MB FINANCIAL INC /MD
Form 10-Q
July 31, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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	36-4460265
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
800 West Madison Street, Chicago, Illinois	60607
(Address of principal executive offices)	(Zip Code)

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 issued and outstanding 54,813,659 shares of the Registrant's common stock as of July 31, 2013.

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MB FINANCIAL, INC. AND SUBSIDIARIES

FORM 10-Q

June 30, 2013

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

MB FINANCIAL, INC. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except common share data)

	(Unaudited) June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$152,302	$176,010
Interest earning deposits with banks	280,618	111,533
Total cash and cash equivalents	432,920	287,543
Federal funds sold	7,500	—
Investment securities:		
Securities available for sale, at fair value	1,645,672	1,868,171
Securities held to maturity, at amortized cost ($554,579 and $535,681 fair value at June 30, 2013 and December 31, 2012, respectively)	536,434	493,421
Non-marketable securities - FHLB and FRB stock	50,870	55,385
Total investment securities	2,232,976	2,416,977
Loans held for sale	2,528	7,492
Loans:		
Total loans, excluding covered loans	5,359,631	5,317,080
Covered loans	308,556	449,850
Total loans	5,668,187	5,766,930
Less: Allowance for loan loss	123,685	124,204
Net loans	5,544,502	5,642,726
Lease investment, net	113,958	129,823
Premises and equipment, net	219,783	221,533
Cash surrender value of life insurance	130,565	128,879
Goodwill	423,369	423,369
Other intangibles	26,430	29,512
Other real estate owned, net	32,993	36,977
Other real estate owned related to FDIC-assisted transactions	19,014	22,478
FDIC indemnification asset	16,337	39,345
Other assets	166,784	185,151
Total assets	$9,369,659	$9,571,805
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest bearing	$2,230,384	$2,164,547
Interest bearing	5,215,012	5,378,150
Total deposits	7,445,396	7,542,697
Short-term borrowings	230,547	220,602
Long-term borrowings	62,786	116,050
Junior subordinated notes issued to capital trusts	152,065	152,065
Accrued expenses and other liabilities	182,784	264,621
Total liabilities	8,073,578	8,296,035
STOCKHOLDERS' EQUITY		

Common stock, ($0.01 par value; authorized 70,000,000 shares at June 30, 2013 and December 31, 2012; issued 55,022,609 shares at June 30, 2013 and 54,955,284 shares at December 31, 2012)	550	550
Additional paid-in capital	736,281	732,771
Retained earnings	547,116	507,933
Accumulated other comprehensive income	14,231	36,326
Less: 182,831 and 170,567 shares of treasury stock, at cost, at June 30, 2013 and December 31, 2012, respectively	(3,558)	(3,293)
Controlling interest stockholders' equity	1,294,620	1,274,287
Noncontrolling interest	1,461	1,483
Total stockholders' equity	1,296,081	1,275,770
Total liabilities and stockholders' equity	$9,369,659	$9,571,805

See Accompanying Notes to Consolidated Financial Statements.

MB FINANCIAL, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share and per share data) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest income:				
Loans	$59,581	$69,250	$120,374	$140,898
Investment securities:				
Taxable	6,280	8,882	12,419	19,766
Nontaxable	8,163	7,303	16,224	14,042
Federal funds sold	2	—	2	—
Other interest earning accounts	92	158	227	327
Total interest income	74,118	85,593	149,246	175,033
Interest expense:				
Deposits	5,132	8,058	10,841	16,818
Short-term borrowings	116	362	283	568
Long-term borrowings and junior subordinated notes	1,390	3,069	2,957	6,450
Total interest expense	6,638	11,489	14,081	23,836
Net interest income	67,480	74,104	135,165	151,197
Provision for credit losses	500	—	500	3,100
Net interest income after provision for credit losses	66,980	74,104	134,665	148,097
Non-interest income:				
Capital markets and international banking fees	939	788	1,747	1,300
Commercial deposit and treasury management fees	6,029	5,784	11,995	11,682
Lease financing, net	15,102	7,334	31,365	14,292
Trust and asset management fees	4,874	4,535	9,368	8,939
Card fees	2,735	2,429	5,430	4,473
Loan service fees	1,911	1,267	2,922	2,334
Consumer and other deposit service fees	3,593	3,534	6,839	6,987
Brokerage fees	1,234	1,264	2,391	2,519
Net gain (loss) on investment securities	14	(34)	13	(37)
Increase in cash surrender value of life insurance	842	870	1,686	1,787
Net loss on sale of assets	—	(8)	—	(25)
Accretion of FDIC indemnification asset	100	222	243	697
Net gain (loss) recognized on other real estate owned	2,015	(5,441)	1,685	(12,030)
Net gain on sale of loans	506	554	1,145	928
Other operating income	1,060	809	2,498	2,915
Total non-interest income	40,954	23,907	79,327	46,761
Non-interest expenses:				
Salaries and employee benefits	43,909	40,146	87,423	80,575
Occupancy and equipment expense	9,408	9,188	18,812	18,758
Computer services and telecommunication expense	4,617	3,909	8,504	7,562
Advertising and marketing expense	2,167	1,839	4,270	3,912
Professional and legal expense	1,353	1,503	2,648	2,916
Other intangibles amortization expense	1,538	1,251	3,082	2,508
Other real estate expense, net	193	424	332	1,667
Other operating expenses	9,083	8,574	18,296	16,267
Total non-interest expenses	72,268	66,834	143,367	134,165

Income before income taxes	35,666	31,177	70,625	60,693
Income tax expense	10,373	9,034	20,426	17,464
Net income	$25,293	$22,143	$50,199	$43,229
Dividends and discount accretion on preferred shares	—	—	—	3,269
Net income available to common stockholders	$25,293	$22,143	$50,199	$39,960

See Accompanying Notes to Consolidated Financial Statements.

MB FINANCIAL, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS - (Continued)
(Amounts in thousands, except share and per share data) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Common share data:				
Basic earnings per common share	$0.46	$0.41	$0.92	$0.74
Diluted earnings per common share	0.46	0.41	0.92	0.73
Weighted average common shares outstanding for basic earnings per common share	54,436,043	54,174,717	54,423,992	54,165,286
Diluted weighted average common shares outstanding for diluted earnings per common share	54,868,075	54,448,709	54,802,427	54,431,491

See Accompanying Notes to Consolidated Financial Statements.

MB FINANCIAL, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$25,293	$22,143	$50,199	$43,229
Unrealized holding (losses) gains on investment securities, net of tax	(20,688)	1,080	(22,087)	(137)
Reclassification adjustments for (gains) losses included in net income, net of tax	(9)	20	(8)	22
Other comprehensive (loss) income, net of tax	(20,697)	1,100	(22,095)	(115)
Comprehensive income	$4,596	$23,243	$28,104	$43,114

See Accompanying Notes to Consolidated Financial Statements.

MB FINANCIAL, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2013 and 2012
(Amounts in thousands, except per share data) (Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Treasury Stock	Noncontrolling Interest	Total Stock-holders' Equity
Balance at December 31, 2011	$194,719	$548	$731,248	$427,956	$ 39,150	$(3,044)	$ 2,450	$1,393,027
Net income	—	—	—	43,229	—	—	141	43,370
Other comprehensive loss, net of tax	—	—	—	—	(115)	—	—	(115)
Cash dividends declared on common shares ($0.02 per share)	—	—	—	(1,096)	—	—	—	(1,096)
Dividends and discount accretion on preferred shares	1,281	—	—	(3,269)	—	—	—	(1,988)
Repurchase of preferred shares	(196,000)	—	(1,518)	—	—	—	—	(197,518)
Restricted common stock activity, net of tax	—	1	(175)	8	—	171	—	5
Stock option activity, net of tax	—	—	(62)	(16)	—	148	—	70
Repurchase of common shares in connection with employee benefit plans and held in trust for deferred compensation plan	—	—	303	—	—	(628)	—	(325)
Stock-based compensation expense	—	—	2,501	—	—	—	—	2,501
Distributions to noncontrolling interest	—	—	—	—	—	—	(180)	(180)
Balance at June 30, 2012	$—	$549	$732,297	$466,812	$ 39,035	$(3,353)	$ 2,411	$1,237,751
Balance at December 31, 2012	$—	$550	$732,771	$507,933	$ 36,326	$(3,293)	$ 1,483	$1,275,770
Net income	—	—	—	50,199	—	—	91	50,290
Other comprehensive loss, net of tax	—	—	—	—	(22,095)	—	—	(22,095)
Cash dividends declared on common shares ($0.20 per share)	—	—	—	(11,016)	—	—	—	(11,016)
Restricted common stock activity, net of tax	—	—	28	—	—	—	—	28
	—	—	780	—	—	464	—	1,244

Stock option activity, net of tax								
Repurchase of common shares in connection with employee benefit plans and held in trust for deferred compensation plan	—	—	230	—	—	(729)	—	(499)
Stock-based compensation expense	—	—	2,472	—	—	—	—	2,472
Distributions to noncontrolling interest	—	—	—	—	—	—	(113)	(113)
Balance at June 30, 2013	$—	$550	$736,281	$547,116	$ 14,231	$(3,558)	$ 1,461	$1,296,081

See Accompanying Notes to Consolidated Financial Statements.

MB FINANCIAL, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands) (Unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash Flows From Operating Activities		
Net income	$50,199	$43,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	8,539	7,538
Depreciation of leased equipment	16,477	19,549
Compensation expense for restricted stock awards	1,935	1,756
Compensation expense for stock option grants	537	745
Loss (gain) on sales of premises and equipment and leased equipment	238	(1,269)
Amortization of other intangibles	3,082	2,508
Provision for credit losses	500	3,100
Deferred income tax expense	3,613	13,341
Amortization of premiums and discounts on investment securities, net	23,801	21,007
Accretion of premiums and discounts on loans, net	(2,977)	(9,528)
Accretion of FDIC indemnification asset	(243)	(697)
Net (gain) loss on sale of investment securities available for sale	(13)	37
Proceeds from sale of loans held for sale	55,850	44,686
Origination of loans held for sale	(49,742)	(41,281)
Net gain on sale of loans held for sale	(1,145)	(928)
Net gain on sales of other real estate owned	(990)	(767)
Fair value adjustments on other real estate owned	(821)	9,271
Net loss on sales of other real estate owned related to FDIC-assisted transactions	126	3,526
Increase in cash surrender value of life insurance	(1,686)	(1,787)
Decrease (increase) in other assets, net	29,549	(40,986)
Decrease in other liabilities, net	(76,012)	(6,819)
Net cash provided by operating activities	60,817	66,231
Cash Flows From Investing Activities		
Increase in federal funds sold	(7,500)	—
Proceeds from sales of investment securities available for sale	949	4,637
Proceeds from maturities and calls of investment securities available for sale	309,299	284,934
Purchase of investment securities available for sale	(141,983)	(102,097)
Proceeds from maturities and calls of investment securities held to maturity	1,189	83
Purchase of investment securities held to maturity	(45,545)	(1,484)
Redemption of non-marketable securities - FHLB and FRB stock	4,515	19,394
Net decrease in loans	98,155	225,119
Purchases of premises and equipment	(7,896)	(11,818)
Purchases of leased equipment	(10,170)	(9,838)
Proceeds from sales of leased equipment	3,867	7,955
Capital improvements on other real estate owned	(8)	(1,326)
Proceeds from sale of other real estate owned	10,017	24,245
Proceeds from sale of other real estate owned related to FDIC-assisted transactions	7,074	11,163
Principal paid on lease investments	(191)	(1,483)
Net proceeds from FDIC related covered assets	13,419	58,758

Net cash provided by investing activities	235,191	508,242
Cash Flows From Financing Activities		
Net decrease in deposits	(97,301)	(176,898)
Net increase in short-term borrowings	9,945	41,775
Proceeds from long-term borrowings	3,265	1,735
Principal paid on long-term borrowings	(56,529)	(46,899)
Repurchase of preferred stock	—	(197,518)
Treasury stock transactions, net	(35)	(300)
Stock options exercised	1,013	202
Excess tax benefits from share-based payment arrangements	(98)	—
Dividends paid on preferred stock	—	(3,239)
Dividends paid on common stock	(10,891)	(1,084)
Net cash used in financing activities	(150,631)	(382,226)
Net increase in cash and cash equivalents	$145,377	$192,247
Cash and cash equivalents:		
Beginning of period	287,543	244,565
End of period	$432,920	$436,812

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MB FINANCIAL, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(Amounts in Thousands) (Unaudited)

	Six Months Ended June 30,	
	2013	2012
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest paid to depositors and other borrowed funds	$14,524	$24,468
Net income tax payments, net	35,024	2,401
Supplemental Schedule of Noncash Investing Activities:		
Investment securities available for sale purchased not settled	$3,026	$—
Investment securities held to maturity purchased not settled	1,606	—
Loans transferred to other real estate owned	4,214	2,661
Loans transferred to other real estate owned related to FDIC-assisted transactions	4,797	10,387
Loans transferred to repossessed vehicles	313	443
Operating leases rewritten as direct finance leases included as loans	6,777	9,479

See Accompanying Notes to Consolidated Financial Statements.

MB FINANCIAL, INC. & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 and six months ended June 30, 2013 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. generally accepted accounting principles (“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, 2012 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. New Authoritative Accounting Guidance

ASC Topic 805 “Business Combinations.” New authoritative accounting guidance under ASC Topic 805, “Business Combinations” amended prior guidance on the subsequent accounting for an indemnification asset recognized at the acquisition date as a result of a government-assisted (Federal Deposit Insurance Corporation) acquisition of a financial institution that includes a loss-sharing agreement. The new authoritative guidance requires that at each subsequent reporting date, an acquirer measure an indemnification asset on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount, and, for an indemnification asset that is not subsequently measured at fair value, management's assessment of the collectability of the indemnification asset. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). The Company adopted this new authoritative guidance on January 1, 2013, and it did not have an impact on the Company's statements of operations and financial condition.

ASC Topic 210 “Disclosures about Offsetting Assets and Liabilities.” New authoritative accounting guidance under ASC Topic 210, “Disclosures about Offsetting Assets and Liabilities” amended prior guidance to require an entity to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The instruments and transactions would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. This new authoritative guidance was further amended to clarify the scope of offsetting disclosures. The Company adopted the new authoritative guidance on January 1, 2013, and it did not have an impact on the Company's statements of operations and financial condition. See disclosures in Note 15.

ASC Topic 220 “Comprehensive Income.” New authoritative accounting guidance under ASC Topic 220, “Comprehensive Income” amended prior guidance to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount reclassified is required under U.S. GAAP. The Company adopted this new authoritative guidance on January 1, 2013, and it did not have an impact on the Company's statements of operations and financial condition.

ASC Topic 815 “Derivatives and Hedging.” New authoritative accounting guidance under ASC Topic 815, “Derivatives and Hedging” amended prior guidance to permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest

rate for hedge accounting purposes, in addition to U.S. government treasury obligation rates and London Interbank Offered Rate swap rate. The amendments also remove the restriction on using different benchmark rates for similar hedges. The new authoritative guidance will be effective prospectively for new and redesignated hedging relationships entered into on or after July 17, 2013 and is not expected to have an impact on the Company's statements of operations and financial condition.

ASC Topic 710 "Income Taxes." New authoritative accounting guidance under ASC Topic 710, "Income Taxes" amended prior guidance to include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The new authoritative guidance will be for reporting periods after January 1, 2014 and is not expected to have an impact on the Company's statements of operations and financial condition.

Note 3. 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 are issued until the settlement of such units, 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 common 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.

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Distributed earnings allocated to common stock	$5,509	$548	$11,016	$1,096
Undistributed earnings	19,784	21,595	39,183	42,133
Net income	25,293	22,143	50,199	43,229
Less: preferred stock dividends and discount accretion	—	—	—	3,269
Net income available to common stockholders	25,293	22,143	50,199	39,960
Less: earnings allocated to participating securities	—	1	1	2
Earnings allocated to common stockholders	$25,293	$22,142	$50,198	$39,958
Weighted average shares outstanding for basic earnings per common share	54,436,043	54,174,717	54,423,992	54,165,286
Dilutive effect of equity awards	432,032	273,992	378,435	266,205
Weighted average shares outstanding for diluted earnings per common share	54,868,075	54,448,709	54,802,427	54,431,491
Basic earnings per common share	$0.46	$0.41	$0.92	$0.74
Diluted earnings per common share	0.46	0.41	0.92	0.73

Note 4. Business Combinations

The following business combination was accounted for under the purchase method of accounting. Accordingly, the results of operations of the acquired company have been included in the Company's results of operations since the date of acquisition. Under this method of accounting, assets and liabilities acquired are recorded at their estimated fair values, net of applicable income tax effects. The excess cost over fair value of net assets acquired is recorded as goodwill. In the event that the fair value of net assets acquired exceeds the cost, the Company will record a gain on the acquisition.

On December 28, 2012, MB Financial Bank acquired a 100% equity interest in Celtic Leasing Corp. ("Celtic"), a privately held, mid-ticket equipment leasing company. Celtic specializes in solutions for the health care, legal, technology, and manufacturing industries. MB Financial Bank estimated contingent consideration related to the transaction which may be paid out at future dates. This consideration is based on the performance of lease residual values which will be determined in future years over an earn-out period. As the consideration paid for Celtic exceeded the net assets acquired, goodwill was recorded on the acquisition. Goodwill recorded in the transaction is not tax deductible. The purchase accounting entries are preliminary for lease loans, goodwill and other intangibles, as MB Financial Bank continues to analyze the portfolios and the underlying risks and collateral values of the assets. After the purchase accounting is finalized, the impact of any future changes to the amount of contingent consideration will be reflected in the statement of operations.

Estimated fair values of the assets acquired and liabilities assumed in the Celtic transaction, as of the closing date of the transaction were as follows (in thousands):

Assets Acquired and Liabilities Assumed
(Dollar Amounts in Thousands)

	Celtic December 28, 2012
ASSETS	
Cash and cash equivalents	$31,647
Investment securities available for sale	635
Loans and leases	32,933
Premises and equipment	81
Goodwill	36,300
Other intangibles	5,028
Other assets	27,323
Total assets	$133,947
LIABILITIES	
Accrued expenses and other liabilities	$75,290
Total liabilities	$75,290
Cash paid on acquisition	$58,657
Net gain recorded on acquisition	$—

Note 5. Investment Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013				
Available for Sale				
U.S. Government sponsored agencies and enterprises	$32,050	$1,885	$—	$33,935
States and political subdivisions	669,791	23,807	(8,888)	684,710
Residential mortgage-backed securities	639,681	10,575	(2,398)	647,858
Commercial mortgage-backed securities	51,000	2,343	—	53,343
Corporate bonds	219,362	153	(4,259)	215,256
Equity securities	10,560	14	(4)	10,570
	1,622,444	38,777	(15,549)	1,645,672
Held to Maturity				
States and political subdivisions	282,655	5,367	(2,118)	285,904
Residential mortgage-backed securities	253,779	14,896	—	268,675
	536,434	20,263	(2,118)	554,579
Total	$2,158,878	$59,040	$(17,667)	$2,200,251
December 31, 2012				
Available for Sale				
U.S. Government sponsored agencies and enterprises	$38,605	$2,710	$—	$41,315
States and political subdivisions	679,991	45,571	(543)	725,019
Residential mortgage-backed securities	930,413	14,038	(5,249)	939,202
Commercial mortgage-backed securities	51,100	3,026	—	54,126
Corporate bonds	97,014	213	(553)	96,674
Equity securities	11,398	447	(10)	11,835
	$1,808,521	$66,005	$(6,355)	$1,868,171
Held to Maturity				
States and political subdivisions	237,563	21,039	—	258,602
Residential mortgage-backed securities	255,858	21,221	—	277,079
	493,421	42,260	—	535,681
Total	$2,301,942	$108,265	$(6,355)	$2,403,852

We do not have any meaningful direct or indirect holdings of subprime residential mortgage loans, home equity lines of credit, or any Fannie Mae or Freddie Mac preferred or common equity securities in our investment portfolio.

The Company has no direct exposure to the State of Illinois, but approximately 27% of the state and political subdivisions portfolio consists of securities issued by municipalities located in Illinois as of June 30, 2013. Approximately 89% of such securities were general obligation issues as of June 30, 2013.

Unrealized losses on investment securities and the fair value of the related securities at June 30, 2013 were 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	$211,864	$(8,888)	$—	$—	$211,864	$(8,888)
Residential mortgage-backed securities	175,399	(2,385)	8,885	(13)	184,284	(2,398)
Corporate bonds	181,399	(4,259)	—	—	181,399	(4,259)
Equity securities	379	(4)	—	—	379	(4)
	569,041	(15,536)	8,885	(13)	577,926	(15,549)
Held to maturity						
States and political subdivisions	51,797	(2,118)	—	—	51,797	(2,118)
	51,797	(2,118)	—	—	51,797	(2,118)
Totals	$620,838	$(17,654)	$8,885	$(13)	$629,723	$(17,667)

Unrealized losses on investment securities and the fair value of the related securities at December 31, 2012 were 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	$57,540	$(543)	$—	$—	$57,540	$(543)
Residential mortgage-backed securities	270,539	(5,083)	16,434	(166)	286,973	(5,249)
Corporate bonds	58,241	(553)	—	—	58,241	(553)
Equity securities	30	(10)	—	—	30	(10)
Totals	$386,350	$(6,189)	$16,434	$(166)	$402,784	$(6,355)

The total number of security positions in the investment portfolio in an unrealized loss position at June 30, 2013 was 346 compared to 117 at December 31, 2012. 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 June 30, 2013, 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. Accordingly, as of June 30, 2013, management believes the impairments detailed in the table above are temporary.

Changes in market interest rates can significantly influence the fair value of securities, as we have a large longer term municipal security portfolio that would decline substantially in value if interest rates increase materially.

Net gains (losses) recognized on investment securities available for sale were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Realized gains	$14	$190	$14	$190
Realized losses	$—	$—	$(1)	$(3)
Impairment charges	—	(224)	—	(224)
Net gains (losses)	$14	$(34)	$13	$(37)

The amortized cost and fair value of investment securities as of June 30, 2013 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	$29,181	$29,685
Due after one year through five years	461,592	475,066
Due after five years through ten years	123,899	126,020
Due after ten years	306,531	303,130
Equity securities	10,560	10,570
Residential and commercial mortgage-backed securities	690,681	701,201
	1,622,444	1,645,672
Held to maturity:		
Due in one year or less	1,203	1,215
Due after one year through five years	3,897	3,872
Due after five years through ten years	25,484	25,476
Due after ten years	252,071	255,341
Residential mortgage-backed securities	253,779	268,675
	536,434	554,579
Total	$2,158,878	$2,200,251

Investment securities available for sale with carrying amounts of $998.6 million and $989.6 million at June 30, 2013 and December 31, 2012, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

Note 6. Loans

Loans consist of the following at (in thousands):

	June 30, 2013	December 31, 2012
Commercial loans	$1,198,862	$1,220,472
Commercial loans collateralized by assignment of lease payments	1,422,901	1,303,020
Commercial real estate	1,710,964	1,761,832
Residential real estate	305,710	314,359
Construction real estate	121,420	110,261
Indirect vehicle	242,964	208,633
Home equity	281,334	305,186
Other consumer loans	75,476	93,317
Gross loans, excluding covered loans	5,359,631	5,317,080
Covered loans	308,556	449,850
Total loans(1)	$5,668,187	$5,766,930

(1) Gross loan balances at June 30, 2013 and December 31, 2012 are net of unearned income, including net deferred loan fees of $1.3 million and $1.1 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.

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 Loans. Commercial credit is extended primarily to middle market customers. Such credits are typically comprised of 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' principal 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 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. 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.

Consumer Related Loans. The Company originates direct and indirect consumer loans including primarily 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 involves the use of risk-based pricing in the underwriting process.

The following table presents the contractual aging of the recorded investment in past due loans by class of loans as of June 30, 2013 and December 31, 2012 (in thousands):

	Current	30-59 Days Past Due	60-89 Days Past Due	Loans past due 90 days or more	Total Past Due	Total
June 30, 2013						
Commercial	$1,190,831	$ 1,893	$ 5,185	$ 953	$8,031	$1,198,862
Commercial collateralized by assignment of lease payments	1,405,186	6,835	9,887	993	17,715	1,422,901
Commercial real estate						
Healthcare	194,529	—	—	3,164	3,164	197,693
Industrial	391,283	4,825	3,793	2,589	11,207	402,490
Multifamily	318,582	3,413	305	2,802	6,520	325,102
Retail	348,487	956	577	8,707	10,240	358,727
Office	163,852	4,921	1,362	4,977	11,260	175,112
Other	239,779	4,241	1,220	6,600	12,061	251,840
Residential real estate	293,567	1,022	1,415	9,706	12,143	305,710
Construction real estate	115,243	3,837	—	2,340	6,177	121,420
Indirect vehicle	240,866	1,672	287	139	2,098	242,964
Home equity	269,882	3,233	1,609	6,610	11,452	281,334
Other consumer	75,410	56	3	7	66	75,476
Gross loans, excluding covered loans	5,247,497	36,904	25,643	49,587	112,134	5,359,631
Covered loans	188,281	5,035	22,667	92,573	120,275	308,556
Total loans (1)	$5,435,778	$ 41,939	$ 48,310	$ 142,160	$232,409	$5,668,187
Nonperforming loan aging	$65,835	$ 609	$ 6,474	$ 42,330	$49,413	$115,248
Non-covered loans related to FDIC transactions (2)	$14,351	$ 437	$ —	$ 7,257	$7,694	$22,045
December 31, 2012						
Commercial	$1,215,957	$ 639	$ 754	$ 3,122	$4,515	$1,220,472
Commercial collateralized by assignment of lease payments	1,288,341	11,252	2,847	580	14,679	1,303,020
Commercial real estate						
Healthcare	192,039	—	—	3,238	3,238	195,277
Industrial	402,813	548	424	7,700	8,672	411,485
Multifamily	353,966	1,282	—	3,103	4,385	358,351
Retail	375,900	6,933	518	9,331	16,782	392,682
Office	186,665	742	280	1,125	2,147	188,812
Other	210,456	851	1,837	2,081	4,769	215,225
Residential real estate	306,927	382	1,248	5,802	7,432	314,359
Construction real estate	106,158	1,139	97	2,867	4,103	110,261
Indirect vehicle	206,126	1,588	498	421	2,507	208,633
Home equity	291,737	3,557	1,888	8,004	13,449	305,186
Other consumer	93,266	47	—	4	51	93,317
Gross loans, excluding covered loans	5,230,351	28,960	10,391	47,378	86,729	5,317,080
Covered loans	301,260	5,831	7,478	135,281	148,590	449,850
Total loans (1)	$5,531,611	$ 34,791	$ 17,869	$ 182,659	$235,319	$5,766,930
Nonperforming loan aging	$69,836	$ 3,171	$ 3,718	$ 40,261	$47,150	$116,986
	$12,752	$ 312	$ 1,542	$ 7,115	$8,969	$21,721

Non-covered loans related to FDIC transactions (2)

(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.

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 June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013		December 31, 2012	
	Nonaccrual	Loans past due 90 days or more and still accruing	Nonaccrual	Loans past due 90 days or more and still accruing
Commercial	$23,122	$9	$23,886	$229
Commercial collateralized by assignment of lease payments	2,819	18	1,180	222
Commercial real estate:				
Healthcare	3,164	—	3,238	—
Industrial	10,857	602	19,179	147
Multifamily	5,886	—	7,225	—
Office	10,078	—	3,263	—
Retail	6,605	37	17,019	—
Other	24,166	940	9,437	—
Residential real estate	11,783	716	10,943	—
Construction real estate	519	—	1,028	—
Indirect vehicles	1,334	—	1,494	—
Home equity	12,582	—	17,486	1,000
Other consumer	11	—	9	1
Total	$112,926	$2,322	$115,387	$1,599

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 potential problem and 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.

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 June 30, 2013 and December 31, 2012 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2013					
Commercial	$1,110,754	$19,560	$68,548	$—	$1,198,862
Commercial collateralized by assignment of lease payments	1,414,314	1,434	7,153	—	1,422,901
Commercial real estate					
Healthcare	170,879	21,482	2,168	3,164	197,693
Industrial	355,711	15,539	31,240	—	402,490
Multifamily	307,766	1,170	16,166	—	325,102
Retail	328,177	11,835	18,715	—	358,727
Office	141,762	3,723	29,627	—	175,112
Other	210,827	5,020	35,993	—	251,840
Construction real estate	108,557	6,072	6,791	—	121,420
Total	$4,148,747	$85,835	$216,401	$3,164	$4,454,147
December 31, 2012					
Commercial	$1,136,294	$33,068	$50,895	$215	$1,220,472
Commercial collateralized by assignment of lease payments	1,292,241	3,322	7,457	—	1,303,020
Commercial real estate					
Healthcare	170,265	21,774	—	3,238	195,277
Industrial	355,218	15,243	41,024	—	411,485
Multifamily	318,991	25,297	14,063	—	358,351
Retail	340,919	25,096	26,667	—	392,682
Office	159,056	7,120	22,636	—	188,812
Other	193,824	2,553	18,848	—	215,225
Construction real estate	97,724	552	11,985	—	110,261
Total	$4,064,532	$134,025	$193,575	$3,453	$4,395,585

Approximately $87.8 million and $85.5 million of the substandard and doubtful loans were non-performing as of June 30, 2013 and December 31, 2012, respectively.

For residential real estate, home equity, indirect vehicle and other consumer 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 June 30, 2013 and December 31, 2012 (in thousands):

	Performing	Non-performing	Total
June 30, 2013			
Residential real estate	$293,211	$12,499	$305,710
Indirect vehicles	241,630	1,334	242,964
Home equity	268,752	12,582	281,334
Other consumer	75,465	11	75,476
Total	$879,058	$26,426	$905,484
December 31, 2012			

Residential real estate	$303,416	$10,943	$314,359
Indirect vehicles	207,139	1,494	208,633
Home equity	286,700	18,486	305,186
Other consumer	93,307	10	93,317
Total	$890,562	$30,933	$921,495

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013							
					Three Months Ended		Six Months Ended	
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:								
Commercial	$5,817	$5,736	$81	$—	$5,808	$—	$7,819	$—
Commercial collateralized by assignment of lease payments	681	681	—	—	96	—	48	—
Commercial real estate:								
Healthcare	—	—	—	—	—	—	5,441	—
Industrial	7,847	7,225	622	—	8,196	—	10,034	—
Multifamily	758	758	—	—	767	—	777	—
Retail	2,553	2,093	460	—	2,657	—	3,067	—
Office	689	689	—	—	762	—	1,128	—
Other	17,303	17,301	2	—	8,289	—	5,513	—
Residential real estate	2,698	2,312	386	—	2,666	—	2,201	—
Construction real estate	—	—	—	—	—	—	—	—
Indirect vehicles	—	—	—	—	—	—	—	—
Home equity	577	577	—	—	577	—	1,022	—
Other consumer	—	—	—	—	—	—	—	—
With an allowance recorded:								
Commercial	17,555	17,387	168	6,544	14,901	—	14,411	—
Commercial collateralized by assignment of lease payments	2,354	2,354	—	420	1,612	41	1,188	49
Commercial real estate:								
Healthcare	10,869	3,164	7,705	500	10,917	—	5,489	—
Industrial	3,633	3,633	—	1,834	3,689	—	3,882	—
Multifamily	6,924	6,539	385	2,041	6,784	55	6,761	109
Retail	15,026	13,140	1,886	1,760	12,176	—	13,468	—
Office	6,193	5,916	277	2,014	6,403	—	4,724	—
Other	6,948	6,864	84	1,302	6,952	4	6,689	8
Residential real estate	13,078	12,329	749	2,958	12,718	—	13,204	—
	4,016	1,650	2,366	251	1,779	—	2,041	—

Construction real estate								
Indirect vehicles	12	11	1	—	14	—	7	—
Home equity	24,308	23,531	777	685	24,763	—	24,739	—
Other consumer	—	—	—	—	—	—	—	—
Total	$ 149,839	$ 133,890	$ 15,949	$ 20,309	$ 132,526	$ 100	$ 133,653	$ 166

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	December 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	$10,993	$9,505	$1,488	$ —	$14,089	$105
Commercial collateralized by assignment of lease payments	390	390	—	—	278	9
Commercial real estate:						
Healthcare	10,943	3,238	7,705	—	2,751	—
Industrial	16,891	14,940	1,951	—	16,374	29
Multifamily	800	800	—	—	1,340	14
Retail	5,372	4,917	455	—	9,241	—
Office	1,568	1,568	—	—	1,151	—
Other	4,860	4,860	—	—	6,005	—
Residential real estate	3,097	2,711	386	—	6,476	—
Construction real estate	—	—	—	—	577	—
Indirect vehicles	—	—	—	—	—	—
Home equity	2,558	2,558	—	—	8,976	—
Other consumer	—	—	—	—	182	—
With an allowance recorded:						
Commercial	14,484	14,381	103	3,620	8,455	—
Commercial collateralized by assignment of lease payments	885	885	—	188	1,130	73
Commercial real estate:						
Healthcare	—	—	—	—	3,901	—
Industrial	5,525	4,238	1,287	1,255	2,443	—
Multifamily	8,233	7,249	984	2,284	5,847	130
Retail	23,144	17,257	5,887	3,604	10,058	—
Office	1,706	1,695	11	522	1,904	—
Other	4,661	4,577	84	1,263	6,082	16
Residential real estate	10,565	10,565	—	2,858	3,417	—
Construction real estate	4,552	2,167	2,385	497	3,775	—
Indirect vehicles	—	—	—	—	—	—
Home equity	13,765	13,763	2	850	4,800	—
Other consumer	—	—	—	—	—	—
Total	$144,992	$122,264	$22,728	$ 16,941	$119,252	$376

Impaired loans included accruing restructured loans of $28.3 million and $21.3 million that have been modified and are performing in accordance with those modified terms as of June 30, 2013 and December 31, 2012, respectively. In addition, impaired loans included $20.9 million and $28.4 million of non-performing, restructured loans as of June 30, 2013 and December 31, 2012, respectively.

Loans may be restructured in an effort to maximize collections from financially distressed borrowers. 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. Residential real estate loans are restructured in an effort to minimize losses while allowing borrowers to remain in their primary residences when possible. Programs that we offer to residential real estate borrowers include the Home Affordable Refinance Program (“HARP”) and a restructuring program similar to the Home

Affordable Modification Program ("HAMP") for first mortgage borrowers as well as the Second Lien Modification Program ("2MP") and similar programs for home equity borrowers in keeping with the restructuring techniques discussed above.

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

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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. As of June 30, 2013, there were no A/B structures. As of December 31, 2012 there was approximately $3.1 million in recorded investment in relation to one A/B structure.

A loan classified as a troubled debt restructuring will no longer be included in the troubled debt restructuring disclosures in the years after the restructuring if the loan performs in accordance with the terms specified by the restructuring agreement and the interest rate specified in the restructuring agreement represents a market rate at the time of modification. The specified interest rate is considered a market rate when the interest rate is equal or greater than the rate the Company is willing to accept at the time of restructuring for a new loan with comparable risk. If there are concerns that the borrower would not be able to meet the modified terms of the loan, the loan would continue to be included in the troubled debt restructuring disclosures.

Impairment analyses on commercial-related loans classified as troubled debt restructurings are performed in conjunction with the normal allowance for loan loss process. Consumer loans classified as troubled debt restructurings are aggregated in two pools that share common risk characteristics, home equity and residential real estate loans, with impairment measured on a quarterly basis based on the present value of expected future cash flows discounted at the loan's effective interest rate.

The following table presents loans that have been restructured during the three months ended June 30, 2013 (dollars in thousands):

	June 30, 2013			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Commercial real estate:				
Multifamily	1	$601	$601	$—
Residential real estate	1	281	281	—
Home equity	1	156	156	—
Total	3	$1,038	$1,038	$—
Non-Performing:				
Commercial	1	$1,209	$1,209	$660
Commercial real estate:				
Industrial	4	2,570	2,570	1,425
Residential real estate	1	424	424	—
Indirect vehicle	3	14	14	—
Home equity	4	831	831	—
Total	13	$5,048	$5,048	$2,085

The following table presents loans that have been restructured during the six months ended June 30, 2013 (dollars in thousands):

	June 30, 2013			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Commercial real estate:				
Multifamily	1	$601	$601	$—
Residential real estate	4	$760	$760	$—
Home equity	6	704	704	—
Total	11	$2,065	$2,065	$—
Non-Performing:				
Commercial	2	$1,251	$1,251	$673
Commercial real estate:				
Industrial	4	2,570	2,570	1,425
Multifamily	1	187	187	50
Retail	2	657	657	179
Other	1	84	84	23
Residential real estate	5	755	755	—
Indirect vehicle	3	14	14	—
Home equity	20	2,936	2,936	—
Total	38	$8,454	$8,454	$2,350

The following table presents loans that have been restructured during the three months ended June 30, 2012 (dollars in thousands):

	June 30, 2012			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Residential real estate	2	$808	$808	$—
Home equity	9	1,211	1,211	—
Total	11	$2,019	$2,019	$—
Non-Performing:				
Commercial	2	$107	$107	$35
Commercial real estate:				
Retail	1	122	122	32
Other	1	157	157	50
Residential real estate	6	464	333	131
Home equity	24	4,027	3,746	281
Total	34	$4,877	$4,465	$529

The following table presents loans that have been restructured during the six months ended June 30, 2012 (dollars in thousands):

	June 30, 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	—
Residential real estate	2	$808	$808	$—
Home equity	31	5,608	5,608	—
Total	35	$6,807	$6,807	$—
Non-Performing:				
Commercial	4	$292	$292	$96
Commercial real estate:				
Multifamily	1	149	149	40
Retail	3	721	721	32
Other	1	157	157	50
Residential real estate	6	464	333	131
Home equity	29	4,977	4,667	310
Total	44	$6,760	$6,319	$659

Of the troubled debt restructurings entered into during the past twelve months, none subsequently defaulted during the six months ended June 30, 2013. Performing troubled debt restructurings are considered to have defaulted when they become 90 days or more past due post restructuring or are placed on non-accrual status.

The following tables present the troubled debt restructurings activity during the six months ended June 30, 2013 (dollars in thousands):

	Performing	Non-performing
Beginning balance	$21,256	$28,418
Additions	2,065	8,454
Charge-offs	—	(2,973)
Principal payments, net	(571)	(6,942)
Removals	—	(305)
Transfer to other real estate owned	—	(206)
Transfer from/to performing	6,228	708
Transfer from/to nonperforming	(708)	(6,228)
Ending balance	$28,270	$20,926

Approximately $6.2 million of non-performing troubled debt restructurings were transferred to performing status. A majority of these loans were identified as non-performing troubled debt restructurings during the first half of 2012 and have performed in accordance with the modified terms. The loans continue to be reported as performing troubled debt restructurings. The loans transferred to nonperforming in the table above were restructured in 2010 and 2011.

Loans removed from trouble debt restructuring status are those that were restructured in a previous calendar year at a market rate of interest and have performed in compliance with the modified terms.

The following table presents the type of modification for loans that have been restructured and the post-modification recorded investment during the six months ended June 30, 2013 (dollars in thousands):

	June 30, 2013						
	Extended Maturity, Amortization and Reduction of Interest Rate	Extended Maturity and Amortization	Extended Maturity and Reduction of Interest Rate	Extended Maturity and Delay in Payments	Extended Maturity	Delay in Payments or Reduction of Interest Rate	Total
Commercial	$42	$—	$1,209	$—	$—	$—	$1,251
Commercial real estate:							
Industrial	—	—	—	—	2,570	—	2,570
Multifamily	187	—	—	—	601	—	788
Retail	256	—	401	—	—	—	657
Other	84	—	—	—	—	—	84
Residential real estate	897	—	—	—	—	618	1,515
Indirect vehicle	—	—	—	—	—	14	14
Home equity	1,282	—	661	—	227	1,470	3,640
Total	$2,748	$—	$2,271	$—	$3,398	$2,102	$10,519

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 June 30, 2013 and 2012 (in thousands):

	Commercial	Commercial collateralized by assignment of lease payments	Commercial real estate	Residential real estate	Construction real estate	Indirect vehicles	Home equity	Other Consumer	Unfunded Commitments	Total
June 30, 2013										
Allowance for credit losses:										
Three Months Ended										
Beginning balance	$24,154	$8,099	$63,147	$6,648	$9,170	$1,399	$7,902	$1,283	$2,931	$124,73
Transfer to (from) allowance for unfunded credit commitments	—	—	—	—	500	—	—	—	(500)	—
Charge-offs	433	—	1,978	399	747	629	1,323	451	—	5,960
Recoveries	777	987	3,647	199	131	324	100	59	—	6,224
Provision	2,779	(557)	(4,802)	1,673	(359)	443	1,527	415	(619)	500
Ending balance	$27,277	$8,529	$60,014	$8,121	$8,695	$1,537	$8,206	$1,306	$1,812	$125,49
Six Months Ended										
Beginning balance	$24,943	$7,755	$61,056	$6,941	$11,222	$1,324	$9,401	$1,562	$4,075	$128,27
Transfer to (from) allowance for unfunded credit commitments	—	—	—	—	500	—	—	—	(500)	—
Charge-offs	1,344	—	3,895	1,361	829	1,358	2,110	1,016	—	11,913
Recoveries	1,229	1,131	4,387	413	407	739	214	111	—	8,631
Provision	2,449	(357)	(1,534)	2,128	(2,605)	832	701	649	(1,763)	500
Ending balance	$27,277	$8,529	$60,014	$8,121	$8,695	$1,537	$8,206	$1,306	$1,812	$125,49
Ending allowance balance attributable to loans:										
	$6,544	$420	$9,451	$2,958	$251	$—	$685	$—	$875	$21,184

Individually evaluated for impairment										
Collectively evaluated for impairment	19,989	8,109	47,652	5,163	8,444	1,537	7,521	1,306	937	100,658
Acquired and accounted for under ASC 310-30 (1)	744	—	2,911	—	—	—	—	—	—	3,655
Total ending allowance balance	$27,277	$8,529	$60,014	$8,121	$8,695	$1,537	$8,206	$1,306	$1,812	$125,49
Loans:										
Individually evaluated for impairment	$23,123	$3,035	$67,322	$14,641	$1,650	$11	$24,108	$—	$—	$133,89
Collectively evaluated for impairment	1,157,459	1,419,866	1,643,642	287,304	119,770	242,953	257,226	75,476	—	5,203,69
Acquired and accounted for under ASC 310-30 (1)	46,738	—	177,966	6,297	67,911	—	149	31,540	—	330,601
Total ending loans balance	$1,227,320	$1,422,901	$1,888,930	$308,242	$189,331	$242,964	$281,483	$107,016	$—	$5,668,1

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	Commercial	Commercial collateralized by assignment of lease payments	Commercial real estate	Residential real estate	Construction real estate	Indirect vehicles	Home equity	Other Consumer	Unfunded Commitments	Total
June 30, 2012										
Allowance for credit losses:										
Three Months Ended										
Beginning balance	$19,159	$7,490	$74,602	$3,015	$11,155	$1,826	$7,026	$1,158	$7,824	$133,25
Charge-offs	1,451	1,720	2,415	1,108	444	488	876	274	—	8,776
Recoveries	386	93	3,062	188	141	300	99	92	—	4,361
Provision	2,695	1,627	(6,536)	1,497	(266)	303	1,368	52	(740)	—
Ending balance	$20,789	$7,490	$68,713	$3,592	$10,586	$1,941	$7,617	$1,028	$7,084	$128,84
Six Months Ended										
Beginning balance	$21,106	$7,561	$68,695	$3,935	$15,639	$1,834	$7,333	$695	$9,177	$135,97
Transfer to (from) allowance for unfunded credit commitments	—	—	—	—	1,132	—	—	—	(1,132)	—
Charge-offs	1,990	1,720	5,418	1,402	3,880	1,203	1,948	532	—	18,093
Recoveries	2,424	349	3,224	222	706	611	119	203	—	7,858
Provision	(751)	1,300	2,212	837	(3,011)	699	2,113	662	(961)	3,100
Ending balance	$20,789	$7,490	$68,713	$3,592	$10,586	$1,941	$7,617	$1,028	$7,084	$128,84
Ending allowance balance attributable to loans:										
Individually evaluated for impairment	$2,640	$200	$9,399	$—	$875	$—	$560	$—	$3,230	$16,904
Collectively evaluated for impairment	17,863	7,290	57,830	3,052	9,711	1,941	7,057	1,028	3,854	109,626
Acquired and accounted for under ASC 310-30 (1)	286	—	1,484	540	—	—	—	—	—	2,310
	$20,789	$7,490	$68,713	$3,592	$10,586	$1,941	$7,617	$1,028	$7,084	$128,84

Total ending allowance balance										
Loans:										
Individually evaluated for impairment	$21,278	$1,113	$63,395	$7,491	$2,622	$—	$9,262	$243	$—	$105,40
Collectively evaluated for impairment	1,037,737	1,220,086	1,731,382	301,472	148,043	198,848	313,972	88,872	—	5,040,41
Acquired and accounted for under ASC 310-30 (1)	86,524	—	290,337	7,613	151,907	—	617	40,435	—	577,433
Total ending loans balance	$1,145,539	$1,221,199	$2,085,114	$316,576	$302,572	$198,848	$323,851	$129,550	$—	$5,723,2

(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 and six months ended June 30, 2013 there was a negative provision for credit losses of $1.4 million and $1.0 million, respectively, and net recoveries of $962 thousand and $153 thousand, respectively, in relation to 15 pools of purchased loans with a total carrying amount of $247.3 million as of June 30, 2013. There was $3.7 million in allowance for loan losses related to these purchased loans at June 30, 2013 and $4.5 million at December 31, 2012. The provision for credit losses and accompanying charge-offs are included in the table above.

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 and six months ended June 30, 2013 and 2012 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	$4,320	$13,330	$5,685	$18,703
Accretion	(1,422)	(4,033)	(2,879)	(9,406)
Other	3,462	114	3,554	114
Balance at end of period	$6,360	$9,411	$6,360	$9,411

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.

The carrying amount of covered loans and other purchased non-covered loans at June 30, 2013 consisted of purchased credit-impaired loans and non-credit-impaired loans as shown in the following table (in thousands):

June 30, 2013	Purchased Credit-Impaired Loans	Purchased Non-Credit-Impaired Loans	Total
Covered loans:			
Commercial related (1)	$16,838	$5,868	$22,706
Commercial	1,914	3,837	5,751
Commercial real estate	69,034	108,933	177,967
Construction real estate	57,854	10,057	67,911
Other	3,284	30,937	34,221
Total covered loans	$148,924	$159,632	$308,556
Estimated receivable amount from the FDIC under the loss-share agreement (2)	$8,534	$6,592	$15,126
Non covered loans:			
Commercial related (3)	$4,115	$14,165	$18,280
Other	89	3,676	3,765
Total non-covered loans	$4,204	$17,841	$22,045

(1) Covered commercial related loans include commercial, commercial real estate and construction real estate loans acquired in connection with the Heritage and Benchmark FDIC-assisted transactions.

(2) Estimated reimbursable amounts from the FDIC under the loss-share agreement exclude $1.2 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 $351.2 million and $515.7 million as of June 30, 2013 and December 31, 2012, respectively. The related carrying amount on loans purchased from the FDIC was $330.6 million and $471.6 million as of June 30, 2013 and December 31, 2012, respectively.

Note 7. 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 to determine potential impairment annually, or more frequently if events and circumstances indicate that goodwill might be impaired, by comparing the carrying value of the reporting unit with the fair value of the reporting unit.

The Company's annual assessment date is as of December 31. No impairment losses were recognized during the three or six months ended June 30, 2013 or 2012. 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 $423.4 million at June 30, 2013 and December 31, 2012.

The Company has other intangible assets consisting of core deposit and client relationship intangibles that had a remaining weighted average amortization period of approximately four years, as of June 30, 2013.

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The following table presents the changes in the carrying amount of core deposit and client relationship intangibles, gross carrying amount, accumulated amortization, and net book value as of June 30, 2013 (in thousands):

	Six Months Ended June 30, 2013
Balance at beginning of period	$29,512
Amortization expense	(3,082)
Balance at end of period	$26,430
Gross carrying amount	$61,429
Accumulated amortization	(34,999)
Net book value	$26,430

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

Year ending December 31,	Amount
2013	$3,002
2014	4,748
2015	4,030
2016	3,418
2017	3,071
Thereafter	8,161
	$26,430

Note 8. Deposits

The composition of deposits was as follows (in thousands):

	June 30, 2013	December 31, 2012
Demand deposit accounts, noninterest bearing	$2,230,384	$2,164,547
NOW and money market accounts	2,718,989	2,747,273
Savings accounts	845,742	811,333
Certificates of deposit, $100,000 or more	941,819	1,020,033
Other certificates of deposit	708,462	799,511
Total	$7,445,396	$7,542,697

Certificates of deposit of $100,000 or more included $292.5 million and $294.2 million of brokered deposits at June 30, 2013 and December 31, 2012, respectively. Brokered deposits typically consist of smaller individual time certificates that have the same liquidity characteristics and yields consistent with time certificates of $100,000 or more.

Note 9. Short-Term Borrowings

Short-term borrowings were as follows as of June 30, 2013 and December 31, 2012 (dollars in thousands):

	June 30, 2013			December 31, 2012		
	Weighted Average Cost		Amount	Weighted Average Cost		Amount
Customer repurchase agreements	0.22	%	$230,297	0.23	%	$208,242
Federal Home Loan Bank advances	3.98	%	250	3.58	%	12,360
	0.22	%	$230,547	0.42	%	$220,602

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 securities sold under agreements to repurchase are recorded on the face of the balance sheet.

The Company had a Federal Home Loan Bank fixed rate advance with a maturity date less than one year of $250 thousand at June 30, 2013 and $12.4 million in fixed rate advances at December 31, 2012. At June 30, 2013, the interest rate on this advance was 3.98% and matures in July 2013.

On March 9, 2012, the Company entered into a $35.0 million unsecured line of credit with a correspondent bank. Interest is payable at a rate of one month LIBOR + 2.00%. As of June 30, 2013, no amount was outstanding. The line originally matured on March 8, 2013, was renewed and is scheduled to mature on March 7, 2014.

Note 10. Long-term Borrowings

The Company had Federal Home Loan Bank advances with original contractual maturities greater than one year of $4.4 million at June 30, 2013 and December 31, 2012. As of June 30, 2013, the advances had fixed terms with effective interest rates, net of discounts, ranging from 3.23% to 5.87% and maturities ranging from April 2021 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 June 30, 2013 and December 31, 2012, the Company had $7.7 million and $28.4 million, respectively, of loans pledged as collateral for long-term Federal Home Loan Bank advances. Additionally, as of June 30, 2013 and December 31, 2012, the Company had $29.3 million and $32.1 million, respectively, of investment securities pledged as collateral for advances from the Federal Home Loan Bank.

The Company had notes payable to banks totaling $18.0 million and $21.1 million at June 30, 2013 and December 31, 2012, respectively, which as of June 30, 2013, were accruing interest at rates ranging from 2.50% to 12.00%. Lease investments includes equipment with an amortized cost of $26.0 million and $29.7 million at June 30, 2013 and December 31, 2012, respectively, that is pledged as collateral on these notes.

The Company had a $40.0 million 10-year structured repurchase agreement as of June 30, 2013, which bears interest at a fixed rate borrowing of 4.75% and expires in 2016.

During the first quarter of 2013, MB Financial Bank pre-paid a $50.0 million subordinated debt facility. Interest was payable at a rate of 3-month LIBOR +1.70%.

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.

The table below summarizes the outstanding junior subordinated notes and the related trust preferred securities issued by each trust as of June 30, 2013 (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

	MB Financial Capital Trust V	MB Financial Capital Trust VI	FOBB Statutory Trust III (2)
Junior Subordinated Notes:			
Principal balance	$30,928	$23,196	$5,155
Annual interest rate	3-mo LIBOR + 1.30%	3-mo LIBOR + 1.30%	3-mo LIBOR + 2.80%
Stated maturity date	December 15, 2037	October 30, 2037	January 23, 2034
Call date	December 15, 2012	October 30, 2012	January 23, 2009
Trust Preferred Securities:			
Face Value	$30,000	$22,500	$5,000
Annual distribution rate	3-mo LIBOR + 1.30%	3-mo LIBOR + 1.30%	3-mo LIBOR + 2.80%
Issuance date	September 2007	October 2007	December 2003
Distribution dates (1)	Quarterly	Quarterly	Quarterly

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

(2) FOBB Statutory Trust III was established by First Oak Brook Bancshares, Inc. ("FOBB") prior to the Company's acquisition of FOBB, and the junior subordinated note issued by FOBB to FOBB Statutory Trust III was 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 could have been 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.

Note 12. 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 June 30, 2013 and December 31, 2012, the following financial instruments were outstanding, the contractual amounts of which represent off-balance sheet credit risk (in thousands):

	Contractual Amount	
	June 30, 2013	December 31, 2012
Commitments to extend credit:		
Home equity lines	$227,894	$239,771
Other commitments	1,100,409	911,166
Letters of credit:		
Standby	70,058	66,247
Commercial	1,326	465

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. 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 June 30, 2013, the maximum remaining term for any standby letters of credit was December 31, 2020. 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 June 30, 2013, 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 $4.7 million to $71.4 million from $66.7 million at December 31, 2012. Of the $71.4 million in commitments outstanding at June 30, 2013, approximately $36.3 million of the letters of credit have been issued or renewed since December 31, 2012.

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 June 30, 2013, 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. As of June 30, 2013, approximately 27% of our investments in securities issued by states and political subdivisions were within the state of Illinois. We did not hold any direct exposure to the state of Illinois as of June 30, 2013. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

Standby letters of credit are granted primarily to commercial borrowers. Lease banking provides banking services to lessors located throughout the United States. Our leasing subsidiaries originate leases to companies located through the United States.

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.

Note 13. Fair Value Measurements

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,

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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 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.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012, 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)
June 30, 2013				
Financial assets				
Securities available for sale:				
U.S Government sponsored agencies and enterprises	$33,935	$ —	$33,935	$ —
States and political subdivisions	684,710	—	684,710	—
Residential mortgage-backed securities	647,858	—	647,090	768
Commercial mortgage-backed securities	53,343	—	53,343	—
Corporate bonds	215,256	—	210,074	5,182
Equity securities	10,570	10,570	—	—
Loans held for sale	2,528	—	2,528	—
Assets held in trust for deferred compensation	9,634	9,634	—	—
Derivative financial instruments	19,661	—	19,661	—
Financial liabilities				
Other liabilities (1)	9,367	9,367	—	—
Derivative financial instruments	19,589	—	19,589	—
December 31, 2012				
Financial assets				
Securities available for sale:				
U.S. Government sponsored agencies and enterprises	$41,315	$ —	$41,315	$ —
States and political subdivisions	725,019	—	725,019	—
Residential mortgage-backed securities	939,202	—	938,354	848
Commercial mortgage-backed securities	54,126	—	54,126	—
Corporate bonds	96,674	—	91,451	5,223
Equity securities	11,835	11,835	—	—
Loans held for sale	7,492	—	7,492	—
Assets held in trust for deferred compensation	7,746	7,746	—	—
Derivative financial instruments	29,096	—	29,096	—
Financial liabilities				
Other liabilities (1)	7,746	7,746	—	—
Derivative financial instruments	29,055	—	29,055	—

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

The following table presents additional information about the unobservable inputs used in the fair value measurement of financial assets measured on a recurring basis that were categorized within the Level 3 of the fair value hierarchy:

	Fair Value at June 30, 2013	Valuation Technique	Unobservable Input	Range
Residential mortgage-backed securities	$768	Discounted cash flows	Constant pre-payment rates (CPR) assumption	1% - 3% CPR
Corporate bonds	5,182	Discounted cash flows	Credit assumption	20% Loss

The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during the three and six months ended June 30, 2013. 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.

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):

	Six Months Ended June 30,	
(in thousands)	2013	2012
Balance, beginning of period	$6,071	$6,992
Other comprehensive income	(41)	37
Principal payments	(80)	(336)
Impairment charge	—	(117)
Balance, ending of period	$5,950	$6,576

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. GAAP. 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. 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 where an allowance is established based on the fair value of collateral (approximately 85%), 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. Non-financial long-lived assets, when determined to be impaired, are measured and reported at fair value using Level 3 inputs based on customized discounting criteria.

Assets measured at fair value on a nonrecurring basis as of June 30, 2013 and December 31, 2012 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)
June 30, 2013				
Financial assets:				
Impaired loans	$77,802	$ —	$—	$ 77,802
Non-financial assets:				
Foreclosed assets	52,756	—	—	52,756
December 31, 2012				
Financial assets:				
Impaired loans	$62,258	$ —	$—	$ 62,258
Non-financial assets:				
Foreclosed assets	60,228	—	—	60,228
Long-lived assets	2,314	—	—	2,314

The following table presents additional information about the unobservable inputs used in the fair value measurement of financial assets measured on a nonrecurring basis that were categorized within the Level 3 of the fair value hierarchy:

	Fair Value at June 30, 2013	Valuation Technique	Unobservable Input	Range
Impaired loans	$77,802	Appraisal of collateral	Appraisal adjustments - sales costs	5% - 10%
Foreclosed assets	52,756	Appraisal of collateral	Appraisal adjustments - sales costs	5% - 10%

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.

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.

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.

Off-balance-sheet instruments: Fair values for the Company’s off-balance-sheet lending commitments (guarantees, letters of credit and commitments to extend credit) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements.

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

	June 30, 2013				
	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	$152,302	$152,302	$ 152,302	$ —	$ —
Interest bearing deposits with banks	280,618	280,618	280,618	—	—
Investment securities available for sale	1,645,672	1,645,672	10,570	1,629,152	5,950
Investment securities held to maturity	536,434	554,579	—	554,579	—
Non-marketable securities - FHLB and FRB stock	50,870	50,870	—	—	50,870
Loans held for sale	2,528	2,528	—	2,528	—
Loans, net	5,544,502	5,548,892	—	—	5,548,892
Accrued interest receivable	35,500	35,500	35,500	—	—
Derivative financial instruments	19,661	19,661	—	19,661	—
Financial Liabilities:					
Non-interest bearing deposits	$2,230,384	$2,230,384	$ 2,230,384	$ —	$ —
Interest bearing deposits	5,215,012	5,224,332	—	—	5,224,332
Short-term borrowings	230,547	230,539	—	—	230,539
Long-term borrowings	62,786	68,099	—	—	68,099
	152,065	105,921	—	—	105,921

Junior subordinated notes issued to capital trusts					
Accrued interest payable	2,385	2,385	2,385	—	—
Derivative financial instruments	19,589	19,589	—	19,589	—

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	December 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	$176,010	$176,010	$ 176,010	$ —	$ —
Interest bearing deposits with banks	111,533	111,533	111,533	—	—
Investment securities available for sale	1,868,171	1,868,171	11,835	1,850,265	6,071
Investment securities held to maturity	493,421	535,681	—	535,681	—
Non-marketable securities - FHLB and FRB stock	55,385	55,385	—	—	55,385
Loans held for sale	7,492	7,492	—	7,492	—
Loans, net	5,642,726	5,659,598	—	—	5,659,598
Accrued interest receivable	36,040	36,040	36,040	—	—
Derivative financial instruments	29,096	29,096	—	29,096	—
Financial Liabilities:					
Non-interest bearing deposits	$2,164,547	$2,164,547	$ 2,164,547	$ —	$ —
Interest bearing deposits	5,378,150	5,399,709	—	—	5,399,709
Short-term borrowings	220,602	220,683	—	—	220,683
Long-term borrowings	116,050	117,809	—	—	117,809
Junior subordinated notes issued to capital trusts	152,065	104,009	—	—	104,009
Accrued interest payable	2,828	2,828	2,828	—	—
Derivative financial instruments	29,055	29,055	—	29,055	—

Note 14. Stock Incentive Plans

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Total cost of share-based payment plans during the period	$1,212	$1,236	$2,472	$2,501
Amount of related income tax benefit recognized in income	482	495	983	$1,001

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-1basis. As of June 30, 2013, there were 2,244,042 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 over four years of service and have 10-year contractual terms. Restricted shares and units typically vest over a two or four year period. Equity awards may also be granted at other times throughout the year in connection with the recruitment and retention of officers and employees. 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 shares, which vests one year after the grant date.

The following table summarizes stock options outstanding for the six months ended June 30, 2013:

	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, 2012	2,739,753	$27.34		
Granted	19,761	25.51		
Exercised	(59,970)	23.59		
Expired or cancelled	(96,098)	30.26		
Forfeited	(7,454)	19.07		
Options outstanding as of June 30, 2013	2,595,992	$27.33	4.40	$7,734
Options exercisable as of June 30, 2013	1,940,132	$30.28	3.26	$2,347

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 volatility and the expectations of future volatility 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 six months ended June 30, 2013:

	June 30, 2013	
Risk-free interest rate	0.96	%
Expected volatility of Company's stock	25.50	%
Expected dividend yield	1.55	%
Expected life of options	4.0 years	
Weighted average fair value per option of options granted during the year	$4.59	

The total intrinsic value of options exercised during the six months ended June 30, 2013 and 2012 was $127 thousand and $46 thousand, respectively.

The following is a summary of changes in restricted shares and units for the six months ended June 30, 2013:

	Number of Shares and Units		Weighted Average Grant Date Fair Value
Shares Outstanding at December 31, 2012	634,211		$18.82
Granted	33,023		23.54
Vested	(13,229	)	19.90
Forfeited	(7,727	)	20.05
Shares Outstanding at June 30, 2013	646,278		$19.03

During 2012, the Company issued 65,333 market-based restricted stock units which entitle recipients to shares of common stock at the end of a three year vesting period. Recipients will earn shares, totaling between 0% and 175% of the number of units issued, based on the Company's total stockholder return relative to a specified peer group of financial institutions over the three year period. The market-based restricted stock units are included in the preceding table as if the recipients earned shares equal to 100% of the units issued. A Monte Carlo simulation model was used to value the market-based restricted stock units at the time of issuance.

The Company issued 92,717 shares and 66,193 shares of market-based restricted stock in 2011 and 2010, 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 and $25.80 for awards issued in 2010. The market components for awards issued in 2011 and 2010 have not been satisfied as of June 30, 2013. 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, 2013, the Company issued 876 shares of Salary Stock at a weighted average issuance price of $22.39 and subsequently ended the issuance of new shares of Salary Stock.

As of June 30, 2013, there was $8.1 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 June 30, 2013, the weighted-average period over which the unrecognized compensation expense is expected to be recognized was approximately 2.4 years.

Note 15. Derivative Financial Instruments

The Company offers various derivatives, including interest rate swaps and foreign currency forward contracts, to our customers which can mitigate our exposure to market risk through the execution of off-setting positions with inter-bank dealer counterparties. This also permits the Company to offer customized risk management solutions to our customers. These customer accommodations and any offsetting financial contracts are treated as non-designated derivative instruments and carried at fair value through an adjustment to the income statement.

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 receivable as of June 30, 2013 was approximately $41 thousand, and the net amount payable as of December 31, 2012 was approximately $30 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 June 30, 2013, the Company’s credit exposure relating to interest rate swaps was approximately $18.4 million, which is secured by the underlying collateral on customer loans.

The Company also enters into mortgage banking derivatives which are designated as non-designated 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 $258 thousand at June 30, 2013. 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.

The Company’s derivative financial instruments are summarized below as of June 30, 2013 and December 31, 2012 (in thousands):

	Asset Derivatives				Liability Derivatives			
	June 30, 2013		December 31, 2012		June 30, 2013		December 31, 2012	
	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)	$—	$—	$—	$—	$258	$(28)	$3,707	$(94)
Stand-alone derivative instruments (2)								
Interest rate swap contracts	529,117	18,281	460,956	27,740	530,118	(18,350)	462,012	(27,832)
Interest rate options contracts	72,519	235	70,346	157	72,519	(235)	70,346	(157)
Foreign exchange contracts	20,289	1,016	20,033	1,062	16,823	(910)	19,337	(961)

Mortgage banking derivatives	7,950	129	11,400	137	6,028	(66)	4,000	(11)
Total non-hedging derivative instruments	629,875	19,661	562,735	29,096	625,488	(19,561)	555,695	(28,961)
Total	$629,875	$19,661	$562,735	$29,096	$625,746	$(19,589)	$559,402	$(29,055)

(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 operations related to derivative financial instruments were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Derivative instruments designated as hedges of fair value:				
Interest rate swap contracts	$11	$(268)	$10	$(330)
Stand-alone derivative instruments				
Interest rate swap contracts	12	240	23	306
Interest rate options contracts	—	—	—	—
Foreign exchange contracts	—	28	5	30
Mortgage banking derivatives	(51)	43	(64)	70
Total non-hedging derivative instruments	(39)	311	(36)	406
Total	$(28)	$43	$(26)	$76

Methods and assumptions used by the Company in estimating the fair value of its interest rate swaps are discussed in Note 13 to consolidated financial statements.

Certain instruments and transactions subject to an agreement similar to a master netting arrangement are eligible for offset in the consolidated balance sheet. The instruments and transactions would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The Company’s derivative transactions with financial institution counterparties are generally executed under International Swaps and Derivative Association (“ISDA”) master agreements which include “right of set-off” provisions. Under these agreements, there is generally a legally enforceable right to offset recognized amounts, and there may be an intention to settle such amounts on a net basis. The Company, however, does not generally offset such financial instruments for financial reporting purposes.

Information about the Company's financial instruments that are eligible for offset in the consolidated balance sheet as of June 30, 2013 is summarized below (in thousands):

	Financial Assets			Financial Liabilities		
	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized
Derivatives:						
Interest rate swaps, caps and floors	$3,806	$—	$3,806	$14,807	$—	$14,807
Foreign currency forward contracts	133	—	133	803	—	803
Mortgage banking derivatives	103	—	103	1	—	1
Total derivatives	4,042	—	4,042	15,611	—	15,611
Repurchase agreements	—	—	—	230,297	—	230,297
Total	$4,042	$—	$4,042	$245,908	$—	$245,908

	Financial Assets				Financial Liabilities			
	Net Amount Recognized	Financial Instruments	Collateral	Net Amount	Net Amount Recognized	Financial Instruments	Collateral	Net Amount
Derivatives:								
Counterparty A	$440	$(440)	$—	$—	$13,869	$(440)	$(13,429)	$—
Counterparty B	1,211	(25)	—	1,186	25	(25)	—	—
Counterparty C	1,734	(1,704)	—	30	1,704	(1,704)	—	—
Other counterparties	657	(1)	—	656	13	(1)	—	12
Total derivatives	4,042	(2,170)	—	1,872	15,611	(2,170)	(13,429)	12
Repurchase agreements	—	—	—	—	230,297	—	(230,297)	—
Total	$4,042	$(2,170)	$—	$1,872	$245,908	$(2,170)	$(243,726)	$12

Information about the Company's financial instruments that are eligible for offset in the consolidated balance sheet as of December 31, 2012 is summarized below (in thousands):

	Financial Assets			Financial Liabilities		
	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized
Derivatives:						
Interest rate swaps, caps and floors	$192	$—	$192	$27,890	$—	$27,890
Foreign currency forward contracts	43	—	43	929	—	929
Mortgage banking derivatives	1	—	1	11	—	11
Total derivatives	236	—	236	28,830	—	28,830
Repurchase agreements	—	—	—	208,242	—	208,242
Total	$236	$—	$236	$237,072	$—	$237,072

	Financial Assets				Financial Liabilities			
	Net Amount Recognized	Financial Instruments	Collateral	Net Amount	Net Amount Recognized	Financial Instruments	Collateral	Net Amount
Derivatives:								
Counterparty A	$68	$(68)	$—	$—	$25,497	$(68)	$(25,429)	$—
Counterparty B	84	(84)	—	—	633	(84)	(549)	—
Counterparty C	36	(36)	—	—	2,305	(36)	(2,269)	—
Other counterparties	48	(42)	—	6	395	(42)	(298)	55
Total derivatives	236	(230)	—	6	28,830	(230)	(28,545)	55
Repurchase agreements	—	—	—	—	208,242	—	(208,242)	—
Total	$236	$(230)	$—	$6	$237,072	$(230)	$(236,787)	$55

Note 16. Common and Preferred Stock

In 2008, the Company issued 196,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("the Series A Preferred Stock"), liquidation amount $1,000 per share, for an aggregate purchase price of $196.0 million as part of the Troubled Asset Relief Program (“TARP”) Capital Purchase Program of the United States Department of the Treasury (the “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 10 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 the Warrant in full for approximately $1.5 million.

Note 17. Subsequent Events

On July 14, 2013, the Company and Taylor Capital Group, Inc. (“Taylor Capital”) entered into an Agreement and Plan of Merger (the "Merger Agreement") whereby the Company will acquire Taylor Capital. The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Taylor Capital will merge with and into the Company, with the Company as the surviving corporation in the Merger. Immediately following the Merger, Taylor Capital's wholly owned subsidiary bank, Cole Taylor Bank, will merge with the Company's wholly owned subsidiary bank, MB Financial Bank. Cole Taylor Bank is a commercial bank headquartered in Chicago with $5.9 billion in assets, $3.3 billion in loans and $3.7 billion in deposits as of June 30, 2013.

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each share of Taylor Capital common stock and each share of Taylor Capital nonvoting preferred stock will be converted into the right to receive, promptly following the Effective Time, (1) 0.64318 of a share of the Company's common stock and (2) $4.08 in cash. All "in-the-money" Taylor Capital stock options and warrants outstanding immediately prior to the Effective Time will be canceled in exchange for a cash payment as provided in the Merger Agreement, as will all then-outstanding unvested restricted stock awards of Taylor Capital; however, the cash consideration paid for such restricted stock awards will remain subject to vesting or other lapse restrictions. Each share of Taylor Capital's Perpetual Non-Cumulative Preferred Stock, Series A, will be exchanged for a share of a series of preferred stock of the Company with substantially identical terms. The Merger Agreement provides that any shares of Taylor Capital's Fixed Rate Cumulative Perpetual Preferred Stock, Series B, that are not redeemed by Taylor Capital prior to the Merger will be exchanged for a series of preferred stock of the Company with substantially identical terms and repurchased or redeemed by the Company at or promptly after the Effective Time.

The merger is subject to regulatory approvals, approval by the Company's stockholders, approval by Taylor Capital stockholders and certain other customary closing conditions and is expected to close in the first half of 2014. In addition, it is a condition to the Company's obligation to complete the Merger that the shares of Taylor Capital

common stock and Taylor Capital nonvoting preferred stock whose holders have perfected appraisal rights under Delaware law represent less than nine percent of the total number of outstanding shares of Taylor Capital common stock and Taylor Capital nonvoting preferred stock.

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 non-interest income and non-interest expenses. During the periods under report, non-interest income included revenue from our key fee initiatives: capital markets and international banking fees, commercial deposit and treasury management fees, net lease financing income, trust and asset management fees, and card fees. Non-interest income also included loan service fees, consumer and other deposit service fees, brokerage fees, net gain (loss) on investment securities, increase in cash surrender value of life insurance, net loss on sale of assets, accretion of the FDIC indemnification asset, net gain (loss) recognized on other real estate owned, net gains on sale of loans and other operating income. During the periods under report, non-interest expenses included salaries and employee benefits, occupancy and equipment expense, computer services and telecommunication expense, advertising and marketing expense, professional and legal expense, other intangibles amortization expense, other real estate expenses (net of rental income) and other operating expenses. Additionally, dividends on preferred shares reduced net income available to common stockholders for the six months ended June 30, 2012.

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. Non-interest income and non-interest expenses are impacted by growth of operations and growth in the number of loan and deposit accounts through both acquisitions and core banking business growth. Growth in operations affects other expenses primarily as a result of additional employee, branch facility and promotional marketing expense. Growth 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. Non-performing asset levels impact salaries and benefits, legal expenses and other real estate owned expenses.

The Company had net income and net income available to common stockholders of $25.3 million for the three months ended June 30, 2013 compared to net income and net income available to common stockholders of $22.1 million for the three months ended June 30, 2012. Fully diluted earnings per common share were $0.46 for the three months ended June 30, 2013 compared to $0.41 per common share for the three months ended June 30, 2012.

The Company had net income and net income available to common stockholders of $50.2 million for the six months ended June 30, 2013 compared to net income of $43.2 million and net income available to common stockholders of $40.0 million for the six months ended June 30, 2012. Fully diluted earnings per common share were $0.92 for the six months ended June 30, 2013 compared to $0.73 per common share for the six months ended June 30, 2012.

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 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, management's evaluation process used to determine the adequacy of the allowance for loan losses 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 June 30, 2013, the aggregate residual value of the equipment leased under our direct finance, leveraged, and operating leases totaled $74.3 million. See Note 1 and Note 6 of our December 31, 2012 audited consolidated financial statements contained in our Annual Report Form 10-K for the year ended December 31, 2012 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 June 30, 2013, the Company had $106 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 June 30,

2013, the Company had approximately $11 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 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.

See Note 13 to the consolidated financial statements for a complete discussion on the Company’s use of fair valuation of assets and liabilities and the related measurement techniques.

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 8 of our December 31, 2012 audited consolidated financial statements contained in our Annual Report Form 10-K for the year ended December 31, 2012 for further information regarding core deposit and client relationship intangibles. The Company reviews goodwill to determine potential impairment annually, or more frequently if events and circumstances indicate that goodwill might be impaired, by comparing the carrying value of the reporting unit with the fair value of the reporting unit.

The Company’s annual assessment date for goodwill impairment testing is as of December 31. No impairment losses were recognized during the three and six months ended June 30, 2013 and 2012.

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 credit losses, fee income growth and operating expense growth. Our future cash flow estimates assumed a similar economic environment to what we experienced in 2012.

Recent Accounting Pronouncements. Refer to Note 2 of our consolidated financial statements for a description of recent accounting pronouncements including the respective dates of adoption and effects on results of operations and financial condition.

Net Interest Income

The following tables present, for the periods indicated, the total dollar amount of interest income from average interest earning assets and the related yields, as well as the interest expense on average interest bearing liabilities, and the related costs, expressed both in dollars and rates (dollars in thousands). The tables below and the discussion that follows contain presentations of net interest income and net interest margin on a tax-equivalent basis, which is adjusted for the tax-favored status of income from certain loans and investments. We believe this measure to be the preferred industry measurement of net interest income, as it provides a relevant comparison between taxable and non-taxable amounts.

Reconciliations of net interest income and net interest margin on a tax-equivalent basis to net interest income and net interest margin in accordance with accounting principles generally accepted in the United States of America are provided in the table.

(dollars in thousands)	Three Months Ended June 30, 2013			2012		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest Earning Assets:						
Loans (1) (2) (3)	$5,320,472	$57,356	4.32 %	$5,446,689	$67,160	4.96 %
Loans exempt from federal income taxes (4)	310,751	3,423	4.36	269,521	3,215	4.72
Taxable investment securities	1,377,369	6,280	1.82	1,542,905	8,882	2.30
Investment securities exempt from federal income taxes (4)	933,442	12,559	5.38	809,005	11,235	5.55
Federal funds sold	2,879	2	0.27	—	—	—
Other interest bearing deposits	183,010	92	0.20	244,087	158	0.26
Total interest earning assets	8,127,923	$79,712	3.93	8,312,207	$90,650	4.39
Non-interest earning assets	1,161,459			1,166,273		
Total assets	$9,289,382			$9,478,480		
Interest Bearing Liabilities:						
Deposits:						
NOW and money market deposit	$2,675,189	$833	0.12 %	$2,607,238	$1,045	0.16 %
Savings deposit	840,154	136	0.06	785,427	213	0.11
Time deposits	1,700,970	4,163	0.98	2,222,313	6,800	1.23
Short-term borrowings	189,029	116	0.24	228,086	362	0.64
Long-term borrowings and junior subordinated notes	214,839	1,390	2.56	391,560	3,069	3.10
Total interest bearing liabilities	5,620,181	$6,638	0.47	6,234,624	$11,489	0.74
Non-interest bearing deposits	2,179,284			1,900,937		
Other non-interest bearing liabilities	192,553			119,252		
Stockholders' equity	1,297,364			1,223,667		
Total liabilities and stockholders' equity	$9,289,382			$9,478,480		
Net interest income/interest rate spread (5)		$73,074	3.46 %		$79,161	3.65 %
Less: taxable equivalent adjustment		5,594			5,057	
Net interest income, as reported		$67,480			$74,104	
Net interest margin (6)			3.33 %			3.59 %
Tax equivalent effect			0.28 %			0.24 %
Net interest margin on a fully tax equivalent basis (6)			3.61 %			3.83 %

(1) Non-accrual loans are included in average loans.
(2) Interest income includes amortization of deferred loan origination fees of $817 thousand and $839 thousand for the three months ended June 30, 2013 and 2012, 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.

Net interest income on a fully tax equivalent basis decreased $6.1 million during the three months ended June 30, 2013 compared to the three months ended June 30, 2012, primarily due to lower average earning asset balances (as a result of a decrease in covered loans) as well as the decline in net interest margin. The net interest margin, expressed

on a fully tax equivalent basis, was 3.61% for the second quarter of 2013 and 3.83% for the second quarter of 2012.

(dollars in thousands)	Six Months Ended June 30, 2013			2012		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest Earning Assets:						
Loans (1) (2) (3)	$5,341,062	$115,892	4.38 %	$5,495,092	$136,717	5.00 %
Loans exempt from federal income taxes (4)	311,128	6,895	4.41	264,777	6,433	4.81
Taxable investment securities	1,430,539	12,419	1.74	1,622,835	19,766	2.44
Investment securities exempt from federal income taxes (4)	922,652	24,960	5.41	775,788	21,603	5.57
Federal funds sold	1,448	2	0.27	—	—	—
Other interest bearing deposits	189,994	227	0.24	251,219	327	0.26
Total interest earning assets	8,196,823	$160,395	3.95	8,409,711	$184,846	4.42
Non-interest earning assets	1,172,219			1,197,880		
Total assets	$9,369,042			$9,607,591		
Interest Bearing Liabilities:						
Deposits:						
NOW and money market deposit	$2,706,170	$1,759	0.13 %	$2,628,455	$2,252	0.17 %
Savings deposit	831,233	272	0.07	778,881	461	0.12
Time deposits	1,753,640	8,810	1.01	2,277,265	14,105	1.25
Short-term borrowings	190,458	282	0.30	221,149	568	0.52
Long-term borrowings and junior subordinated notes	231,770	2,958	2.54	404,791	6,450	3.15
Total interest bearing liabilities	5,713,271	$14,081	0.50	6,310,541	$23,836	0.76
Non-interest bearing deposits	2,162,266			1,876,074		
Other non-interest bearing liabilities	204,318			127,832		
Stockholders' equity	1,289,187			1,293,144		
Total liabilities and stockholders' equity	$9,369,042			$9,607,591		
Net interest income/interest rate spread (5)		$146,314	3.45 %		$161,010	3.66 %
Less: taxable equivalent adjustment		11,149			9,813	
Net interest income, as reported		$135,165			$151,197	
Net interest margin (6)			3.33 %			3.62 %
Tax equivalent effect			0.27 %			0.23 %
Net interest margin on a fully tax equivalent basis (6)			3.60 %			3.85 %

(1) Non-accrual loans are included in average loans.
(2) Interest income includes amortization of deferred loan origination fees of $1.8 million and $1.7 million for the six months ended June 30, 2013 and 2012, 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.

Net interest income on a fully tax equivalent basis decreased $14.7 million during the six months ended June 30, 2013 compared to the six months ended June 30, 2012, primarily due to lower average earning asset balances (as a result of a decrease in covered loans) as well as the decline in net interest margin. The net interest margin, expressed on a fully

tax equivalent basis, was 3.60% for the six months ended June 30, 2013 and 3.85% for the six months ended June 30, 2012.

Non-interest Income

	Three Months Ended June 30,			
	2013	2012	Increase/ (Decrease)	Percentage Change
Non-interest income (in thousands):				
Capital markets and international banking fees	$939	$788	$151	19.2 %
Commercial deposit and treasury management fees	6,029	5,784	245	4.2 %
Lease financing, net	15,102	7,334	7,768	105.9 %
Trust and asset management fees	4,874	4,535	339	7.5 %
Card fees	2,735	2,429	306	12.6 %
Loan service fees	1,911	1,267	644	50.8 %
Consumer and other deposit service fees	3,593	3,534	59	1.7 %
Brokerage fees	1,234	1,264	(30)	(2.4)%
Net gain (loss) on investment securities	14	(34)	48	141.2 %
Increase in cash surrender value of life insurance	842	870	(28)	(3.2)%
Net loss on sale of assets	—	(8)	8	100.0 %
Accretion of FDIC indemnification asset	100	222	(122)	(55.0)%
Net gain (loss) recognized on other real estate owned	2,015	(5,441)	7,456	137.0 %
Net gain on sale of loans	506	554	(48)	(8.7)%
Other operating income	1,060	809	251	31.0 %
Total non-interest income	$40,954	$23,907	$17,047	71.3 %

Non-interest income increased by $17.0 million, or 71.3%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012, driven by revenue from our key fee initiatives.

- Net lease financing revenue increased as a result of the increase related to remarketing gains and fees from the sale of equipment maintenance contracts as well as the impact of leasing revenues attributed to Celtic.
- Non-interest income was also impacted by gains recognized on other real estate owned in the second quarter of 2013 compared to losses recognized on other real estate owned in the second quarter of 2012.
- Loan service fees increased due to an increase in letter of credit fees.

	Six Months Ended June 30,			
	2013	2012	Increase/ (Decrease)	Percentage Change
Non-interest income (in thousands):				
Capital markets and international banking fees	$1,747	$1,300	$447	34.4 %
Commercial deposit and treasury management fees	11,995	11,682	313	2.7 %
Lease financing, net	31,365	14,292	17,073	119.5 %
Trust and asset management fees	9,368	8,939	429	4.8 %
Card fees	5,430	4,473	957	21.4 %
Loan service fees	2,922	2,334	588	25.2 %
Consumer and other deposit service fees	6,839	6,987	(148)	(2.1)%
Brokerage fees	2,391	2,519	(128)	(5.1)%
Net gain (loss) on investment securities	13	(37)	50	135.1 %
Increase in cash surrender value of life insurance	1,686	1,787	(101)	(5.7)%
Net loss on sale of assets	—	(25)	25	100.0 %
Accretion of FDIC indemnification asset	243	697	(454)	(65.1)%
Net gain (loss) recognized on other real estate owned	1,685	(12,030)	13,715	114.0 %
Net gain on sale of loans	1,145	928	217	23.4 %
Other operating income	2,498	2,915	(417)	(14.3)%
Total non-interest income	$79,327	$46,761	$32,566	69.6 %

Non-interest income increased by $32.6 million, or 69.6%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012, driven by revenue from our key fee initiatives.

- Net lease financing income increased as a result of the increase in remarketing gains and fees from the sale of equipment maintenance contracts, as well as the impact on leasing revenues attributable to Celtic.
- Non-interest income was also impacted by gains recognized on other real estate owned in 2013, compared to losses recognized on other real estate owned during 2012.
- Card fee income increased due to fees earned on prepaid, debit and credit cards.
- Capital markets and international banking service fees increased primarily due to an increased in interest rate swap fees.

Non-interest Expenses

	Three Months Ended June 30,			
	2013	2012	Increase/ (Decrease)	Percentage Change
Non-interest expenses (in thousands):				
Salaries and employee benefits	$43,909	$40,146	$3,763	9.4 %
Occupancy and equipment expense	9,408	9,188	220	2.4 %
Computer services and telecommunication expense	4,617	3,909	708	18.1 %
Advertising and marketing expense	2,167	1,839	328	17.8 %
Professional and legal expense	1,353	1,503	(150)	(10.0)%
Other intangibles amortization expense	1,538	1,251	287	22.9 %
Other real estate expense, net	193	424	(231)	(54.5)%
Other operating expenses	9,083	8,574	509	5.9 %
Total non-interest expenses	$72,268	$66,834	$5,434	8.1 %

Non-interest expenses increased by $5.4 million, or 8.1%, for the three months ended June 30, 2013 from the three months ended June 30, 2012.

- Salaries and employee benefits increased due to annual salary increases, the impact of Celtic and an increase in incentives and commissions on higher lease revenues.
- Computer services and telecommunication expense increased due to an increased investment in security, storage and our key fee initiatives.
- Other operating expenses were higher as a result of an increase in the clawback liability related to our loss share agreements with the FDIC recorded during the second quarter of 2013.

	Six Months Ended June 30,			
	2013	2012	Increase/ (Decrease)	Percentage Change
Non-interest expenses (in thousands):				
Salaries and employee benefits	$87,423	$80,575	$6,848	8.5 %
Occupancy and equipment expense	18,812	18,758	54	0.3 %
Computer services and telecommunication expense	8,504	7,562	942	12.5 %
Advertising and marketing expense	4,270	3,912	358	9.2 %
Professional and legal expense	2,648	2,916	(268)	(9.2)%
Other intangibles amortization expense	3,082	2,508	574	22.9 %
Other real estate expense, net	332	1,667	(1,335)	(80.1)%
Other operating expenses	18,296	16,267	2,029	12.5 %
Total non-interest expenses	$143,367	$134,165	$9,202	6.9 %

Non-interest expenses increased by $9.2 million, or 6.9%, for the six months ended June 30, 2013 from the six months ended June 30, 2012.

- Salaries and employee benefits increased due to annual salary increases, the impact of Celtic and an increase in incentives and commissions on higher lease revenues.
- Other operating expenses were higher as a result of an increase in the clawback liability related to our loss share agreements with the FDIC recorded during the first six months of 2013.
-

Computer services and telecommunication expenses increased due primarily to an increased investment in security, storage and our key fee initiatives.

- Other real estate expense decreased due to fewer OREO properties in 2013.

Income Taxes

Income tax expense for the three months ended June 30, 2013 was $10.4 million compared to income tax expense of $9.0 million for the three months ended June 30, 2012. Income tax expense for the six months ended June 30, 2013 was $20.4 million compared to income tax expense of $17.5 million for the six months ended June 30, 2012. The increase was primarily due to an increase in our pre-tax income during the three and six months ended June 30, 2013.

Balance Sheet

Total assets decreased $202.1 million, or 2.1%, from $9.6 billion at December 31, 2012 to $9.4 billion at June 30, 2013. Investment securities decreased $184.0 million, or 7.6%, from December 31, 2012 to June 30, 2013 mostly as a result of the principal payments received on mortgage-backed securities that were not reinvested in the portfolio. Over the past year, we changed the mix of our investment securities portfolio by allocating a larger portion of the portfolio to municipal securities and corporate bonds.

Total loans excluding covered loans increased by $42.6 million to $5.4 billion at June 30, 2013 from $5.3 billion at December 31, 2012 . Our loan portfolio mix improved over the past twelve months from the standpoint of lowering our real estate-related exposure, as commercial and lease loan balances increased while commercial real estate and construction loan balances decreased.

Total liabilities decreased by $222.5 million, or 2.7%, from $8.3 billion at December 31, 2012 to $8.1 billion at June 30, 2013. Total deposits decreased by $97.3 million, or 1.3%, to $7.4 billion at June 30, 2013 from December 31, 2012 due to the decline in certificates of deposits. Total borrowings decreased by $43.3 million, or 8.9%, to $445.4 million at June 30, 2013. The decrease in total borrowings was primarily due to the prepayment of the $50.0 million subordinated debt facility in the first quarter of 2013.

Total stockholders’ equity increased $20.3 million to $1.3 billion at June 30, 2013 compared to December 31, 2012 primarily as a result of our earnings for the six months ended June 30, 2013 partly offset by the decrease in accumulated other comprehensive income.

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):

	June 30, 2013		December 31, 2012		June 30, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale						
U.S. Government sponsored agencies and enterprises	$32,050	$33,935	$38,605	$41,315	$42,401	$42,175
States and political subdivisions	669,791	684,710	679,991	725,019	535,660	629,173
Residential mortgage-backed securities	639,681	647,858	930,413	939,202	1,281,806	981,902
Commercial mortgage-backed securities	51,000	53,343	51,100	54,126	52,685	53,571
Corporate bonds	219,362	215,256	97,014	96,674	5,899	5,569
Equity securities	10,560	10,570	11,398	11,835	10,846	11,081
	1,622,444	1,645,672	1,808,521	1,868,171	1,929,297	1,723,471
Held to maturity						
States and political subdivisions	282,655	285,904	237,563	258,602	247,664	252,862
Residential mortgage-backed securities	253,779	268,675	255,858	277,079	263,358	273,520
	536,434	554,579	493,421	535,681	511,022	526,382
Total	$2,158,878	$2,200,251	$2,301,942	$2,403,852	$2,440,319	$2,249,853

Over the past year, we changed the mix of our investment portfolio by allocating a larger portion of the investment portfolio to municipal securities and corporate bonds. This has helped mitigate the impact of high levels of mortgage-backed security prepayments in the current interest rate environment. Municipal securities were 44.3% of total investment securities at June 30, 2013 compared to 40.8% of total investment securities at December 31, 2012 and 39.5% of total investment securities a year ago. While the shift into municipal securities has reduced the prepayment risk associated with mortgage-backed securities, we now have a larger longer-term municipal security portfolio that would decline substantially in value if interest rates increase materially.

We do not have any meaningful direct or indirect holdings of subprime residential mortgage investment securities, home equity lines of credit investment securities, or any Fannie Mae or Freddie Mac preferred or common equity securities in our investment portfolio.

Loan Portfolio

The following table sets forth the composition of our loan portfolio (dollars in thousands):

	June 30, 2013			December 31, 2012			June 30, 2012		
	Amount	% of Total		Amount	% of Total		Amount	% of Total	
Commercial related credits:									
Commercial loans	$1,198,862	21	%	$1,220,472	21	%	$1,079,436	19	%
Commercial loans collateralized by assignment of lease payments	1,422,901	25	%	1,303,020	23	%	1,221,199	21	%
Commercial real estate	1,710,964	31	%	1,761,832	30	%	1,794,777	31	%
Construction real estate	121,420	2	%	110,261	2	%	150,665	3	%
Total commercial related credits	4,454,147	79	%	4,395,585	76	%	4,246,077	74	%
Other loans:									
Residential real estate	305,710	5	%	314,359	5	%	313,137	5	%
Indirect vehicle	242,964	4	%	208,633	4	%	198,848	3	%
Home equity	281,334	5	%	305,186	5	%	323,234	6	%
Other consumer loans	75,476	2	%	93,317	2	%	89,115	2	%
Total other loans	905,484	16	%	921,495	16	%	924,334	16	%
Gross loans excluding covered loans	5,359,631	95	%	5,317,080	92	%	5,170,411	90	%
Covered loans (1)	308,556	5	%	449,850	8	%	552,838	10	%
Total loans (2)	$5,668,187	100	%	$5,766,930	100	%	$5,723,249	100	%

(1) Loans that MB Financial Bank will share losses with the FDIC are referred to as “covered loans.”
(2) Gross loan balances at June 30, 2013, December 31, 2012, and June 30, 2012 are net of unearned income, including net deferred loans fees of $1.3 million, $1.1 million, and $790 thousand, respectively.

Our loan portfolio mix improved over the past twelve months from the standpoint of lowering our real estate-related exposure, as commercial and lease loan balances increased by 14% while commercial real estate and construction loan balances decreased by 6%.

Asset Quality

Non-performing loans include loans accounted for on a non-accrual basis and accruing loans contractually past due 90 days or more as to interest or principal. Management reviews the loan portfolio for problem loans on an ongoing basis. During the ordinary course of business, management becomes aware of borrowers that may not be able to meet the contractual requirements of loan agreements. These loans are placed under close supervision with consideration given to placing the loan on non-accrual status, increasing the allowance for loan losses and (if appropriate) partial or full charge-off. After a loan is placed on non-accrual status, any interest previously accrued but not yet collected is reversed against current income. Generally, if interest payments are received on non-accrual loans, these payments will be applied to principal and not taken into income. Loans will not be placed back on accrual status unless back interest and principal payments are made. Our general policy is to place loans 90 days past due on non-accrual status, as well as those loans that continue to pay, but display defined material weakness.

Non-performing loans exclude purchased credit-impaired loans that were acquired as part of the FDIC-assisted transactions (Heritage, InBank, and Benchmark completed in 2009 and Broadway and New Century completed in

2010). Fair value of these loans as of acquisition includes estimates of credit losses. See Note 6 of the notes to our consolidated financial statements for further information regarding purchased credit-impaired loans.

The following table sets forth the amounts of non-performing loans and non-performing assets at the dates indicated (dollars in thousands):

	June 30, 2013	December 31, 2012	June 30, 2012
Non-performing loans:			
Non-accruing loans	$112,926	$115,387	$113,077
Loans 90 days or more past due, still accruing interest	2,322	1,599	453
Total non-performing loans	115,248	116,986	113,530
Other real estate owned	32,993	36,977	49,690
Repossessed assets	749	773	60
Total non-performing assets	$148,990	$154,736	$163,280
Total allowance for loan losses	$123,685	$124,204	$121,756
Accruing restructured loans (1)	$28,270	$21,256	$16,536
Total non-performing loans to total loans	2.03 %	2.03 %	1.98 %
Total non-performing assets to total assets	1.59	1.62	1.72
Allowance for loan losses to non-performing loans	107.32	106.17	107.25

(1) 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.

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.

Non-performing assets consists of non-performing loans as well as other repossessed assets and other real estate owned. Other real estate owned represents properties acquired through foreclosure or other proceedings and is recorded at fair value less the estimated cost of disposal at the date of acquisition. Other real estate owned is evaluated regularly to ensure that the recorded amount is supported by its current fair value. Valuation allowances to reduce the carrying amount to fair value less estimated costs of disposal are recorded as necessary. Gains and losses and changes in valuations on other real estate owned are included in other income. Expenses, net of rental income, from the operations of other real estate owned are reflected as a separate line item on the income statement. Other repossessed assets primarily consist of repossessed vehicles. Losses on repossessed vehicles are charged-off to the

allowance when title is taken and the vehicle is valued. Once the Bank obtains title, repossessed vehicles are not included in loans, but are classified as "other assets" on the consolidated balance sheets. The typical holding period for resale of repossessed automobiles is less than 90 days unless significant repairs to the vehicle are needed which occasionally results in a longer holding period. The typical holding period for motorcycles can be more than 90 days, as the average motorcycle re-sale period is longer than the average automobile re-sale period. The longer average period for motorcycles is a result of cyclical trends in the motorcycle market.

Other real estate owned that is related to our FDIC-assisted transactions is excluded from non-performing assets. Other real estate owned related to the Heritage, Benchmark, Broadway, and New Century transactions, which totaled $18.3 million and $21.4 million at June 30, 2013 and December 31, 2012, respectively, is subject to the loss-share agreements with the FDIC. See Note 6 of the notes to our consolidated financial statements for further information.

The following table presents a summary of other real estate owned ("OREO"), excluding assets related to FDIC-assisted transactions, for the six months ended June 30, 2013 and 2012 (in thousands):

	June 30, 2013	2012
Beginning balance	$36,977	$78,452
Transfers in at fair value less estimated costs to sell	4,214	2,661
Capitalized OREO costs	8	1,326
Fair value adjustments	821	(9,271)
Net gains on sales of OREO	990	767
Cash received upon disposition	(10,017)	(24,245)
Ending balance	$32,993	$49,690

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 following table sets forth the aggregate principal amount of potential problem loans at the dates indicated (in thousands):

	June 30, 2013	December 31, 2012
Commercial loans	$45,425	$27,224
Commercial loans collateralized by assignment of lease payments	4,333	6,375
Commercial real estate	75,715	66,996
Construction real estate	6,273	10,958
Total	$131,746	$111,553

Management believes it has established an adequate allowance for probable loan losses as appropriate under GAAP.

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 commercial related and consumer related elements. Each element is discussed below.

Commercial Related 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.

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Under our loan risk rating system, each loan, with the exception of those included in large groups of smaller-balance homogeneous consumer related 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 12 years. The migration data is adjusted by using average losses for an economic cycle (approximately 10 years) to develop EDFs by loan type, risk rating and maturity. EDFs are updated annually in December.

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 the appropriate 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 were developed using regression analyses to select economic indicators that have a high correlation with 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 loans and lease loans: Crude oil prices, our prior period charge-off rates and a 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 re-calibrate the macroeconomic factors as appropriate.

The commercial related general loss reserve was $87.8 million as of June 30, 2013 and $91.7 million as of December 31, 2012. Reserves on impaired commercial loans are included in the “Commercial Related Specific Reserves” section below.

Commercial Related Specific Reserves. Our allowance for loan losses also includes specific reserves on impaired commercial 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 commercial 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 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.

In addition, each impaired commercial loan with real estate collateral is reviewed quarterly by our appraisal department to determine that the most recent valuation remains appropriate during subsequent quarters until the next appraisal is received. If considered necessary by our appraisal department, 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.

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 commercial related specific reserves component of the allowance increased from $13.2 million as of December 31, 2012 to $16.7 million as of June 30, 2013.

Consumer Related Reserves. Pools of homogenous 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 consumer related loans totaled $19.2 million at June 30, 2013 and December 31, 2012.

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 to validate our allowance for loan losses: historical net charge-offs as they relate to prior periods 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.

The following table presents an analysis of the allowance for loan losses for the periods presented (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	$124,733	$133,255	$128,279	$135,975
Provision for credit losses	500	—	500	3,100
Charge-offs:				
Commercial loans	433	1,451	1,344	1,990
Commercial loans collateralized by assignment of lease payments	—	1,720	—	1,720
Commercial real estate	1,978	2,415	3,895	5,418
Construction real estate	747	444	829	3,880
Residential real estate	399	1,108	1,361	1,402
Home equity	1,323	876	2,110	1,948
Indirect vehicles	629	488	1,358	1,203
Other consumer loans	451	274	1,016	532
Total charge-offs	5,960	8,776	11,913	18,093
Recoveries:				
Commercial loans	777	386	1,229	2,424
Commercial loans collateralized by assignment of lease payments	987	93	1,131	349
Commercial real estate	3,647	3,061	4,387	3,223
Construction real estate	131	141	407	706
Residential real estate	199	188	413	222
Home equity	100	100	214	120
Indirect vehicles	324	300	739	611
Other consumer loans	59	92	111	203
Total recoveries	6,224	4,361	8,631	7,858
Net charge-offs	(264)	4,415	3,282	10,235
Allowance for credit losses	125,497	128,840	125,497	128,840
Allowance for unfunded credit commitments	(1,812)	(7,084)	(1,812)	(7,084)
Allowance for loan losses	$123,685	$121,756	$123,685	$121,756
Total loans	$5,668,187	$5,723,249	$5,668,187	$5,723,249
Ratio of allowance to total loans	2.18%	2.13%	2.18%	2.13%
Ratio of net charge-offs to average loans	(0.02)%	0.31%	0.12%	0.36%

Net charge-offs of $3.3 million were recorded in the six months ended June 30, 2013 compared to net charge-offs of $10.2 million in the six months ended June 30, 2012. As a result of lower net charge-offs, the provision for credit losses was $500 thousand for the six months ended June 30, 2013 compared to $3.1 million for the six months ended June 30, 2012.

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.

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. Lessees tend to have an investment grade public debt rating by Moody’s or Standard & Poors or the equivalent, though we also provide credit to below investment grade and non-rated companies.

Lease investments by categories follow (in thousands):

	June 30, 2013	December 31, 2012	June 30, 2012
Direct finance leases:			
Minimum lease payments	$115,216	$90,160	$48,041
Estimated unguaranteed residual values	12,086	11,140	6,049
Less: unearned income	(8,218)	(7,135)	(4,403)
Direct finance leases (1)	$119,084	$94,165	$49,687
Leveraged leases:			
Minimum lease payments	$168,166	$154,549	$27,080
Estimated unguaranteed residual values	22,375	23,586	2,588
Less: unearned income	(4,646)	(2,879)	(2,523)
Less: related non-recourse debt	(157,437)	(145,719)	(25,494)
Leveraged leases (1)	$28,458	$29,537	$1,651
Operating leases:			
Equipment, at cost	$205,541	$222,083	$214,874
Less accumulated depreciation	(91,583)	(92,260)	(103,752)
Lease investments, net	$113,958	$129,823	$111,122

(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

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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 $18.0 million at June 30, 2013 and $21.1 million at December 31, 2012.

At June 30, 2013, the following reflects the residual values for leases by category in the year the initial lease term ends (in thousands):

	Residual Values			
End of initial lease term December 31,	Direct Finance Leases	Leveraged Leases	Operating Leases	Total
2013	$2,687	$4,552	$5,498	$12,737
2014	3,571	6,098	10,956	20,625
2015	2,602	5,714	8,271	16,587
2016	1,984	3,841	7,663	13,488
2017	658	1,480	5,460	7,598
Thereafter	584	690	2,008	3,282
	$12,086	$22,375	$39,856	$74,317

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 to approximately $500 thousand per transaction and seek to diversify both the type of equipment leased and the industries in which the lessees participate. Often times, there are several individual lease schedules under one master lease. There were 3,575 leases at June 30, 2013 compared to 3,464 at December 31, 2012. The average residual value per lease schedule was approximately $21 thousand at June 30, 2013 and $22 thousand at December 31, 2012. The average residual value per master lease schedule was approximately $79 thousand at June 30, 2013 and December 31, 2012, respectively.

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 net income, adjusted for items in net income that did not impact cash. Net cash flows provided by operating activities were $60.8 million for the six months ended June 30, 2013 compared to net cash flows provided by operating activities of $66.2 million for the six months ended June 30, 2012.

Cash used in investing activities reflects the impact of loans and investment securities acquired for the Company's interest-earning asset portfolios, as well as cash flows from asset sales and the impact of acquisitions. For the six months ended June 30, 2013, the Company had net cash flows provided by investing activities of $235.2 million compared to net cash flows provided by investing activities of $508.2 million for the six months ended June 30, 2012.

The change was primarily due to more purchases of investment securities and a smaller decrease in loans.

Cash flows from financing activities include transactions and events whereby cash is obtained from depositors, creditors or investors. For the six months ended June 30, 2013, the Company had net cash flows used in financing activities of $150.6 million compared to net cash flows used in financing activities of $382.2 million for the six months ended June 30, 2012. The change in cash flows from financing activities was primarily due to the repurchase of preferred shares in the first quarter of 2012.

In the event that additional short-term liquidity is needed, we have established relationships with several large and regional banks to provide short-term borrowings in the form of federal funds purchases. While, at June 30, 2013, there were no firm lending commitments in place, management believes that we could borrow approximately $280.0 million for a short time from these banks on a collective basis. Additionally, we are a member of Federal Home Loan Bank of Chicago (FHLB). As of June 30, 2013, the Company had $4.6 million outstanding in FHLB advances, and could borrow an additional amount of approximately $536.9 million. As a contingency plan for significant funding needs, the Asset/Liability Committee may also consider the sale of investment securities, selling securities under agreement to repurchase, or the temporary curtailment of lending activities. As of June 30, 2013, the Company had approximately $1.1 billion of unpledged securities, excluding securities available for pledge at the FHLB.

Our main sources of liquidity at the holding company level are dividends from MB Financial Bank and cash on hand. In addition, the Company has a $35.0 million unsecured line of credit with a correspondent bank. As of June 30, 2013, no amount was outstanding. The holding company had $66.7 million in cash as of June 30, 2013.

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 June 30, 2013 as compared to December 31, 2012.

MB Financial Bank is subject to various regulatory capital requirements which affect its ability to pay dividends to us. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Additionally, our current internal policy effectively limits the amount of dividends our subsidiary bank may pay to us by requiring the bank to maintain total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage capital ratios of 12%, 9% and 8%, respectively. The minimum ratios required for a bank to be considered "well capitalized" for regulatory purposes are 10%, 6% and 5%, respectively. In addition to adhering to our policy, there are regulatory restrictions on the ability of national banks to pay dividends. See "Item 1. Business — Supervision and Regulation" in our Annual Report on Form 10-K for the year ended December 31, 2012.

At June 30, 2013, the Company's total risk-based capital ratio was 16.48%; Tier 1 capital to risk-weighted assets ratio was 15.22% and Tier 1 capital to average asset ratio was 11.19%. MB Financial Bank's total risk-based capital ratio was 15.21%; Tier 1 capital to risk-weighted assets ratio was 13.95% and Tier 1 capital to average asset ratio was 10.24%. MB Financial Bank was categorized as "Well-Capitalized" at June 30, 2013 under the regulations of the Office of the Comptroller of the Currency.

In July 2013, the Federal banking regulators approved a final rule to implement the revised capital adequacy standards of the Basel Committee on Banking Supervision, commonly called Basel III, and to address relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The final rule strengthens the definition of regulatory capital, increases risk-based capital requirements, makes selected changes to the calculation of risk-weighted assets, and adjusts the prompt corrective action thresholds. The Company and MB Financial Bank will become subject to the new rule on January 1, 2015 and certain provisions of the new rule will be phased in over the period of 2015 through 2019.

The final rule:

- Permits banking organizations that had less than $15 billion in total consolidated assets as of December 31, 2009, to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock that were issued and included in Tier 1 capital prior to May 19, 2010, subject to a limit of 25% of Tier 1 capital elements, excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments have been applied to

Tier 1 capital.

- Establishes new qualifying criteria for regulatory capital, including new limitations on the inclusion of deferred tax assets and mortgage servicing rights.
- Requires a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%.
- Increases the minimum Tier 1 capital to risk-weighted assets ratio requirement from 4% to 6%.
- Retains the minimum total capital to risk-weighted assets ratio requirement of 8%.
- Establishes a minimum leverage ratio requirement of 4%.

- Retains the existing regulatory capital framework for 1-4 family residential mortgage exposures.

- Implements a new capital conservation buffer requirement for a banking organization to maintain a common equity capital ratio more than 2.5% above the minimum common equity Tier 1 capital, Tier 1 capital and total risk-based capital ratios in order to avoid limitations on capital distributions, including dividend payments, and certain discretionary bonus payments. The capital conservation buffer requirement will be phased in beginning on January 1, 2016 at 0.625% and will be fully phased in at 2.50% by January 1, 2019. A banking organization with a buffer of less than the required amount would be subject to increasingly stringent limitations on such distributions and payments as the buffer approaches zero. The new rule also generally prohibits a banking organization from making such distributions or payments during any quarter if its eligible retained income is negative and its capital conservation buffer ratio was 2.5% or less at the end of the previous quarter. The eligible retained income of a banking organization is defined as its net income for the four calendar quarters preceding the current calendar quarter, based on the organization's quarterly regulatory reports, net of any distributions and associated tax effects not already reflected in net income.

- Increases capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term commitments and securitization exposures.

- Expands the recognition of collateral and guarantors in determining risk-weighted assets.

- Removes references to credit ratings consistent with the Dodd Frank Act and establishes due diligence requirements for securitization exposures.

The Company's management is currently evaluating the provisions of the final rule and their expected impact on the Company.

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."

Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q and in other documents filed or furnished 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 expressions are intended 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 the pending MB Financial-Taylor Capital merger and 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) requisite stockholder and regulatory approvals for the MB Financial-Taylor Capital merger might not

be obtained; (3) the possibility that the expected benefits of the FDIC-assisted and other transactions we previously completed will not be realized; (4) 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; (5) results of examinations by the Office of Comptroller of Currency, the Federal Reserve Board 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; (6) competitive pressures among depository institutions; (7) interest rate movements and their impact on customer behavior and net interest margin; (8) the impact of repricing and competitors' pricing initiatives on loan and deposit products; (9) fluctuations in real estate values; (10) the ability to adapt successfully to technological changes to meet customers' needs and developments in the market-place; (11) our ability to realize the residual values of our direct finance, leveraged, and operating leases; (12) our ability to access cost-effective funding; (13) changes in financial markets; (14) changes in economic conditions in general and in the Chicago metropolitan area in particular; (15) the costs, effects and outcomes of litigation; (16) new legislation or regulatory changes, including but not limited to the "Dodd-Frank Act" and regulations adopted thereunder, changes in capital requirements pursuant to the Dodd-Frank Act and the implementation of the Basel III capital standards, other governmental initiatives affecting the financial services industry and changes in federal and/or state tax laws or interpretations thereof by taxing authorities; (17) changes in accounting principles, policies or guidelines; (18) our future acquisitions of other depository institutions or lines of business; and (19) 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 and Asset Liability Management

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 growth, 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 15 to the Consolidated Financial Statements.

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 our interest earning assets or average rate of our 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 rate assets and liabilities that reprice at similar times, have similar maturities or repricing dates, are based on different indexes still have interest rate risk. Basis risk reflects the possibility that indexes will not move in a coordinated manner.

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 own to those with limited average life changes under certain interest-rate shock scenarios, or securities with embedded prepayment penalties.

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 rising interest rates, therefore, a negative gap would tend to adversely affect net interest income. Conversely, during a period of falling interest rates, a negative 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 June 30, 2013 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 June 30, 2013 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.

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 earning deposits with banks	$278,973	$1,175	$470	$—	$280,618
Federal funds sold	7,500	—	—	—	7,500
Investment securities	164,116	230,442	1,030,293	808,125	2,232,976
Loans held for sale	2,528	—	—	—	2,528
Loans, including covered loans	2,362,877	1,139,693	2,055,501	110,116	5,668,187
Total interest earning assets	$2,815,994	$1,371,310	$3,086,264	$918,241	$8,191,809
Interest Bearing Liabilities:					
NOW and money market deposit accounts	$205,311	$555,178	$1,504,999	$453,501	$2,718,989
Savings deposits	46,328	130,599	480,342	188,473	845,742
Time deposits	452,640	677,098	463,477	57,066	1,650,281
Short-term borrowings	33,367	56,963	127,072	13,145	230,547
Long-term borrowings	2,554	6,508	51,232	2,492	62,786
Junior subordinated notes issued to capital trusts	152,065	—	—	—	152,065
Total interest bearing liabilities	$892,265	$1,426,346	$2,627,122	$714,677	$5,660,410
Rate sensitive assets (RSA)	$2,815,994	$4,187,304	$7,273,568	$8,191,809	$8,191,809
Rate sensitive liabilities (RSL)	$892,265	$2,318,611	$4,945,733	$5,660,410	$5,660,410
Cumulative GAP (GAP=RSA-RSL)	$1,923,729	$1,868,693	$2,327,835	$2,531,399	$2,531,399
RSA/Total assets	30.05 %	44.69 %	77.63 %	87.43 %	87.43 %
RSL/Total assets	9.52 %	24.75 %	52.78 %	60.41 %	60.41 %
GAP/Total assets	20.53 %	19.94 %	24.84 %	27.02 %	27.02 %
GAP/RSA	68.31 %	44.63 %	32.00 %	30.90 %	30.90 %

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.

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 Net Interest Income Over Once Year Horizon			
Changes in	June 30, 2013		December 31, 2012	
Levels of Interest Rates	Dollar Change	Percentage Change	Dollar Change	Percentage Change

+ 2.00%	$10,569	3.85	%	$7,932	2.72	%
+ 1.00%	$5,821	2.12	%	$4,174	1.43	%

In the interest rate sensitivity table above, changes in net interest income between June 30, 2013 and December 31, 2012 reflect changes in the composition of interest earning assets and interest bearing liabilities, related interest rates, repricing

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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 June 30, 2013 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 June 30, 2013, 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: During the quarter ended June 30, 2013, no change occurred in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On July 26, 2013, a purported stockholder of Taylor Capital Group, Inc. ("Taylor Capital") filed a putative class action lawsuit on behalf of the public stockholders of Taylor Capital in the Circuit Court of Cook County, Illinois against Taylor Capital, the individual directors of Taylor Capital and MB Financial, Inc. ("MB Financial"). The complaint generally alleges that the directors of Taylor Capital breached their fiduciary duties in connection with entering into the merger agreement with MB Financial and that MB Financial aided and abetted such alleged breach of fiduciary duties. The plaintiff seeks class action status for the lawsuit, and further seeks (i) to enjoin the merger or, in the event the merger is completed before entry of a final judgment, to rescind the merger or be awarded an unspecified amount of rescissory damages, (ii) an unspecified amount of additional damages and (iii) costs, including the fees and expenses of attorneys and experts. MB Financial believes the claim against it is without merit and intends to contest this matter vigorously.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, except for the following:

The success of our pending acquisition of Taylor Capital is dependent on uncertain factors.

The success of our pending acquisition of Taylor Capital is subject to a number of uncertain factors, including, but not limited to:

- obtaining the requisite regulatory approvals in order to consummate the transactions and any potential terms and conditions subject to those approvals not containing terms that could have a material adverse effect on the Company or MB Financial Bank;
- obtaining the requisite stockholder approvals from the MB Financial and Taylor Capital stockholders;

- our ability to realize expected revenues, cost savings, synergies and other benefits from the acquisition within the expected 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; and
- the credit quality of loans and other assets acquired from Taylor Capital.

MB Financial and Taylor Capital have operated and, until the completion of the acquisition, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the acquisition. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on the combined company following completion of the acquisition.

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

The following table sets forth information for the three months ended June 30, 2013 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
April 1, 2013 — April 30, 2013	—	$ —	—	1,000,000
May 1, 2013 — May 31, 2013	14,496	25.67	—	1,000,000
June 1, 2013 — June 30, 2013	78	25.95	—	1,000,000
Total	14,574	$ 25.67	—	

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

In the fourth quarter of 2012, the Company's board of directors authorized the Company to purchase up to one million shares of common stock from time to time over the next two years, subject to market conditions and other factors.

Item 6. Exhibits

See Exhibit Index.

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.
(registrant)

Date:	July 31, 2013	By:	/s/Mitchell Feiger Mitchell Feiger President and Chief Executive Officer (Principal Executive Officer)
Date:	July 31, 2013	By:	/s/Jill E. York Jill E. York Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of July 14, 2013, by and among the Registrant and Taylor Capital Group, Inc. (incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on July 18, 2013 (File No.0-24566-01))
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	Bylaws 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))

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EXHIBIT INDEX

Exhibit Number	Description
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))
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))
10.7	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))

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Exhibit Number	Description
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))
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))
10.30	Form of Performance Share Unit Award Agreement (incorporated herein by reference to Exhibit 10.30 to the Registrant's Current Report on Form 8-K filed on September 5, 2012 (File No. 0-24566-01))
10.31	Form of Incentive Stock Option Agreement (Management Committee) (incorporated herein by reference to Exhibit 10.31 to the Registrant's Current Report on Form 8-K filed on September 5, 2012 (File No. 0-24566-01))
10.32	Form of Restricted Stock Agreement (Management Committee) (incorporated herein by reference to Exhibit 10.32 to the Registrant's Current Report on Form 8-K filed on September 5, 2012 (File No. 0-24566-01))
10.32A	Form of Restricted Stock Unit Agreement (Management Committee) (incorporated herein by reference to Exhibit 10.32A to the Registrant's Current Report on Form 8-K filed on September 5, 2012 (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 June 30, 2013, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of comprehensive income, (iv) consolidated statements of cash flows and (v) the notes to consolidated financial statements*

* Filed herewith

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