		5,288,451	89%	5,590,362	88%
Covered loans (1)		620,528	11%		662,544	11%	777,634	12%
Total loans (2)	$	5,789,765	100%	$	5,950,995	100% $	6,367,996	100%

(1) Loans subject to loss-share with the FDIC are referred to as covered loans.

(2) Gross loan balances at March 31, 2012, December 31, 2011 and March 31, 2011 are net of unearned income, including net deferred loan fees of $934 thousand, $1.0 million, and $2.8 million, respectively.

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During the second quarter of 2011, we sold certain performing, sub-performing and non-performing loans. The loans sold had an aggregate carrying amount of $281.6 million prior to the transfer to loans held for sale, which was comprised of $160.8 million in commercial real estate loans, $73.7 million in construction real estate loans, $14.5 million in commercial loans and $32.6 million in residential real estate and home equity loans.

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Asset Quality

The following table presents a summary of non-performing assets, excluding purchased credit-impaired loans and loans held for sale, as of the dates indicated (dollar amounts in thousands):

	March 31, 2012	December 31, 2011	March 31, 2011
Non-performing loans:(1)			
Non-accrual loans	$ 124,011	$ 129,309	$ 318,923
Loans 90 days or more past due, still accruing interest	679	82	
Total non-performing loans	124,690	129,391	318,923
Other real estate owned(2)	63,077	78,452	80,107
Repossessed vehicles	81	156	139
Total non-performing assets	$ 187,848	$ 207,999	$ 399,169
Total allowance for loan losses (3)	$ 125,431	$ 126,798	$ 178,410
Accruing restructured loans (4)	$ 24,145	$ 37,996	$ 31,819
Total non-performing loans to total loans	2.15%	2.17%	5.01%
Total non-performing assets to total assets	1.94%	2.12%	3.96%
Allowance for loan losses to non-performing loans(1)	100.59%	98.00%	55.94%

(1) This table excludes purchased credit-impaired loans that were acquired as part of the Heritage Bank (completed in 2009), InBank (completed in 2009), Benchmark (completed in 2009), Broadway (completed in 2010), and New Century (completed in 2010) FDIC-assisted transactions. Purchased credit-impaired loans have evidence of deterioration in credit quality prior to acquisition. This table also excludes loans held for sale.

(2) This table excludes other real estate owned that related to FDIC-assisted transactions. Other real estate owned related to these transactions totaled $53.7 million at March 31, 2012, $60.4 million at December 31, 2011, and $61.5 million at March 31, 2011.

(3) Includes $12.7 million of reserves on unfunded credit commitments at March 31, 2011.

(4) Accruing restructured loans consists primarily of residential real estate and home equity loans that have been modified and are performing in accordance with those modified terms.

A loan is classified as a troubled debt restructuring when a borrower is experiencing financial difficulties that leads to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. A loan that is modified at a market rate of interest may no longer be classified as troubled debt restructuring in the calendar year subsequent to the restructuring if it is in compliance with the modified terms. Payment performance prior and subsequent to the restructuring is taken into account in assessing whether it is likely that the borrower can meet the new terms. This may result in the loan being returned to accrual at the time of restructuring. A period of sustained repayment for at least six months generally is required for return to accrual status.

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The following table represents a summary of other real estate owned (OREO), excluding assets acquired in FDIC-assisted transactions, for the three months ended March 31, 2012 and 2011 (in thousands):

	March 31, 2012	March 31, 2011
Balance at beginning of period	$ 78,452	$ 71,476
Transfers in at fair value less estimated costs to sell	2,110	25,167
Fair value adjustments	(4,764)	(1,314)
Net gains on sales of OREO	416	945
Cash received upon disposition	(13,137)	(16,167)
Balance at end of period	$ 63,077	$ 80,107

The following table presents data related to non-performing loans, excluding purchased credit-impaired loans, by dollar amount and category at March 31, 2012 (dollar amounts in thousands):

	Commercial and Lease Loans		Construction Real Estate Loans		Commercial Real Estate Loans		Consumer Loans	Total Loans
	Number of Relationships	Amount	Number of Relationships	Amount	Number of Relationships	Amount	Amount	Amount
$ 10.0 million or more		$		$		$	$	$
$ 5.0 million to $9.9 million	3	21,476			1	5,431		26,907
$ 1.5 million to $4.9 million	2	3,577			15	40,603	1,603	45,783
Under $1.5 million	43	9,418	4	1,553	68	24,905	16,124	52,000
	48	$ 34,471	4	$ 1,553	84	$ 70,939	$ 17,727	$ 124,690
Percentage of individual loan category		1.53%		1.21%		3.78%	1.94%	2.15%

The following table presents data related to non-performing loans, excluding purchased credit-impaired loans, by dollar amount and category at December 31, 2011 (dollar amounts in thousands):

	Commercial and Lease Loans		Construction Real Estate Loans		Commercial Real Estate Loans		Consumer Loans	Total Loans
	Number of Borrowers	Amount	Number of Borrowers	Amount	Number of Borrowers	Amount	Amount	Amount
$ 10.0 million or more		$		$		$	$	$
$ 5.0 million to $9.9 million	2	14,322			2	15,435		29,757
$ 1.5 million to $4.9 million	5	12,031			13	37,509		49,540
Under $1.5 million	42	10,642	3	1,145	61	23,607	14,700	50,094

	49	$	36,995	3	$	1,145	76	$	76,551	$	14,700	$	129,391
Percentage of individual loan category			1.59%			0.62%			4.13%		1.58%		2.17%

Allowance for Loan Losses

Management believes the allowance for loan losses accounting policy is critical to the portrayal and understanding of our financial condition and results of operations. Selection and application of this   critical accounting policy   involves judgments, estimates, and uncertainties that are subject to change. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, materially different financial condition or results of operations is a reasonable possibility.

We maintain our allowance for loan losses at a level that management believes is appropriate to absorb probable losses on existing loans based on an evaluation of the collectability of loans, underlying collateral and prior loss experience.

Our allowance for loan losses is comprised of three elements: a general loss reserve; a specific reserve for impaired loans; and a reserve for smaller-balance homogenous loans. Each element is discussed below.

General Loss Reserve. We maintain a general loan loss reserve for the four categories of commercial-related loans in our portfolio - commercial loans, commercial loans collateralized by the assignment of lease payments (lease loans), commercial real estate loans and construction real estate loans. Under our loan risk rating system, each loan, with the exception of those included in large groups of smaller-balance homogeneous loans, is risk rated between one and nine by the originating loan officer, Senior Credit Management, Loan Review or any loan committee. Loans rated one represent those loans least likely to default and a loan rated nine represents a loss. The probability of loans defaulting for each risk rating, sometimes referred to as default factors, are estimated based on the frequency with which loans migrate from one risk rating to another and to default status over time. We use a loan loss reserve model that incorporates the migration of loan risk ratings and historical default data over a multi-year period to develop our estimated default factors (EDFs). The model tracks annual loan rating migrations by loan type and currently uses loan risk rating migrations for ten years. The migration data is adjusted by using average losses for an economic cycle to develop EDFs by loan type, risk rating and maturity. EDFs are updated annually in December. During 2011, we shortened the period of time used in computing average losses for an economic cycle to ten years.

Estimated loan default factors are multiplied by individual loan balances in each risk-rating category and again multiplied by an historical loss given default estimate for each loan type (which incorporates estimated recoveries) to determine an appropriate level of allowance by loan type. This approach is applied to the commercial, lease, commercial real estate, and construction real estate components of the portfolio.

To account for current economic conditions, the general allowance for loan and lease losses (ALLL) also includes adjustments for macroeconomic factors. Macroeconomic factors adjust the ALLL upward or downward based on the current point in the economic cycle using predictive economic data and are applied to the loan loss model through a separate allowance element for the commercial, commercial real estate, construction real estate and lease loan components. Our macroeconomic factors are based on regression analyses that reflect a high correlation between certain macroeconomic factors and industry wide charge-off rates. The correlation of over 25 indicators to charge-offs were tested (change in fed funds rate, change in personal income, durable goods orders, etc.). We annually review this data to determine that such a correlation continues to exist. We currently use the following macroeconomic indicators in our macroeconomic factor computation:

Commercial and industrial loans and lease loans: Crude oil prices, our prior period charge-off rates and the manufacturing index.

Commercial real estate loans and construction loans: Crude oil prices, our prior period charge-off rates and the consumer confidence index.

Using the indicators noted above, a predicted industry wide charge-off rate is calculated. The predicted charge-off percentage is then compared to the cycle average charge-off percentage used in our EDF computation discussed above, and a macroeconomic adjustment factor is calculated. The macroeconomic adjustment factor is applied to each commercial loan type. Each year, we review the predictive nature of the macroeconomic factors by comparing actual charge-offs to the predicted model charge-offs, re-run our regression analysis and recalibrate the macroeconomic factors as appropriate.

The general loss reserve was $99.0 million as of March 31, 2012 and $102.2 million as of December 31, 2011. Reserves on impaired loans are included in the Specific Reserve section below.

Specific Reserves. Our allowance for loan losses also includes specific reserves on impaired loans. A loan is considered to be impaired when management believes, after considering collection efforts and other factors, the borrower s financial condition is such that the collection of all contractual principal and interest payments due is doubtful.

At each quarter-end, impaired loans are reviewed individually, with adjustments made to the general calculated reserve for each loan as deemed necessary. Specific adjustments are made depending on expected cash flows and/or the value of the collateral securing each loan. Generally, the Company obtains a current external appraisal (within 12 months) on real estate secured impaired loans. Our appraisal policy is designed to comply with the Interagency

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Appraisal and Evaluation Guidelines, most recently updated on December 2010. As part of our compliance with these other regulations, we maintain an internal Appraisal Review Department that engages and reviews all third party appraisals.

For impaired loans with real estate as all or part of the collateral, third party appraisals are obtained at least annually. The only exception occurs where we are in a junior position and it is determined that the amount of the senior mortgage (when known) far exceeds a reasonable value for the property. The real estate portion of the collateral is estimated to have no value under this exception. Other valuation techniques are used as well, including internal valuations, comparable property analyses and contractual sales information.

In addition, each impaired loan with real estate collateral is reviewed quarterly by the Chief Real Estate Appraiser to determine that the most recent valuation remains appropriate during subsequent quarters until the next appraisal is received. If considered necessary by the Chief Real Estate Appraiser, the appraised value may be further discounted by internally applying accepted appraisal methodologies to an older appraisal. Accepted appraisal methodologies include: income capitalization approach adjusting for changes in underlying leases, adjustments related to condominium projects with units sales, adjustments for loan fundings, and As is compared to As Stabilized valuations. As of March 31, 2012, almost all appraisals were completed within the previous 12 months.

Other valuation techniques are also used to value non-real estate assets. Discounts may be applied in the impairment analysis used for general business assets (GBA). Examples of GBA include accounts receivable, inventory, and any marketable securities pledged. The discount is used to reflect collection risk in the event of default that may not have been included in the valuation of the asset.

The total specific reserve component of the allowance was $13.7 million as of March 31, 2012 and $10.8 million as of December 31, 2011. The increase in specific reserve reflects larger reserves on two nonperforming loans.

Smaller Balance Homogenous Loans. Pools of homogeneous loans with similar risk and loss characteristics are also assessed for probable losses. These loan pools include consumer, residential real estate, home equity and indirect vehicle loans. Migration probabilities obtained from past due roll rate analyses are applied to current balances to forecast charge-offs over a one-year time horizon. The reserves for smaller balance homogenous loans totaled $12.7 million at March 31, 2012 and $13.8 million at December 31, 2011.

We consistently apply our methodology for determining the appropriateness of the allowance for loan losses, but may adjust our methodologies and assumptions based on historical information related to charge-offs and management s evaluation of the loan portfolio. In this regard, we periodically review the following in order to validate our allowance for loan losses: historical net charge-offs as they relate to prior allowance for loan loss, comparison of historical loan migration in past years compared to the current year, overall credit trends and ratios and any significant changes in loan concentrations. In reviewing this data, we adjust qualitative factors within our allowance methodology to appropriately reflect any changes warranted by the validation process.

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A reconciliation of the activity in the allowance for credit and loan losses follows (dollar amounts in thousands):

	Three Months Ended	
	March 31, 2012	March 31, 2011
Balance at the beginning of period	$ 135,975	$ 192,217
Provision for credit losses	3,100	40,000
Charge-offs:		
Commercial loans	(539)	(3,151)
Commercial loans collateralized by assignment of lease payments (lease loans)		
Commercial real estate loans	(3,003)	(29,775)
Construction real estate	(3,436)	(21,094)
Residential real estate	(294)	(3,562)
Indirect vehicle	(715)	(718)
Home equity	(1,072)	(1,907)
Consumer loans	(258)	(544)
Total charge-offs	(9,317)	(60,751)
Recoveries:		
Commercial loans	2,038	2,565
Commercial loans collateralized by assignment of lease payments (lease loans)	256	66
Commercial real estate loans	162	1,534
Construction real estate	565	2,026
Residential real estate	34	7
Indirect vehicle	311	325
Home equity	20	48
Consumer loans	111	373
Total recoveries	3,497	6,944
Total net charge-offs	(5,820)	(53,807)
Allowance for credit losses	133,255	178,410
Allowance for unfunded credit commitments (1)	(7,824)	
Allowance for loan losses (2)	$ 125,431	$ 178,410
Total loans, excluding loans held for sale	$ 5,789,765	$ 6,367,996
Average loans, excluding loans held for sale	$ 5,802,037	$ 6,460,508
Ratio of allowance for loan losses to total loans, excluding loans held for sale	2.17%	2.80%
Ratio of allowance for credit losses to total loans, and excluding loans held for sale, and unfunded credit commitments	2.27%	2.75%
Net loan charge-offs to average loans, excluding loans held for sale (annualized)	0.40%	3.38%

(1) The reserve for unfunded credit commitments was reclassified to other liabilities as of June 30, 2011.

(2) Includes $12.7 million for unfunded credit commitments at March 31, 2011.

Net charge-offs decreased $48.0 million to $5.8 million in the three months ended March 31, 2012 compared to $53.8 million in the three months ended March 31, 2011. Provision for credit losses decreased by $36.9 million to $3.1 million in the three months ended March 31, 2012 from $40.0 million in the same period of 2011. The decrease in the required provision was a result of much lower downward migration of loans to non-performing status and less loan charge-offs.

Additions to the allowance for loan losses, which are charged to earnings through the provision for credit losses, are determined based on a variety of factors, including specific reserves, current loan risk ratings, delinquent loans, historical loss experience and economic conditions in our market area. In addition, federal regulatory authorities, as part of the examination process, periodically review our allowance for loan losses. The regulators may require us to record adjustments to the allowance level based upon their assessment of the information available to them at the time of examination. Although management believes the allowance for loan losses is sufficient to cover probable losses inherent in the loan portfolio, there can be no assurance that the allowance will prove sufficient to cover actual loan losses.

We utilize an internal asset classification system as a means of reporting problem and potential problem assets. At scheduled meetings of the board of directors of MB Financial Bank, a watch list is presented, showing significant loan relationships listed as Special Mention, Substandard, and Doubtful. An asset is classified Substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets classified as Loss are those considered uncollectible and viewed as valueless assets and have been charged-off. Assets that do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management s close attention are deemed to be Special Mention.

Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the Office of the Comptroller of the Currency, MB Financial Bank s primary regulator, which can order the establishment of additional general or specific loss allowances. There can be no assurance that regulators, in reviewing our loan portfolio, will not request us to materially adjust our allowance for loan losses. The Office of the Comptroller of the Currency, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that (1) institutions have effective systems and controls to identify, monitor and address asset quality problems; (2) management has analyzed all significant factors that affect the collectability of the portfolio in a reasonable manner; and (3) management has established acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. We analyze our process regularly, with modifications made if needed, and report those results four times per year at meetings of our board of directors. However, there can be no assurance that regulators, in reviewing our loan portfolio, will not request us to materially adjust our allowance for loan losses at the time of their examination.

Although management believes that adequate specific and general loan loss allowances have been established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may become necessary.

Potential Problem Loans

We define potential problem loans as performing loans rated substandard and that do not meet the definition of a non-performing loan (See Asset Quality section above for non-performing loans). We do not necessarily expect to realize losses on potential problem loans, but we recognize potential problem loans carry a higher probability of default and require additional attention by management. The aggregate principal amounts of potential problem loans as of March 31, 2012 and December 31, 2011 were approximately $159.4 million and $149.8 million, respectively. As of March 31, 2012, potential problem loans included $98.8 million and $44.8 million in commercial real estate and commercial loans, respectively. Management believes it has established an adequate allowance for probable loan losses as appropriate under GAAP.

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Lease Investments

The lease portfolio is comprised of various types of equipment, generally technology related, including computer systems and satellite equipment, material handling and general manufacturing equipment. The credit quality of the lessee is often an investment grade public debt rating by Moody s or Standard & Poors, or the equivalent as determined by us, and at times below investment grade.

Lease investments by categories follow (in thousands):

	March 31, 2012	December 31, 2011	March 31, 2011
Direct finance leases:			
Minimum lease payments	$ 50,723	$ 56,744	$ 61,724
Estimated unguaranteed residual values	6,686	6,681	7,355
Less: unearned income	(4,843)	(5,349)	(6,372)
Direct finance leases (1)	$ 52,566	$ 58,076	$ 62,707
Leveraged leases:			
Minimum lease payments	$ 25,386	$ 21,907	$ 15,189
Estimated unguaranteed residual values	2,471	2,702	2,638
Less: unearned income	(2,412)	(2,004)	(1,319)
Less: related non-recourse debt	(23,968)	(20,629)	(13,802)
Leveraged leases (1)	$ 1,477	$ 1,976	$ 2,706
Operating leases:			
Equipment, at cost	$ 236,285	$ 242,453	$ 229,157
Less: accumulated depreciation	(111,537)	(106,963)	(99,975)
Lease investments, net	$ 124,748	$ 135,490	$ 129,182

(1) Direct finance and leveraged leases are included as commercial loans collateralized by assignment of lease payments for financial statement purposes.

Leases that transfer substantially all of the benefits and risk related to the equipment ownership to the lessee are classified as direct financing. If these direct finance leases have non-recourse debt associated with them, they are further classified as leveraged leases, and the associated debt is netted with the outstanding balance in the consolidated financial statements. Interest income on direct finance and leveraged leases is recognized using methods which approximate a level yield over the term of the lease.

Operating leases are investments in equipment leased to other companies, where the residual component makes up more than 10% of the investment. The Company funds most of the lease equipment purchases internally, but has some loans at other banks which totaled $28.1 million at March 31, 2012, $31.0 million at December 31, 2011 and $11.1 million at March 31, 2011.

The lease residual value represents the present value of the estimated fair value of the leased equipment at the termination of the lease. Lease residual values are reviewed quarterly and any write-downs, or charge-offs deemed necessary are recorded in the period in which they become known. Gains on leased equipment periodically result when a lessee renews a lease or purchases the equipment at the end of a lease, or the equipment is sold to a third party at a profit. Individual lease transactions can, however, result in a loss. This generally happens when, at the end of a lease, the lessee does not renew the lease or purchase the equipment. To mitigate this risk of loss, we usually limit individual leased equipment residuals (expected lease book values at the end of initial lease terms) to approximately $500 thousand per transaction and seek to diversify both the type of equipment leased and the industries in which the lessees to whom such equipment is leased participate. Often times, there are several individual lease schedules under one master lease. There were 2,491 leases at March 31, 2012 compared to 2,668 leases at December 31, 2011 and 2,565 leases at March 31, 2011. The average residual value per lease schedule was approximately $22 thousand at March 31, 2012 compared to $21 thousand at December 31, 2011 and $22 thousand

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at March 31, 2011. The average residual value per master lease schedule was approximately $163 thousand at March 31, 2012, $166 thousand at December 31, 2011, and $170 thousand at March 31, 2011.

At March 31, 2012, the following reflects the residual values for leases by category in the year the initial lease term ends (in thousands):

	Residual Values			
	Direct Finance Leases	Leveraged Leases	Operating Leases	Total
End of initial lease term December 31,				
2012	$ 1,956	$ 387	$ 12,663	$ 15,006
2013	1,709	739	7,537	9,985
2014	2,033	784	11,444	14,261
2015	536	515	6,324	7,375
2016	200	46	6,404	6,650
Thereafter	252		1,082	1,334
	$ 6,686	$ 2,471	$ 45,454	$ 54,611

Investment Securities

The following table sets forth the amortized cost and fair value of our investment securities, by type of security as indicated (in thousands):

	At March 31, 2012		At December 31, 2011		At March 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale						
U.S. Government sponsored agencies and enterprises	$ 39,503	$ 42,070	$ 39,640	$ 42,401	$ 56,452	$ 56,971
States and political subdivisions	547,262	581,720	500,979	535,660	350,851	365,481
Residential mortgage-backed securities	1,117,065	1,140,558	1,256,696	1,281,806	1,247,663	1,269,449
Commercial mortgage-backed securities	51,275	52,690	51,324	52,685	10,508	10,519
Corporate bonds	5,686	5,686	5,899	5,899	6,019	6,019
Equity securities	10,520	10,887	10,457	10,846	10,169	10,215
	1,771,311	1,833,611	1,864,995	1,929,297	1,681,662	1,718,654
Held to maturity						
States and political subdivisions	239,526	249,352	240,183	247,664	102,206	102,334
Residential mortgage-backed securities	259,241	266,292	259,100	263,358		
	498,767	515,644	499,283	511,022	102,206	102,334
Total	$ 2,270,078	$ 2,349,255	$ 2,364,278	$ 2,440,319	$ 1,783,868	$ 1,820,988

Liquidity and Sources of Capital

Our cash flows are composed of three classifications: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities.

Cash flows from operating activities primarily include results of operations for the period, adjusted for items in net income that did not impact cash. Net cash provided by operating activities decreased by $21.0 million to $28.0 million for the three months ended March 31, 2012 from the three months ended March 31, 2011, primarily as a result of lower provision for credit losses.

Cash flows from investing activities reflects the impact of loans and investments acquired for the Company s interest-earning asset portfolios, as well as cash flows from asset sales. For the three months ended March 31, 2012, the Company had net cash flows provided by investing activities of $301.3 million compared to net cash flow used in investing activities of $17.3 million for the three months ended March 31, 2011. This change in cash flows was

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mainly the result of less purchases of investment securities in the three months ended March 31, 2012 compared to the same period in the prior year.

Cash flows from financing activities include transactions and events whereby cash is obtained from depositors, creditors or investors. For the three months ended March 31, 2012, the Company had net cash flows used in financing activities of $172.9 million compared to $247.3 million for the three months ended March 31, 2011. The change in cash flows from financing activities was primarily due to less of a decrease in deposits partially offset by the repurchase in the first quarter of 2012 of the preferred stock issued to the U.S. Department of Treasury as part of the TARP Capital Purchase Program.

We expect to have adequate cash to meet our liquidity needs. Liquidity management is monitored by an Asset/Liability Management Committee, consisting of members of management, which review historical funding requirements, current liquidity position, sources and stability of funding, marketability of assets, options for attracting additional funds, and anticipated future funding needs, including the level of unfunded commitments.

The Company has numerous sources of liquidity including readily marketable investment securities, shorter-term loans within the loan portfolio, principal and interest cash flows from investments and loans, the ability to attract retail and public fund time deposits and to purchase brokered time deposits.

In the event that additional short-term liquidity is needed or the Company is unable to retain brokered deposits, MB Financial Bank has established relationships with several large regional banks to provide short-term borrowings in the form of federal funds purchases. While at March 31, 2012, there were no firm lending commitments in place, management believes that MB Financial Bank could borrow approximately $185.0 million for a short time from these banks on a collective basis. MB Financial Bank is a member of Federal Home Loan Bank of Chicago (FHLB). As of March 31, 2012, MB Financial Bank had $139.5 million outstanding in FHLB advances and could borrow an additional amount of approximately $314.2 million. As a contingency plan for significant funding needs, the Asset/Liability Management Committee may also consider the sale of investment securities, selling securities under agreement to repurchase, or the temporary curtailment of lending activities. As of March 31, 2012, the Company had approximately $1.3 billion of unpledged securities, excluding securities available for pledge at the FHLB.

See Notes 9 and 10 of the Financial Statements presented under Item 1 of this report for details of period end balances and other information for these various funding sources. There were no material changes outside the ordinary course of business in the Company s contractual obligations at March 31, 2012 as compared to December 31, 2011.

At March 31, 2012, the Company s total risk-based capital ratio was 17.11%; Tier 1 capital to risk-weighted assets ratio was 15.04% and Tier 1 capital to average asset ratio was 9.99%. MB Financial Bank s total risk-based capital ratio was 16.97%; Tier 1 capital to risk-weighted assets ratio was 14.90% and Tier 1 capital to average asset ratio was 9.89%. MB Financial Bank, N.A. was categorized as Well-Capitalized at March 31, 2012 under the regulations of the Office of the Comptroller of the Currency.

Non-GAAP Financial Information

This report contains certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America (GAAP). These measures include net interest income on a fully tax equivalent basis and net interest margin on a fully tax equivalent basis. Our management uses these non-GAAP measures, together with the related GAAP measures, in its analysis of our performance and in making business decisions. Management also uses these measures for peer comparisons. The tax equivalent adjustment to net interest income recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a 35% tax rate. Management believes that it is a standard practice in the banking industry to present net interest income and net interest margin on a fully tax equivalent basis, and accordingly believes that providing these measures may be useful for peer comparison purposes. These disclosures should not be viewed as substitutes for the results determined to be in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Reconciliations of net interest income on a fully tax equivalent basis to net interest income and net interest margin on a fully tax equivalent basis to net interest margin are contained in the tables under Net Interest Margin.

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Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q and in other filings with the Securities and Exchange Commission, in press releases or other public shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases believe, will, should, will likely result, are expected to, will continue, is anticipated, estimate, project, plans, or similar expres to identify forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. These statements may relate to MB Financial, Inc. s future financial performance, strategic plans or objectives, revenues or earnings projections, or other financial items. By their nature, these statements are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the statements.

Important factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following: (1) expected revenues, cost savings, synergies and other benefits from our merger and acquisition activities might not be realized within the anticipated time frames or at all, and costs or difficulties relating to integration matters, including but not limited to customer and employee retention, might be greater than expected; (2) the possibility that the expected benefits of the FDIC-assisted transactions we previously completed will not be realized; (3) the credit risks of lending activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses, which could necessitate additional provisions for loan losses, resulting both from loans we originate and loans we acquire from other financial institutions; (4) results of examinations by the Office of Comptroller of Currency and other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan losses or write-down assets; (5) competitive pressures among depository institutions; (6) interest rate movements and their impact on customer behavior and net interest margin; (7) the impact of repricing and competitors pricing initiatives on loan and deposit products; (8) fluctuations in real estate values; (9) the ability to adapt successfully to technological changes to meet customers needs and developments in the market-place; (10) our ability to realize the residual values of our direct finance, leveraged, and operating leases; (11) our ability to access cost-effective funding; (12) changes in financial markets; (13) changes in economic conditions in general and in the Chicago metropolitan area in particular; (14) the costs, effects and outcomes of litigation; (15) new legislation or regulatory changes, including but not limited to the Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations adopted thereunder, other governmental initiatives affecting the financial services industry and changes in federal and/or state tax laws or interpretations thereof by taxing authorities; (16) changes in accounting principles, policies or guidelines; (17) our future acquisitions of other depository institutions or lines of business; and (18) future goodwill impairment due to changes in our business, changes in market conditions, or other factors.

We do not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date on which the forward-looking statement is made.

Item 3. - Quantitative and Qualitative Disclosures about Market Risk

Market Risk. Market risk is the risk that the market value or estimated fair value of our assets, liabilities, and derivative financial instruments will decline as a result of changes in interest rates or financial market volatility, or that our net income will be significantly reduced by interest rate changes. Market risk is managed operationally in our Treasury Group, and is addressed through a selection of funding and hedging instruments supporting balance sheet assets, as well as monitoring our asset investment strategies.

Asset Liability Management. Management and our Treasury Group continually monitor our sensitivity to interest rate changes. It is our policy to maintain an acceptable level of interest rate risk over a range of possible changes in interest rates while remaining responsive to market demand for loan and deposit products. The strategy we employ to manage our interest rate risk is to measure our risk using an asset/liability simulation model. The model considers several factors to determine our potential exposure to interest rate risk, including measurement of repricing gaps, duration, convexity, value at risk, and the market value of portfolio equity under assumed changes in the level of interest rates, shape of the yield curves, and general market volatility. Management controls our interest rate exposure using several strategies, which include adjusting the maturities of securities in our investment portfolio, and limiting fixed rate loans or fixed rate deposits with terms of more than five years. We also use derivative instruments, principally interest rate swaps, to manage our interest rate risk. See Note 12 to the Consolidated Financial Statements.

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Interest Rate Risk. Interest rate risk can come in a variety of forms, including repricing risk, yield curve risk, basis risk, and prepayment risk. We experience repricing risk when the change in the average yield of either our interest earning assets or interest bearing liabilities is more sensitive than the other to changes in market interest rates. Such a change in sensitivity could reflect a number of possible mismatches in the repricing opportunities of our assets and liabilities.

In the event that yields on our assets and liabilities do adjust to changes in market rates to the same extent, we may still be exposed to yield curve risk. Yield curve risk reflects the possibility the changes in the shape of the yield curve could have different effects on our assets and liabilities.

Variable or floating rate, assets and liabilities that reprice at similar times and have base rates of similar maturity may still be subject to interest rate risk. If financial instruments have different base rates, we are subject to basis risk reflecting the possibility that the spread from those base rates will deviate.

We hold mortgage-related investments, including mortgage loans and mortgage-backed securities. Prepayment risk is associated with mortgage-related investments and results from homeowners ability to pay off their mortgage loans prior to maturity. We limit this risk by restricting the types of mortgage-backed securities we may own to those with limited average life changes under certain interest-rate shock scenarios, or securities with embedded prepayment penalties. We also limit the fixed rate mortgage loans held with maturities greater than five years.

Measuring Interest Rate Risk. As noted above, interest rate risk can be measured by analyzing the extent to which the repricing of assets and liabilities are mismatched to create an interest sensitivity gap. An asset or liability is said to be interest rate sensitive within a specific period if it will mature or reprice within that period. The interest rate sensitivity gap is defined as the difference between the amount of interest earning assets maturing or repricing within a specific time period and the amount of interest bearing liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of falling interest rates, therefore, a positive gap would tend to adversely affect net interest income. Conversely, during a period of rising interest rates, a positive gap position would tend to result in an increase in net interest income.

The following table sets forth the amounts of interest earning assets and interest bearing liabilities outstanding at March 31, 2012 that we anticipate, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined based on the earlier of the term to repricing or the term to repayment of the asset or liability. The table is intended to provide an approximation of the projected repricing of assets and liabilities at March 31, 2012 based on contractual maturities and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be reinvested and/or repriced because of contractual amortization and rate adjustments on adjustable-rate loans. Loan and investment securities contractual maturities and amortization reflect expected prepayment assumptions. While NOW, money market and savings deposit accounts have adjustable rates, it is assumed that the interest rates on some of the accounts will not adjust immediately to changes in other interest rates.

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Therefore, the information in the table is calculated assuming that NOW, money market and savings deposits will reprice as follows: 4%, 10% and 5%, respectively, in the first three months, 12%, 26%, and 15%, respectively, in the next nine months, 51%, 58% and 58%, respectively, from one year to five years, and 33%, 6%, and 22%, respectively over five years (dollars in thousands):

	Time to Maturity or Repricing				
	0 - 90 Days	**91 - 365 Days**	**1 - 5 Years**	**Over 5 Years**	**Total**
Interest Earning Assets:					
Interest bearing deposits with banks	$ 270,226	$ 1,152	$ 1,175	$	$ 272,553
Investment securities	249,410	378,387	1,140,246	629,876	2,397,919
Loans held for sale	3,364				3,364
Loans, including covered loans	2,403,894	1,233,221	2,079,409	73,241	5,789,765
Total interest earning assets	$ 2,926,894	$ 1,612,760	$ 3,220,830	$ 703,117	$ 8,463,601
Interest Bearing Liabilities:					
NOW and money market deposits accounts	$ 210,541	$ 567,705	$ 1,502,318	$ 422,072	$ 2,702,636
Savings deposits	43,075	121,429	446,614	175,239	786,357
Time deposits	566,491	974,331	662,772	68,087	2,271,681
Short-term borrowings	60,165	61,101	133,721	14,704	269,691
Long-term borrowings	60,642	29,961	163,026	2,827	256,456
Junior subordinated notes issued to capital trusts	152,065			6,465	158,530
Total interest bearing liabilities	$ 1,092,979	$ 1,754,527	$ 2,908,451	$ 689,394	$ 6,445,351
Rate sensitive assets (RSA)	$ 2,926,894	$ 4,539,654	$ 7,760,484	$ 8,463,601	$ 8,463,601
Rate sensitive liabilities (RSL)	$ 1,092,979	$ 2,847,506	$ 5,755,957	$ 6,445,351	$ 6,445,351
Cumulative GAP (GAP=RSA-RSL)	$ 1,833,915	$ 1,692,148	$ 2,004,527	$ 2,018,250	$ 2,018,250
RSA/Total assets	30.26%	46.94%	80.24%	87.51%	87.51%
RSL/Total assets	11.30%	29.44%	59.51%	66.64%	66.64%
GAP/Total assets	18.96%	17.50%	20.73%	20.87%	20.87%
GAP/RSA	62.66%	37.27%	25.83%	23.85%	23.85%

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 of assets may lag behind changes in market rates. Additionally, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Therefore, we do not rely on a gap analysis to manage our interest rate risk, but rather we use what we believe to be the more reliable simulation model relating to changes in net interest income.

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Based on simulation modeling which assumes gradual changes in interest rates over a one-year period, we believe that our net interest income would change due to changes in interest rates as follows (dollars in thousands):

Gradual Changes in Levels of Interest Rates	**Changes in Net Interest Income Over Once Year Horizon**			
	At March 31, 2012		**At December 31, 2011**	
	Dollar Change	**Percentage Change**	**Dollar Change**	**Percentage Change**
+ 2.00%	$ 7,902	2.53%	$ 9,221	2.90%
+ 1.00%	$ 2,030	0.65%	$ 3,538	1.10%

In the interest rate sensitivity table above, changes in net interest income between March 31, 2012 and December 31, 2011 reflect changes in the composition of interest earning assets and interest bearing liabilities, related interest rates, repricing frequencies, and the fixed or variable characteristics of the interest earning assets and interest bearing liabilities. The changes in net interest income incorporate the impact of loan floors as well as shifts from low cost deposits to certificates of deposit in a rising rate environment.

The assumptions used in our interest rate sensitivity simulation discussed above are inherently uncertain and, as a result, the simulations cannot precisely measure net interest income or precisely predict the impact of changes in interest rates on net interest income. Our model assumes that a portion of our variable rate loans that have minimum interest rates will remain in our portfolio regardless of changes in the interest rate environment. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies.

As a result of the current interest rate environment, the Company does not anticipate any significant declines in interest rates over the next twelve months. For this reason, we did not use an interest rate sensitivity simulation that assumes a gradual decline in the level of interest rates over the next twelve months.

Item 4. - Controls and Procedures

Evaluation of Disclosure Controls and Procedures: An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Act)) was carried out as of March 31, 2012 under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and several other members of our senior management. Our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2012, our disclosure controls and procedures were effective in ensuring that the information we are required to disclose in the reports we file or submit under the Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

Changes in Internal Control Over Financial Reporting: There were no changes in the Company s internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

We do not expect that our disclosure controls and procedures and internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns in controls or procedures can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

Item 1A. - Risk Factors

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information for the three months ended March 31, 2012 with respect to our repurchases of our outstanding common shares:

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Number of Shares Purchased as Part Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2012 - January 31, 2012	11,048	$ 18.32		
February 1, 2012 - February 29, 2012		$		
March 1, 2012 - March 31, 2012	4,147	$ 20.54		
Totals	15,195			

(1) Represents shares withheld to satisfy tax withholding obligations upon the exercise of stock options and vesting of restricted stock awards.

Item 6. - Exhibits

See Exhibit Index.

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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.

		MB FINANCIAL, INC.
Date:	**May 2, 2012**	**By: /s/ Mitchell Feiger** Mitchell Feiger President and Chief Executive Officer *(Principal Executive Officer)*
Date:	**May 2, 2012**	**By: /s/ Jill E. York** Jill E. York Vice President and Chief Financial Officer *(Principal Financial and Principal Accounting Officer)*

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EXHIBIT INDEX

Exhibit Number	Description
2.2	Agreement and Plan of Merger, dated as of May 1, 2006, by and among the Registrant, MBFI Acquisition Corp. and First Oak Brook Bancshares, Inc. (First Oak Brook)(incorporated herein by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K filed on May 2, 2006 (File No.0-24566-01))
2.3	Purchase and Assumption Agreement among Federal Deposit Insurance Corporation, Receiver of Corus Bank, National Association, Chicago, Illinois, Federal Deposit Insurance Corporation and MB Financial Bank, N.A., dated as of September 11, 2009 (incorporated herein by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K filed on September 17, 2010 (File No.0-24566-01))
2.4	Purchase and Assumption Agreement among Federal Deposit Insurance Corporation, Receiver of Broadway Bank, Chicago, Illinois, Federal Deposit Insurance Corporation and MB Financial Bank, N.A., dated as of April 23, 2010 (incorporated herein by reference to Exhibit 2.6 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 0-24566-01))
2.5	Purchase and Assumption Agreement among Federal Deposit Insurance Corporation, Receiver of New Century Bank, Chicago, Illinois, Federal Deposit Insurance Corporation and MB Financial Bank, N.A., dated as of April 23, 2010 (incorporated herein by reference to Exhibit 2.7 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 0-24566-01))
3.1	Charter of the Registrant, as amended (incorporated herein by reference to Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (File No. 0-24566-01))
3.1A	Articles Supplementary to the Charter of the Registrant for the Registrant s Fixed Rate Cumulative Perpetual Preferred Stock, Series A (incorporated herein by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed on December 8, 2008 (File No.0-24566-01))
3.2	By-laws of the Registrant, as amended (incorporated herein by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed on April 2, 2012 (File No. 0-24566-01))
4.1	The Registrant hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of the holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries
4.2	Certificate of Registrant s Common Stock (incorporated herein by reference to Exhibit 4.1 to Amendment No. One to the Registrant s Registration Statement on Form S-4 (No. 333-64584))
4.3	Warrant to purchase shares of the Registrant s Common Stock (incorporated herein by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed on December 8, 2008 (File No.0-24566-01))
10.1	Letter Agreement, dated as of December 5, 2008, between the Registrant and the United States Department of the Treasury (incorporated herein by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on December 8, 2008 (File No.0-24566-01))
10.2	Amended and Restated Employment Agreement between the Registrant and Mitchell Feiger (incorporated herein by reference to Exhibit 10.2 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-24566-01))
10.3	Employment Agreement between MB Financial Bank, N.A. and Burton J. Field (incorporated herein by reference to Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 0-24566-01))

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Exhibit Number	Description
10.4	Form of Change and Control Severance Agreement between MB Financial Bank, National Association and Jill E. York (incorporated herein by reference to Exhibit 10.4 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-24566-01))
10.4B	Form of Change and Control Severance Agreement between MB Financial Bank, National Association and each of Burton Field, Larry J. Kallembach, Brian Wildman, Rosemarie Bouman and Susan Peterson (incorporated herein by reference to Exhibit 10.4B to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-24566-01))
10.4C	Form of Change in Control Severance Agreement between MB Financial Bank, National Association and each of Mark A. Heckler and Edward F. Milefchik (incorporated herein by reference to Exhibit 10.4C to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 0-24566-01))
10.5	Form of Letter Agreement dated December 4, 2008 between MB Financial, Inc. and each of Mitchell Feiger, Jill E. York, Burton Field, Larry J. Kallembach, Brian Wildman, Rosemarie Bouman, and Susan Peterson relating to the TARP Capital Purchase Program (incorporated herein by reference to Exhibit 10.5 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-24566-01))
10.5A	Form of Compensation Amendment and Waiver Agreement under the TARP Capital Purchase Program between MB Financial, Inc. and certain employees (incorporated herein by reference to Exhibit 10.5A to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 0-24566-01))
10.5B	Form of Compensation Amendment and Waiver Agreement under the TARP Capital Purchase Program between MB Financial, Inc. and each of Mark A. Heckler and Edward F. Milefchik (incorporated herein by reference to Exhibit 10.5B to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 0-24566-01))
10.6	Coal City Corporation 1995 Stock Option Plan (incorporated herein by reference to Exhibit 10.6 to the Registrant s Registration Statement on Form S-4 (No. 333-64584))
10.6A	Amendment to Coal City Corporation 1995 Stock Option Plan ((incorporated herein by reference to Exhibit 10.6A to the Registrant s Annual Report on Form 10-K/A for the year ended December 31, 2006, filed on March 2, 2007 (File No. 0-24566-01))
10.7	MB Financial, Inc. Second Amended and Restated Omnibus Incentive Plan (the Omnibus Incentive Plan) (incorporated herein by reference to Appendix A to the Registrant s definitive proxy statement filed on April 27, 2011 (File No. 0-24566-01))
10.8	MB Financial Stock Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.8 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-24566-01))
10.9	MB Financial Non-Stock Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.9 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-24566-01))
10.10	Avondale Federal Savings Bank Supplemental Executive Retirement Plan Agreement (incorporated herein by reference to Exhibit 10.2 to Old MB Financial s (then known as Avondale Financial Corp.) Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 0-24566))

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Exhibit Number	Description
10.11	Agreement Regarding Salary Adjustment and Portion of Salary Payable by Stock, dated as of December 21, 2009, between MB Financial, Inc. and Mitchell Feiger (incorporated herein by reference to Exhibit 10.11 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 0-24566-01))
10.11A	Form of Agreement Regarding Salary Adjustment and Portion of Salary Payable by Stock between MB Financial, Inc. and Rosemarie Bouman, Burton J. Field, Mark A. Heckler, Larry J. Kallembach, Edward F. Milefchik, Susan G. Peterson and Brian J. Wildman (incorporated herein by reference to Exhibit 10.11A to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 0-24566-01))
10.12	Agreement Regarding Salary Adjustment and Portion of Salary Payable by Stock, dated as of December 21, 2009, between MB Financial, Inc. and Jill E. York (incorporated herein by reference to Exhibit 10.12 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 0-24566-01))
10.13	Amended and Restated Employment Agreement between MB Financial Bank, N.A. and Ronald D. Santo (incorporated herein by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on December 14, 2004 (File No. 0-24566-01))
10.13A	Amendment to Amended and Restated Employment Agreement between MB Financial Bank, N.A. and Ronald D. Santo ((incorporated herein by reference to Exhibit 10.13A to the Registrant s Annual Report on Form 10-K/A for the year ended December 31, 2006, filed on March 2, 2007 (File No. 0-24566-01))
10.15	Tax Gross Up Agreements between the Registrant and each of Mitchell Feiger, Burton J. Field, Jill E. York, Larry J. Kallembach, Brian Wildman, and Susan Peterson (incorporated herein by reference to Exhibit 10.15 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-24566-01))
10.15A	Tax Gross Up Agreement between the Registrant and Rosemarie Bouman (incorporated herein by reference to Exhibit 10.15A to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-24566-01))
10.16	Form of Incentive Stock Option Agreement for Executive Officers under the Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.16 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 0-24566-01))
10.17	Form of Non-Qualified Stock Option Agreement for Directors under the Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.16 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 0-24566-01))
10.18	Form of Restricted Stock Agreement for Executive Officers under the Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.16 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 0-24566-01))
10.18A	Amendment to Form of Incentive Stock Option Agreement and Form of Restricted Stock Agreement for Executive Officers under the Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.18A to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-24566-01))
10.18B	Form of Performance-Based Restricted Stock Agreement for Executive Officers under the Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.18B to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 0-24566-01))

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Exhibit Number	Description
10.18C	Form of Restricted Stock Agreement for grants on December 2, 2009 to Mitchell Feiger, Jill E. York and Burton J. Field (incorporated herein by reference to Exhibit 10.18C to the Registrant s Current Report on Form 8-K filed on December 7, 2009 (File No. 0-24566-01))
10.19	Form of Restricted Stock Agreement for Directors under the Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.16 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 0-24566-01))
10.20	First Oak Brook Bancshares, Inc. Incentive Compensation Plan (incorporated herein by reference to Appendix A to the definitive proxy statement filed by First Oak Brook on March 30, 2004 (File No. 0-14468))
10.20A	Amendment to First Oak Brook Bancshares, Inc. Incentive Compensation Plan ((incorporated herein by reference to Exhibit 10.20A to the Registrant s Annual Report on Form 10-K/A for the year ended December 31, 2006, filed on March 2, 2007 (File No. 0-24566-01))
10.21	First Oak Brook Bancshares, Inc. 2001 Stock Incentive Plan (incorporated herein by reference to Appendix A to the definitive proxy statement filed by First Oak Brook on April 2, 2001 (File No. 0-14468))
10.21A	Amendment to First Oak Brook Bancshares, Inc. 2001 Stock Incentive Plan ((incorporated herein by reference to Exhibit 10.21A to the Registrant s Annual Report on Form 10-K/A for the year ended December 31, 2006, filed on March 2, 2007 (File No. 0-24566-01))
10.22	First Oak Brook Bancshares, Inc. Directors Stock Plan (incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form S-8 filed by First Oak Brook on October 25, 1999 (File No. 333-89647))
10.22A	Amendment to First Oak Brook Bancshares, Inc. Directors Stock Plan (incorporated herein by reference to Exhibit 10.22A to the Registrant s Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2007 filed on May 15, 2007 (File No. 0-24566-01))
10.23	Reserved.
10.24	Reserved.
10.25	Reserved.
10.26	Reserved.
10.27	First Oak Brook Bancshares, Inc. Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.3 to First Oak Brook s Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 0-14468))
10.27A	Amendment to First Oak Brook Bancshares, Inc. Executive Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.27A to the Registrant s Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2007 filed on May 15, 2007)

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Exhibit Number	Description
10.29	Form of Transitional Employment Agreement between the Registrant (as successor to First Oak Brook) and Rosemarie Bouman (incorporated herein by reference to Exhibit 10.10 to First Oak Brook s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-14468))
10.29A	First Amendment to Transitional Employment Agreement between the Registrant (as successor to First Oak Brook) and Rosemarie Bouman ((incorporated herein by reference to Exhibit 10.28A to the Registrant s Annual Report on Form 10-K/A for the year ended December 31, 2006, filed March 2, 2007 (File No. 0-24566-01))
10.29B	Second Amendment to Transitional Employment Agreement between the Registrant (as successor to First Oak Brook) and Rosemarie Bouman ((incorporated herein by reference to Exhibit 10.28B to the Registrant s Annual Report on Form 10-K/A for the year ended December 31, 2006, filed March 2, 2007 (File No. 0-24566-01))
31.1	Rule 13a 14(a)/15d 14(a) Certification (Chief Executive Officer)*
31.2	Rule 13a 14(a)/15d 14(a) Certification (Chief Financial Officer)*
32	Section 1350 Certifications*
101	The following financial statements from the MB Financial, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of cash flows and (iv) the notes to consolidated financial statements*

* Filed herewith.