MB FINANCIAL INC /MD
Form 10-Q
October 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 September 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 (State or other jurisdiction of incorporation or organization)	36-4460265 (I.R.S. Employer Identification No.)
800 West Madison Street, Chicago, Illinois (Address of principal executive offices)	60607 (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 54,961,540 shares of the Registrant’s common stock as of October 30, 2013.

MB FINANCIAL, INC. AND SUBSIDIARIES

FORM 10-Q

September 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) September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$215,017	$176,010
Interest earning deposits with banks	41,700	111,533
Total cash and cash equivalents	256,717	287,543
Federal funds sold	47,500	—
Investment securities:		
Securities available for sale, at fair value	1,090,123	1,868,171
Securities held to maturity, at amortized cost ($1,212,748 and $535,681 fair value at September 30, 2013 and December 31, 2012, respectively)	1,193,544	493,421
Non-marketable securities - FHLB and FRB stock	50,870	55,385
Total investment securities	2,334,537	2,416,977
Loans held for sale	1,120	7,492
Loans:		
Total loans, excluding covered loans	5,313,235	5,317,080
Covered loans	273,497	449,850
Total loans	5,586,732	5,766,930
Less: Allowance for loan losses	118,031	124,204
Net loans	5,468,701	5,642,726
Lease investment, net	112,491	129,823
Premises and equipment, net	220,574	221,533
Cash surrender value of life insurance	129,332	128,879
Goodwill	423,369	423,369
Other intangibles	24,917	29,512
Other real estate owned, net	31,356	36,977
Other real estate owned related to FDIC-assisted transactions	24,792	22,478
FDIC indemnification asset	11,074	39,345
Other assets	171,138	185,151
Total assets	$9,257,618	$9,571,805
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest bearing	$2,269,367	$2,164,547
Interest bearing	5,029,319	5,378,150
Total deposits	7,298,686	7,542,697
Short-term borrowings	240,600	220,602
Long-term borrowings	62,428	116,050
Junior subordinated notes issued to capital trusts	152,065	152,065
Accrued expenses and other liabilities	194,371	264,621
Total liabilities	7,948,150	8,296,035
STOCKHOLDERS' EQUITY		

Common stock, ($0.01 par value; authorized 70,000,000 shares at September 30, 2013 and December 31, 2012; issued 55,141,834 shares at September 30, 2013 and 54,955,284 shares at December 31, 2012)	551	550
Additional paid-in capital	736,294	732,771
Retained earnings	564,779	507,933
Accumulated other comprehensive income	9,918	36,326
Less: 180,296 and 170,567 shares of treasury stock, at cost, at September 30, 2013 and December 31, 2012, respectively	(3,525)	(3,293)
Controlling interest stockholders' equity	1,308,017	1,274,287
Noncontrolling interest	1,451	1,483
Total stockholders' equity	1,309,468	1,275,770
Total liabilities and stockholders' equity	$9,257,618	$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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income:				
Loans	$60,115	$67,482	$180,489	$208,380
Investment securities:				
Taxable	6,330	7,287	18,749	27,053
Nontaxable	8,175	7,582	24,399	21,624
Federal funds sold	7	—	9	—
Other interest earning accounts	193	312	420	639
Total interest income	74,820	82,663	224,066	257,696
Interest expense:				
Deposits	4,433	7,374	15,274	24,192
Short-term borrowings	112	342	395	910
Long-term borrowings and junior subordinated notes	1,367	2,872	4,324	9,322
Total interest expense	5,912	10,588	19,993	34,424
Net interest income	68,908	72,075	204,073	223,272
Provision for credit losses	(3,304)	(13,000)	(2,804)	(9,900)
Net interest income after provision for credit losses	72,212	85,075	206,877	233,172
Non-interest income:				
Capital markets and international banking fees	972	1,400	2,719	2,700
Commercial deposit and treasury management fees	6,327	5,860	18,322	17,541
Lease financing, net	14,070	9,671	45,435	23,963
Trust and asset management fees	4,799	4,428	14,167	13,367
Card fees	2,745	2,388	8,175	6,863
Loan service fees	1,427	1,075	4,349	3,409
Consumer and other deposit service fees	3,648	3,786	10,487	10,773
Brokerage fees	1,289	1,185	3,680	3,704
Net gain on investment securities	1	281	14	244
Increase in cash surrender value of life insurance	851	890	2,537	2,677
Net loss on sale of assets	—	(12)	—	(37)
Accretion of FDIC indemnification asset	64	204	307	901
Net (loss) gain recognized on other real estate owned	(791)	(3,938)	894	(15,968)
Net gain on sale of loans	177	575	1,322	1,503
Other operating income	1,337	760	3,835	3,674
Total non-interest income	36,916	28,553	116,243	75,314
Non-interest expenses:				
Salaries and employee benefits	44,918	42,083	132,341	122,658
Occupancy and equipment expense	8,797	8,274	27,609	27,032
Computer services and telecommunication expense	4,870	3,777	13,374	11,339
Advertising and marketing expense	1,917	1,936	6,187	5,848
Professional and legal expense	3,102	1,554	5,750	4,470
Other intangibles amortization expense	1,513	1,251	4,595	3,759
Branch impairment charges	—	758	—	758
Other real estate expense, net	240	874	572	2,541
Prepayment fees on interest bearing liabilities	—	12,682	—	12,682

Other operating expenses	10,117	7,976	28,413	24,243
Total non-interest expenses	75,474	81,165	218,841	215,330
Income before income taxes	33,654	32,463	104,279	93,156
Income tax expense	9,254	9,330	29,680	26,794
Net income	$24,400	$23,133	$74,599	$66,362
Dividends and discount accretion on preferred shares	—	—	—	3,269
Net income available to common stockholders	$24,400	$23,133	$74,599	$63,093

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Common share data:				
Basic earnings per common share	$0.45	$ 0.43	$ 1.37	$ 1.16
Diluted earnings per common share	0.44	0.42	1.36	1.16
Weighted average common shares outstanding for basic earnings per common share	54,565,089	54,346,827	54,471,541	54,226,241
Diluted weighted average common shares outstanding for diluted earnings per common share	55,130,653	54,556,517	54,912,352	54,472,617

See Accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$24,400	$23,133	$74,599	$66,362
Unrealized holding (losses) gains on investment securities, net of tax and reclassification adjustments	(3,701)	2,118	(25,788)	1,981
Reclassification adjustment for amortization of unrealized gains on investment securities transferred to held to maturity from available for sale, net of tax	(612)	—	(612)	—
Reclassification adjustments for gains included in net income, net of tax	—	(168)	(8)	(146)
Other comprehensive (loss) income, net of tax	(4,313)	1,950	(26,408)	1,835
Comprehensive income	$20,087	$25,083	$48,191	$68,197

See Accompanying Notes to Consolidated Financial Statements.

MB FINANCIAL, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 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	—	—	—	66,362	—	—	184	66,546
Other comprehensive income, net of tax	—	—	—	—	1,835	—	—	1,835
Cash dividends declared on common shares ($0.03 per share)	—	—	—	(1,643)	—	—	—	(1,643)
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	—	2	(722)	17	—	1,774	—	1,071
Stock option activity, net of tax	—	—	(625)	3	—	345	—	(277)
Repurchase of common shares in connection with employee benefit plans and held in trust for deferred compensation plan	—	—	451	—	—	(2,379)	—	(1,928)
Stock-based compensation expense	—	—	3,581	—	—	—	—	3,581
Additional investment in subsidiary	—	—	(736)	—	—	—	(904)	(1,640)
Distributions to noncontrolling interest	—	—	—	—	—	—	(236)	(236)
Balance at September 30, 2012	$—	$550	$731,679	$489,426	$ 40,985	$(3,304)	$ 1,494	$1,260,830
Balance at December 31, 2012	$—	$550	$732,771	$507,933	$ 36,326	$(3,293)	$ 1,483	$1,275,770
Net income	—	—	—	74,599	—	—	137	74,736
Other comprehensive loss, net of tax	—	—	—	—	(26,408)	—	—	(26,408)
Cash dividends declared on common shares ($0.32 per share)	—	—	—	(17,653)	—	—	—	(17,653)

Restricted common stock activity, net of tax	—	1	(757)	(100)	—	1,725	—	869
Stock option activity, net of tax	—	—	117	—	—	499	—	616
Repurchase of common shares in connection with employee benefit plans and held in trust for deferred compensation plan	—	—	303	—	—	(2,456)	—	(2,153)
Stock-based compensation expense	—	—	3,860	—	—	—	—	3,860
Distributions to noncontrolling interest	—	—	—	—	—	—	(169)	(169)
Balance at September 30, 2013	$—	$551	$736,294	$564,779	$ 9,918	$(3,525)	$ 1,451	$1,309,468

See Accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2013	2012
Cash Flows From Operating Activities		
Net income	$74,599	$66,362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	13,165	11,450
Depreciation of leased equipment	24,933	28,107
Impairment charges on branch facilities	—	758
Compensation expense for restricted stock awards	3,013	2,586
Compensation expense for stock option grants	847	995
Gain on sales of premises and equipment and leased equipment	(192)	(2,746)
Amortization of other intangibles	4,595	3,759
Provision for credit losses	(2,804)	(9,900)
Deferred income tax expense	13,067	19,763
Amortization of premiums and discounts on investment securities, net	35,364	31,838
Accretion of premiums and discounts on loans, net	(5,462)	(13,000)
Accretion of FDIC indemnification asset	(307)	(901)
Net gain on sale of investment securities available for sale	(14)	(244)
Proceeds from sale of loans held for sale	74,395	64,124
Origination of loans held for sale	(66,667)	(64,980)
Net gain on sale of loans held for sale	(1,322)	(1,503)
Net gain on sales of other real estate owned	(977)	(1,264)
Fair value adjustments on other real estate owned	(80)	13,919
Net loss on sales of other real estate owned related to FDIC-assisted transactions	163	3,313
Increase in cash surrender value of life insurance	(2,537)	(2,677)
Decrease (increase) in other assets, net	30,976	(45,242)
(Decrease) increase in other liabilities, net	(68,428)	7,944
Net cash provided by operating activities	126,327	112,461
Cash Flows From Investing Activities		
Increase in federal funds sold	(47,500)	—
Proceeds from sales of investment securities available for sale	989	12,573
Proceeds from maturities and calls of investment securities available for sale	415,780	432,162
Purchases of investment securities available for sale	(364,550)	(350,669)
Proceeds from maturities and calls of investment securities held to maturity	5,079	960
Purchases of investment securities held to maturity	(55,409)	(1,923)
Purchases of non-marketable securities - FHLB and FRB stock	—	(24)
Redemption of non-marketable securities - FHLB and FRB stock	4,515	23,203
Net decrease in loans	170,586	329,773
Purchases of premises and equipment	(11,342)	(16,952)
Purchases of leased equipment	(18,359)	(19,836)
Proceeds from sales of premises and equipment	—	1,498
Proceeds from sales of leased equipment	6,672	11,108
Capital improvements on other real estate owned	(53)	(2,304)
Proceeds from sale of other real estate owned	12,791	28,398

Proceeds from sale of other real estate owned related to FDIC-assisted transactions	7,535	29,008
Principal paid on lease investments	(1,127)	(1,878)
Life insurance death benefit	2,083	—
Net proceeds from FDIC related covered assets	11,347	79,247
Net cash provided by investing activities	139,037	554,344
Cash Flows From Financing Activities		
Net decrease in deposits	(244,011)	(168,260)
Net increase in short-term borrowings	19,998	69,659
Proceeds from long-term borrowings	5,457	5,740
Principal paid on long-term borrowings	(59,079)	(153,206)
Redemption of junior subordinated notes issued to capital trusts	—	(6,186)
Repurchase of preferred stock	—	(197,518)
Treasury stock transactions, net	(1,653)	(260)
Stock options exercised	1,014	154
Excess tax benefits from share-based payment arrangements	(402)	—
Dividends paid on preferred stock	—	(3,239)
Dividends paid on common stock	(17,514)	(1,627)
Net cash used in financing activities	(296,190)	(454,743)
Net (decrease) increase in cash and cash equivalents	$(30,826)	$212,062
Cash and cash equivalents:		
Beginning of period	287,543	244,565
End of period	$256,717	$456,627

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

	Nine Months Ended September 30,	
	2013	2012
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest paid to depositors and other borrowed funds	$20,913	$36,156
Net income tax payments, net	35,141	4,230
Supplemental Schedule of Noncash Investing Activities:		
Investment securities available for sale purchased not settled	$1,797	$3,919
Transfer of investment securities available for sale to investment securities held to maturity	656,617	—
Loans transferred to other real estate owned	6,060	2,724
Loans transferred to other real estate owned related to FDIC-assisted transactions	11,580	17,923
Loans transferred to repossessed vehicles	606	607
Operating leases rewritten as direct finance leases included as loans	6,541	7,593

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 nine months ended September 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 740 “Income Taxes.” New authoritative accounting guidance under ASC Topic 740, “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 share and per share data).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Distributed earnings allocated to common stock	$6,636	$548	$17,653	$1,643
Undistributed earnings	17,764	22,585	56,946	64,719
Net income	24,400	23,133	74,599	66,362
Less: preferred stock dividends and discount accretion	—	—	—	3,269
Net income available to common stockholders	24,400	23,133	74,599	63,093
Less: earnings allocated to participating securities	1	1	2	2
Earnings allocated to common stockholders	$24,399	$23,132	$74,597	$63,091
Weighted average shares outstanding for basic earnings per common share	54,565,089	54,346,827	54,471,541	54,226,241
Dilutive effect of equity awards	565,564	209,690	440,811	246,376
	55,130,653	54,556,517	54,912,352	54,472,617

Weighted average shares outstanding for diluted earnings per common share				
Basic earnings per common share	$0.45	$0.43	$1.37	$1.16
Diluted earnings per common share	0.44	0.42	1.36	1.16

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Note 4. Business Combinations

The following business combination was accounted for under the acquisition 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	$—

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 convertible preferred stock ("non-voting 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-

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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 repurchased or 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.

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
September 30, 2013					
Available for Sale					
U.S. Government sponsored agencies and enterprises	$50,678	$1,849	$—		$52,527
States and political subdivisions	19,461	52	(201	)	19,312
Residential mortgage-backed securities	685,126	8,659	(2,509	)	691,276
Commercial mortgage-backed securities	50,944	2,502	—		53,446
Corporate bonds	265,293	927	(3,199	)	263,021
Equity securities	10,574	—	(33	)	10,541
	1,082,076	13,989	(5,942	)	1,090,123
Held to Maturity					
States and political subdivisions	941,273	8,517	(3,481	)	946,309
Residential mortgage-backed securities	252,271	14,168	—		266,439
	1,193,544	22,685	(3,481	)	1,212,748
Total	$2,275,620	$36,674	$(9,423	)	$2,302,871
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

Securities of states and political subdivisions with a fair value of $656.6 million were transferred from available for sale to held to maturity during the third quarter of 2013, which is the new cost basis. As of the date of the transfer, the resulting unrealized

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holding gain continues to be reported as a separate component of stockholders' equity as accumulated other comprehensive income, net of tax. This unrealized gain will be amortized over the remaining life of the securities as a yield adjustment.

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 September 30, 2013. Approximately 90% of such securities were general obligation issues as of September 30, 2013.

Unrealized losses on investment securities and the fair value of the related securities at September 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	$9,050	$(201)	$—	$—	$9,050	$(201)
Residential mortgage-backed securities	206,562	(2,040)	49,104	(469)	255,666	(2,509)
Corporate bonds	147,181	(3,199)	—	—	147,181	(3,199)
Equity securities	10,541	(33)	—	—	10,541	(33)
	373,334	(5,473)	49,104	(469)	422,438	(5,942)
Held to Maturity						
States and political subdivisions	207,613	(3,481)	—	—	207,613	(3,481)
	207,613	(3,481)	—	—	207,613	(3,481)
Totals	$580,947	$(8,954)	$49,104	$(469)	$630,051	$(9,423)

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 September 30, 2013 was 353 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 September 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 September 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, and the fair value of our municipal security portfolio would decline substantially if interest rates increase materially.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Realized gains	$1	$282	$15	$472
Realized losses	—	(1)	(1)	(4)
Impairment charges	—	—	—	(224)
Net gains (losses)	$1	$281	$14	$244

The amortized cost and fair value of investment securities as of September 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	$—	$—
Due after one year through five years	319,032	318,598
Due after five years through ten years	7,695	7,711
Due after ten years	8,705	8,551
Equity securities	10,574	10,541
Residential and commercial mortgage-backed securities	736,070	744,722
	1,082,076	1,090,123
Held to maturity:		
Due in one year or less	28,222	28,221
Due after one year through five years	245,125	245,545
Due after five years through ten years	122,547	122,533
Due after ten years	545,379	550,010
Residential mortgage-backed securities	252,271	266,439
	1,193,544	1,212,748
Total	$2,275,620	$2,302,871

Investment securities available for sale with carrying amounts of $1.0 billion and $989.6 million at September 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):

	September 30, 2013	December 31, 2012
Commercial loans	$1,169,009	$1,220,472
Commercial loans collateralized by assignment of lease payments	1,468,814	1,303,020
Commercial real estate	1,638,368	1,761,832
Residential real estate	311,256	314,359
Construction real estate	136,146	110,261
Indirect vehicle	257,740	208,633
Home equity	274,484	305,186
Other consumer loans	57,418	93,317
Gross loans, excluding covered loans	5,313,235	5,317,080
Covered loans	273,497	449,850
Total loans(1)	$5,586,732	$5,766,930

(1) Gross loan balances at September 30, 2013 and December 31, 2012 are net of unearned income, including net deferred loan fees of $1.5 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 significant 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 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 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 September 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
September 30, 2013						
Commercial	$1,158,326	$2,392	$2,580	$5,711	$10,683	$1,169,009
Commercial collateralized by assignment of lease payments	1,455,296	10,761	1,816	941	13,518	1,468,814
Commercial real estate						
Healthcare	212,659	—	—	3,164	3,164	215,823
Industrial	371,940	161	2,101	1,394	3,656	375,596
Multifamily	316,495	2,808	—	2,387	5,195	321,690
Retail	344,390	236	449	8,632	9,317	353,707
Office	139,251	412	579	2,106	3,097	142,348
Other	223,385	3,443	229	2,147	5,819	229,204
Residential real estate	298,878	1,103	1,059	10,216	12,378	311,256
Construction real estate	133,742	—	89	2,315	2,404	136,146
Indirect vehicle	255,177	1,638	687	238	2,563	257,740
Home equity	260,055	4,505	2,911	7,013	14,429	274,484
Other consumer	57,357	54	1	6	61	57,418
Gross loans, excluding covered loans	5,226,951	27,513	12,501	46,270	86,284	5,313,235
Covered loans	138,876	12,091	5,681	116,849	134,621	273,497
Total loans (1)	$5,365,827	$39,604	$18,182	$163,119	$220,905	$5,586,732
Nonperforming loan aging	$53,271	$3,596	$6,111	$39,474	$49,181	$102,452
Non-covered loans related to FDIC transactions (2)	$11,339	$222	$146	$6,796	$7,164	$18,503
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
Non-covered loans related to FDIC transactions (2)	$12,752	$ 312	$ 1,542	$ 7,115	$8,969	$21,721

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

	September 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	$19,948	$—	$23,886	$229
Commercial collateralized by assignment of lease payments	2,130	215	1,180	222
Commercial real estate:				
Healthcare	3,164	—	3,238	—
Industrial	9,754	—	19,179	147
Multifamily	5,087	195	7,225	—
Office	10,916	—	3,263	—
Retail	3,740	—	17,019	—
Other	21,420	—	9,437	—
Residential real estate	13,041	—	10,943	—
Construction real estate	496	—	1,028	—
Indirect vehicle	1,516	—	1,494	—
Home equity	10,818	—	17,486	1,000
Other consumer	12	—	9	1
Total	$102,042	$410	$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 as 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 as of September 30, 2013 and December 31, 2012 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2013					
Commercial	$1,091,129	$17,720	$60,160	$—	$1,169,009
Commercial collateralized by assignment of lease payments	1,457,577	4,814	6,423	—	1,468,814
Commercial real estate					
Healthcare	188,946	21,556	2,157	3,164	215,823
Industrial	335,274	7,384	32,938	—	375,596
Multifamily	306,691	—	14,999	—	321,690
Retail	324,558	10,373	18,776	—	353,707
Office	132,490	2,732	7,126	—	142,348
Other	201,971	3,088	24,145	—	229,204
Construction real estate	126,902	6,264	2,980	—	136,146
Total	$4,165,538	$73,931	$169,704	$3,164	$4,412,337
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 $76.5 million and $85.5 million of the substandard and doubtful loans were non-performing as of September 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 September 30, 2013 and December 31, 2012 (in thousands):

	Performing	Non-performing	Total
September 30, 2013			
Residential real estate	$298,215	$13,041	$311,256
Indirect vehicle	256,224	1,516	257,740
Home equity	263,666	10,818	274,484
Other consumer	57,406	12	57,418
Total	$875,511	$25,387	$900,898
December 31, 2012			
Residential real estate	$303,416	$10,943	$314,359
Indirect vehicle	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 September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013							
					Three Months Ended		Nine 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	$6,236	$5,364	$ 872	$—	$6,509	$—	$7,378	$—
Commercial collateralized by assignment of lease payments	681	681	—	—	666	6	256	6
Commercial real estate:								
Healthcare	—	—	—	—	—	—	3,608	—
Industrial	7,547	6,927	620	—	7,902	—	9,316	—
Multifamily	546	546	—	—	665	—	739	—
Retail	3,002	3,002	—	—	3,233	—	3,123	—
Office	685	527	158	—	705	—	986	—
Other	3,149	3,139	10	—	3,353	—	4,785	—
Residential real estate	4,174	3,788	386	—	4,082	—	2,835	—
Construction real estate	—	—	—	—	—	—	—	—
Indirect vehicle	—	—	—	—	—	—	—	—
Home equity	577	577	—	—	577	—	872	—
Other consumer	—	—	—	—	—	—	—	—
With an allowance recorded:								
Commercial	14,472	14,472	—	4,389	15,680	—	14,839	—
Commercial collateralized by assignment of lease payments	1,649	1,649	—	285	1,659	109	1,347	158
Commercial real estate:								
Healthcare	10,868	3,164	7,704	495	10,869	—	7,302	—
Industrial	2,826	2,826	—	1,047	3,078	—	3,611	—
Multifamily	6,334	5,944	390	1,876	6,408	115	6,642	224
Retail	15,323	13,031	2,292	1,855	13,778	—	13,572	—
Office	3,607	3,214	393	1,047	3,735	—	4,391	—
Other	18,493	18,280	213	1,144	19,790	8	11,104	16
Residential real estate	12,690	12,063	627	3,033	12,494	—	12,965	—
	3,990	1,622	2,368	240	1,736	—	1,938	—

Construction real estate								
Indirect vehicle	138	106	32	—	146	—	54	—
Home equity	23,171	22,701	470	781	23,558	—	24,341	—
Other consumer	—	—	—	—	—	—	—	—
Total	$ 140,158	$ 123,623	$ 16,535	$ 16,192	$ 140,623	$ 238	$ 136,004	$ 404

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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 vehicle	—	—	—	—	—	—
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 vehicle	—	—	—	—	—	—
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 $29.9 million and $21.3 million that have been modified and are performing in accordance with those modified terms as of September 30, 2013 and December 31, 2012, respectively. In addition, impaired loans included $22.3 million and $28.4 million of non-performing, restructured loans as of September 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, deferring past due interest or principal, implementing an A/B note structure, redeeming past due taxes, reducing interest rates, extending maturities and modifying 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"), a restructuring program similar to the Home Affordable

Modification Program (“HAMP”) for first mortgage borrowers, 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 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 September 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 to 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 will not be able to meet the modified terms of the loan, the loan will 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 September 30, 2013 (dollars in thousands):

	September 30, 2013			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Residential real estate	1	$95	$95	$—
Home equity	1	19	19	—
Total	2	$114	$114	$—
Non-Performing:				
Commercial real estate:				
Healthcare	1	$3,164	$3,164	$496
Multifamily	1	436	436	119
Retail	1	205	205	56
Residential real estate	1	394	394	—
Indirect vehicle	17	113	89	24
Home equity	5	397	397	—
Total	26	$4,709	$4,685	$695

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

	September 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	5	854	854	—
Home equity	7	723	723	—
Total	13	$2,178	$2,178	$—
Non-Performing:				
Commercial	2	$1,251	$1,251	$673
Commercial real estate:				
Healthcare	1	3,164	3,164	496
Industrial	4	2,570	2,570	1,425
Multifamily	2	623	623	169
Retail	3	862	862	235
Other	1	84	84	23
Residential real estate	6	1,149	1,149	—
Indirect vehicle	20	127	103	24
Home equity	25	3,333	3,333	—
Total	64	$13,163	$13,139	$3,045

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

	September 30, 2012			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Home equity	7	$401	$325	$76
Total	7	$401	$325	$76
Non-Performing:				
Commercial collateralized by assignment of lease payments	1	$202	$202	$168
Commercial real estate:				
Retail	1	202	202	200
Residential real estate	7	173	68	105
Home equity	5	347	232	115
Total	14	$924	$704	$588

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

	September 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	38	6,009	5,933	76
Total	42	$7,208	$7,132	$76
Non-Performing:				
Commercial	4	$292	$292	$96
Commercial collateralized by assignment of lease payments	1	202	202	168
Commercial real estate:				
Multifamily	1	149	149	40
Retail	4	923	923	232
Other	1	157	157	50
Residential real estate	13	637	401	236
Home equity	34	5,324	4,899	425
Total	58	$7,684	$7,023	$1,247

Of the troubled debt restructurings entered into during the past twelve months, none subsequently defaulted during the nine months ended September 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 nine months ended September 30, 2013 (dollars in thousands):

	Performing	Non-performing
Beginning balance	$21,256	$28,418
Additions	2,178	13,163
Charge-offs	—	(3,127)
Principal payments, net	(883)	(8,008)
Removals	—	(565)
Transfer to other real estate owned	—	(206)
Transfer from/to performing	8,458	1,098
Transfer from/to nonperforming	(1,098)	(8,458)
Ending balance	$29,911	$22,315

Approximately $8.5 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 troubled 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 pre-modification recorded investment during the nine months ended September 30, 2013 (dollars in thousands):

	September 30, 2013						
	Extended Maturity, Amortization and Reduction of Interest Rate	Extended Maturity, Delay in Payments and Reduction of Interest Rate	Extended Maturity and Reduction of Interest Rate	Extended Maturity, Delay in Payments and Reduction of Amount	Extended Maturity	Delay in Payments or Reduction of Interest Rate	Total
Commercial	$42	$—	$1,209	$—	$—	$—	$1,251
Commercial collateralized by assignment of lease payments	—	—	—	—	—	—	—
Commercial real estate:							
Healthcare	—	—	—	3,164	—	—	3,164
Industrial	—	—	—	—	2,570	—	2,570
Multifamily	187	—	—	—	601	436	1,224
Retail	256	205	401	—	—	—	862
Office	—	—	—	—	—	—	—
Other	84	—	—	—	—	—	84
Residential real estate	1,386	—	—	—	—	618	2,004
Construction real estate	—	—	—	—	—	—	—
Indirect vehicle	—	—	—	—	—	127	127
Home equity	1,509	—	708	—	227	1,611	4,055
Other consumer	—	—	—	—	—	—	—
Total	$3,464	$205	$2,318	$3,164	$3,398	$2,792	$15,341

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 September 30, 2013 and 2012 (in thousands):

	Commercial	Commercial collateralized by assignment of lease payments	Commercial real estate	Residential real estate	Construction real estate	Indirect vehicle	Home equity	Other consumer	Unfunded commitments	Total
September 30, 2013										
Allowance for credit losses:										
Three Months Ended										
Beginning balance	$27,277	$8,529	$60,014	$8,121	$8,695	$1,537	$8,206	$1,306	$1,812	$125,49
Transfer to (from) allowance for unfunded credit commitments	—	—	—	—	—	—	—	—	—	—
Charge-offs	1,686	—	1,236	713	26	572	437	485	—	5,155
Recoveries	579	—	966	48	420	372	228	74	—	2,687
Provision	(45)	721	(3,983)	347	(735)	293	(152)	368	(118)	(3,304
Ending balance	$26,125	$9,250	$55,761	$7,803	$8,354	$1,630	$7,845	$1,263	$1,694	$119,72
Nine 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	3,030	—	5,131	2,074	855	1,930	2,547	1,501	—	17,068
Recoveries	1,808	1,131	5,353	461	827	1,111	442	185	—	11,318
Provision	2,404	364	(5,517)	2,475	(3,340)	1,125	549	1,017	(1,881)	(2,804
Ending balance	$26,125	$9,250	$55,761	$7,803	$8,354	$1,630	$7,845	$1,263	$1,694	$119,72
Ending allowance balance attributable to loans:										

Individually evaluated for impairment	$4,389	$285	$7,464	$3,033	$240	$—	$781	$—	$657	$16,849
Collectively evaluated for impairment	20,871	8,965	46,412	4,663	8,114	1,630	7,064	1,263	1,037	100,019
Acquired and accounted for under ASC 310-30 (1)	865	—	1,885	107	—	—	—	—	—	2,857
Total ending allowance balance	$26,125	$9,250	$55,761	$7,803	$8,354	$1,630	$7,845	$1,263	$1,694	$119,72
Loans:										
Individually evaluated for impairment	$19,836	$2,330	$60,600	$15,851	$1,622	$106	$23,278	$—	$—	$123,62
Collectively evaluated for impairment	1,134,376	1,466,484	1,577,768	291,699	134,524	257,634	251,206	57,418	—	5,171,10
Acquired and accounted for under ASC 310-30 (1)	35,649	—	159,799	5,982	61,446	—	110	29,014	—	292,000
Total ending loans balance	$1,189,861	$1,468,814	$1,798,167	$313,532	$197,592	$257,740	$274,594	$86,432	$—	$5,586,7

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	Commercial	Commercial collateralized by assignment of lease payments	Commercial real estate	Residential real estate	Construction real estate	Indirect vehicle	Home equity	Other consumer	Unfunded commitments	Total
September 30, 2012										
Allowance for credit losses:										
Three Months Ended										
Beginning balance	$20,789	$7,490	$68,713	$3,592	$10,586	$1,941	$7,617	$1,028	$7,084	$128,84
Charge-offs	75	—	2,994	474	71	433	1,209	332	—	5,588
Recoveries	306	111	12,893	8	752	224	303	77	—	14,674
Provision	1,181	(149)	(12,253)	738	(393)	288	370	558	(3,340)	(13,000
Ending balance	$22,201	$7,452	$66,359	$3,864	$10,874	$2,020	$7,081	$1,331	$3,744	$124,92
Nine 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	2,065	1,720	8,412	1,876	3,951	1,636	3,157	864	—	23,681
Recoveries	2,730	460	16,116	230	1,458	835	423	280	—	22,532
Provision	430	1,151	(10,040)	1,575	(3,404)	987	2,482	1,220	(4,301)	(9,900
Ending balance	$22,201	$7,452	$66,359	$3,864	$10,874	$2,020	$7,081	$1,331	$3,744	$124,92
Ending allowance balance attributable to loans:										
Individually evaluated for impairment	$2,570	$180	$7,567	$401	$582	$—	$—	$—	$1,726	$13,026
Collectively evaluated for impairment	19,345	7,272	56,851	3,144	10,292	2,020	7,081	1,331	2,018	109,354
Acquired and accounted for under ASC 310-30 (1)	286	—	1,941	319	—	—	—	—	—	2,546

Total ending allowance balance	$22,201	$7,452	$66,359	$3,864	$10,874	$2,020	$7,081	$1,331	$3,744	$124,92
Loans:										
Individually evaluated for impairment	$21,537	$1,168	$56,037	$11,127	$2,372	$—	$10,280	$248	$—	$102,76
Collectively evaluated for impairment	1,033,534	1,218,193	1,714,224	293,787	147,500	206,973	304,438	84,403	—	5,003,05
Acquired and accounted for under ASC 310-30 (1)	78,275	—	269,348	7,116	125,515	—	568	38,202	—	519,024
Total ending loans balance	$1,133,346	$1,219,361	$2,039,609	$312,030	$275,387	$206,973	$315,286	$122,853	$—	$5,624,8

(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 are recorded at estimated fair value on their purchase date without a carryover of the related allowance for loan losses. These acquired loans are segregated into three types: pass rated loans with no discount attributable to credit quality, non-impaired loans with a discount attributable at least in part to credit quality and impaired loans with evidence of significant credit deterioration.

- Pass rated loans (typically performing loans) are accounted in accordance with ASC 310-30 "Nonrefundable Fees and Other Costs" as these loans do not have evidence of credit deterioration since origination.
- Non-impaired loans (typically past-due loans, special mention loans and performing substandard loans) are accounted for in accordance with ASC 310-30 as they display at least some level of credit deterioration since origination.
- Impaired loans (typically substandard loans on non-accrual status) are accounted for in accordance with ASC 310-30 as they display significant credit deterioration since origination.

In accordance with ASC 310-30, for both purchased non-impaired loans and purchased impaired loans, the difference between contractually required payments at acquisition and the cash flows expected to be collected 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.

Substantially all of the loans acquired in transactions with the FDIC displayed at least some level of credit deterioration and as such are included as non-impaired and impaired loans as described immediately above.

During the three and nine months ended September 30, 2013 there was a negative provision for credit losses of $1.5 million and $2.5 million, respectively, and net recoveries of $677 thousand and $830 thousand, respectively, in relation to 15 pools of purchased loans with a total carrying amount of $219.1 million as of September 30, 2013. There was $2.9 million in allowance for loan losses related to these purchased loans at September 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 nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Balance at beginning of period	$6,360	$9,411	$5,685	$18,703
Accretion	(2,427)	(3,406)	(2,859)	(12,812)
Other	—	403	1,107	517
Balance at end of period	$3,933	$6,408	$3,933	$6,408

In our FDIC-assisted transactions, the fair value of purchased 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 non-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 September 30, 2013 consisted of loans as shown in the following table (in thousands):

September 30, 2013	Purchased Impaired Loans	Purchased Non-Impaired Loans	Total
Covered loans:			
Commercial related (1)	$11,130	$ 5,738	$16,868
Commercial	457	3,527	3,984
Commercial real estate	62,576	97,223	159,799
Construction real estate	53,444	8,002	61,446
Other	2,982	28,418	31,400
Total covered loans	$130,589	$ 142,908	$273,497
Estimated receivable amount from the FDIC under the loss-share agreement (2)	$36	$ 10,013	$10,049
Non covered loans:			
Commercial related (3)	$4,357	$ 10,440	$14,797
Other	89	3,617	3,706
Total non-covered loans	$4,446	$ 14,057	$18,503

(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 $1.0 million in reimbursable amounts related to covered other real estate owned.

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

Outstanding balances on purchased loans from the FDIC were $305.0 million and $515.7 million as of September 30, 2013 and December 31, 2012, respectively. The related carrying amount on loans purchased from the FDIC was $292.0 million and $471.6 million as of September 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 nine months ended September 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 September 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 September 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 September 30, 2013 (in thousands):

	Nine Months Ended September 30, 2013
Balance at beginning of period	$29,512
Amortization expense	(4,595)
Balance at end of period	$24,917
Gross carrying amount	$61,429
Accumulated amortization	(36,512)
Net book value	$24,917

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

Year ending December 31,	Amount
2013	$1,489
2014	4,748
2015	4,030
2016	3,418
2017	3,071
Thereafter	8,161
	$24,917

Note 8. Deposits

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

	September 30, 2013	December 31, 2012
Demand deposit accounts, noninterest bearing	$2,269,367	$2,164,547
NOW and money market accounts	2,680,127	2,747,273
Savings accounts	843,671	811,333
Certificates of deposit, $100,000 or more	838,606	1,020,033
Other certificates of deposit	666,915	799,511
Total	$7,298,686	$7,542,697

Certificates of deposit of $100,000 or more included $238.5 million and $294.2 million of brokered deposits at September 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 September 30, 2013 and December 31, 2012 (dollars in thousands):

	September 30, 2013			December 31, 2012		
	Weighted Average Cost		Amount	Weighted Average Cost		Amount
Customer repurchase agreements	0.22	%	$240,600	0.23	%	$208,242
Federal Home Loan Bank advances	—	%	—	3.58	%	12,360
	0.22	%	$240,600	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 $12.4 million in fixed rate advances at December 31, 2012.

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 September 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 remaining contractual maturities greater than one year of $4.3 million at September 30, 2013 and December 31, 2012. As of September 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 September 30, 2013 and December 31, 2012, the Company had $7.3 million and $28.4 million, respectively, of loans pledged as collateral for long-term Federal Home Loan Bank advances. Additionally, as of September 30, 2013 and December 31, 2012, the Company had $29.2 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 $17.7 million and $21.1 million at September 30, 2013 and December 31, 2012, respectively, which as of September 30, 2013, were accruing interest at rates ranging from 2.50% to 12.00%. Lease investments includes equipment with an amortized cost of $25.9 million and $29.7 million at September 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 September 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 September 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, constitutes 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 September 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	
	September 30, 2013	December 31, 2012
Commitments to extend credit:		
Home equity lines	$216,992	$239,771
Other commitments	1,139,255	911,166
Letters of credit:		
Standby	70,720	66,247
Commercial	2,705	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 September 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 September 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 $6.7 million to $73.4 million from $66.7 million at December 31, 2012. Of the $73.4 million in commitments outstanding at September 30, 2013, approximately $52.6 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 of 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 September 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 September 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 September 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, 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.

Loans Held for Sale. 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 September 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)
September 30, 2013				
Financial assets				
Securities available for sale:				
U.S Government sponsored agencies and enterprises	$52,527	$ —	$ 52,527	$ —
States and political subdivisions	19,312	—	19,312	—
Residential mortgage-backed securities	691,276	—	690,546	730
Commercial mortgage-backed securities	53,446	—	53,446	—
Corporate bonds	263,021	—	257,857	5,164
Equity securities	10,541	10,541	—	—
Loans held for sale	1,120	—	1,120	—
Assets held in trust for deferred compensation	10,077	10,077	—	—
Derivative financial instruments	19,112	—	19,112	—
Financial liabilities				
Other liabilities (1)	9,892	9,892	—	—
Derivative financial instruments	19,060	—	19,060	—
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 September 30, 2013	Valuation Technique	Unobservable Input	Range
Residential mortgage-backed securities	$730	Discounted cash flows	Constant pre-payment rates (CPR) assumption	1% - 3% CPR
Corporate bonds	5,164	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 nine months ended September 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):

	Nine Months Ended September 30,	
(in thousands)	2013	2012
Balance, beginning of period	$6,071	$6,992
Other comprehensive income	(59)	89
Principal payments	(118)	(846)
Impairment charge	—	(117)
Balance, ending of period	$5,894	$6,118

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 fair 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 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 September 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)
September 30, 2013				
Financial assets:				
Impaired loans	$84,500	$ —	$—	$ 84,500
Non-financial assets:				
Foreclosed assets	57,009	—	—	57,009
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 September 30, 2013	Valuation Technique	Unobservable Input	Range
Impaired loans	$84,500	Appraisal of collateral	Appraisal adjustments - sales costs	5% - 10%
Foreclosed assets	57,009	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, and classified as Level 1. If quoted market prices are not available, the fair value is determined by a matrix pricing, which is a mathematical technique widely used in the industry to value debt 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.

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

Loans Held for Sale: The fair value of the loans held for sale is determined using quoted secondary market prices and classified as level 2.

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):

	September 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	$215,017	$215,017	$ 215,017	$ —	$ —
Interest bearing deposits with banks	41,700	41,700	41,700	—	—
Investment securities available for sale	1,090,123	1,090,123	10,541	1,073,688	5,894
Investment securities held to maturity	1,193,544	1,212,748	—	1,212,748	—
Non-marketable securities - FHLB and FRB stock	50,870	50,870	—	—	50,870
Loans held for sale	1,120	1,120	—	1,120	—
Loans, net	5,468,701	5,470,567	—	—	5,470,567
Accrued interest receivable	35,938	35,938	35,938	—	—
Derivative financial instruments	19,112	19,112	—	19,112	—
Financial Liabilities:					
Noninterest bearing deposits	$2,269,367	$2,269,367	$ 2,269,367	$ —	$ —
Interest bearing deposits	5,029,319	5,039,175	—	—	5,039,175
Short-term borrowings	240,600	240,595	—	—	240,595
Long-term borrowings	62,428	67,425	—	—	67,425
Junior subordinated notes issued to capital trusts	152,065	105,967	—	—	105,967
Accrued interest payable	1,908	1,908	1,908	—	—
Derivative financial instruments	19,060	19,060	—	19,060	—

	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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total cost of share-based payment plans during the period	$1,388	$1,080	$3,860	$3,581
Amount of related income tax benefit recognized in income	548	430	1,530	$1,431

The Company adopted the Omnibus Incentive Plan (the "Omnibus Plan") in 1997. In June 2011, the Company's stockholders approved an amendment and restatement of the Omnibus Plan to add 2,300,000 authorized shares for a total of 8,300,000 shares of common stock for issuance to directors, officers, and employees of the Company or any of its subsidiaries. Equity grants under the Omnibus Plan can be in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and other stock-based awards. Shares awarded in the form of restricted stock, restricted stock units, performance shares, performance units, or other stock-based awards generally will reduce the shares available under the Omnibus Plan on a 2-for-1 basis. As of September 30, 2013, there were 1,617,262 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 to 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 vest one year after the grant date.

The following table summarizes stock options outstanding for the nine months ended September 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	211,501	27.03		
Exercised	(330,832)	25.51		
Expired or cancelled	(113,290)	30.91		
Forfeited	(17,857)	20.18		
Options outstanding as of September 30, 2013	2,489,275	$27.44	4.94	$9,407
Options exercisable as of September 30, 2013	1,809,183	$29.72	3.67	$4,764

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 nine months ended September 30, 2013:

	September 30, 2013	
Risk-free interest rate	1.96	%
Expected volatility of Company's stock	25.60	%
Expected dividend yield	1.74	%
Expected life of options	5.6 years	
Weighted average fair value per option of options granted during the year	$5.97	

The total intrinsic value of options exercised during the nine months ended September 30, 2013 and 2012 was $929 thousand and $203 thousand, respectively.

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

	Number of Shares and Units		Weighted Average Grant Date Fair Value
Shares Outstanding at December 31, 2012	634,211		$18.82
Granted	270,983		26.91
Vested	(201,178	)	16.79
Forfeited	(13,983	)	20.52
Shares Outstanding at September 30, 2013	690,033		$22.55

The Company issued 56,752 and 65,333 market-based restricted stock units in 2013 and 2012, respectively, 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 been satisfied as of September 30, 2013. Awards issued in 2011 will vest in full in 2014, on the third anniversary of the grant date. Awards issued in 2010 vested in full in 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 September 30, 2013, there was $14.2 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 September 30, 2013, the weighted-average period over which the unrecognized compensation expense is expected to be recognized was approximately 2.9 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 payable as of September 30, 2013 was approximately $24 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 September 30, 2013, the Company’s credit exposure relating to interest rate swaps was approximately $17.9 million, which is secured by the underlying collateral on customer loans.

The Company also enters into mortgage banking derivatives which are classified 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 $248 thousand at September 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 September 30, 2013 and December 31, 2012 (in thousands):

	Asset Derivatives				Liability Derivatives			
	September 30, 2013		December 31, 2012		September 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)	$—	$—	$—	$—	$248	$(26)	$3,707	$(94)
Stand-alone derivative instruments (2)								
Interest rate swap contracts	570,472	17,813	460,956	27,740	571,445	(17,875)	462,012	(27,832)
Interest rate options contracts	84,095	307	70,346	157	84,095	(307)	70,346	(157)
Foreign exchange contracts	16,112	912	20,033	1,062	15,536	(818)	19,337	(961)

Mortgage banking derivatives	4,794	80	11,400	137	2,603	(34)	4,000	(11)
Total non-hedging derivative instruments	675,473	19,112	562,735	29,096	673,679	(19,034)	555,695	(28,961)
Total	$675,473	$19,112	$562,735	$29,096	$673,927	$(19,060)	$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.

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Derivative instruments designated as hedges of fair value:				
Interest rate swap contracts	$(1)	$—	$9	$(36)
Stand-alone derivative instruments				
Interest rate swap contracts	7	6	30	19
Interest rate options contracts	—	—	—	—
Foreign exchange contracts	(12)	14	(7)	44
Mortgage banking derivatives	(16)	9	(80)	79
Total non-hedging derivative instruments	(21)	29	(57)	142
Total	$(22)	$29	$(48)	$106

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 September 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	$3,483	$—	$3,483	$14,724	$—	$14,724
Foreign currency forward contracts	67	—	67	764	—	764
Mortgage banking derivatives	—	—	—	34	—	34
Total derivatives	3,550	—	3,550	15,522	—	15,522
Repurchase agreements	—	—	—	240,600	—	240,600
Total	$3,550	$—	$3,550	$256,122	$—	$256,122

	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)	$—	$—	$12,976	$(440)	$(12,536)	$—
Counterparty B	1,090	(551)	—	539	551	(551)	—	—
Counterparty C	1,570	(1,570)	—	—	1,949	(1,570)	(379)	—
Other counterparties	450	(1)	—	449	46	(1)	—	45
Total derivatives	3,550	(2,562)	—	988	15,522	(2,562)	(12,915)	45
Repurchase agreements	—	—	—	—	240,600	—	(240,600)	—
Total	$3,550	$(2,562)	$—	$988	$256,122	$(2,562)	$(253,515)	$45

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.

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), prepayment fees on interest bearing liabilities and other operating expenses. Additionally, dividends on preferred shares reduced net income available to common stockholders for the nine months ended September 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 those 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 $24.4 million for the three months ended September 30, 2013 compared to net income and net income available to common stockholders of $23.1 million for the three months ended September 30, 2012. Fully diluted earnings per common share were $0.44 for the three months ended September 30, 2013 compared to $0.42 per common share for the three months ended September 30, 2012.

The Company had net income and net income available to common stockholders of $74.6 million for the nine months ended September 30, 2013 compared to net income of $66.4 million and net income available to common stockholders of $63.1 million for the nine months ended September 30, 2012. Fully diluted earnings per common share were $1.36 for the nine months ended September 30, 2013 compared to $1.16 per common share for the nine months ended September 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 Compliance and 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 September 30, 2013, the aggregate residual value of the equipment leased under our direct finance, leveraged, and operating leases totaled $74.0 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 September 30, 2013, the Company had $107 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 September 30, 2013, the Company had approximately $12 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 nine months ended September 30, 2013 and 2012. We are not aware of any events or circumstances subsequent to our annual goodwill impairment testing date of December 31, 2012 that would indicate impairment of goodwill at September 30, 2013.

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 September 30, 2013			2012		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest Earning Assets:						
Loans (1) (2) (3)	$5,196,948	$57,325	4.38 %	$5,350,911	$65,301	4.85 %
Loans exempt from federal income taxes (4)	360,060	4,293	4.67	284,196	3,354	4.62
Taxable investment securities	1,292,366	6,330	1.96	1,418,549	7,287	2.05
Investment securities exempt from federal income taxes (4)	946,396	12,577	5.32	843,908	11,665	5.53
Federal funds sold	6,793	7	0.40	—	—	—
Other interest bearing deposits	316,210	193	0.24	483,622	312	0.26
Total interest earning assets	8,118,773	$80,725	3.94	8,381,186	$87,919	4.17
Non-interest earning assets	1,142,518			1,134,973		
Total assets	$9,261,291			$9,516,159		
Interest Bearing Liabilities:						
Deposits:						
NOW and money market deposit	$2,695,479	$862	0.13 %	$2,601,181	$1,026	0.16 %
Savings deposit	844,647	137	0.06	796,229	181	0.09
Time deposits	1,572,987	3,434	0.87	2,105,389	6,167	1.17
Short-term borrowings	205,946	112	0.22	233,780	342	0.58
Long-term borrowings and junior subordinated notes	215,041	1,367	2.49	371,057	2,872	3.03
Total interest bearing liabilities	5,534,100	$5,912	0.42	6,107,636	$10,588	0.69
Non-interest bearing deposits	2,258,357			2,020,762		
Other non-interest bearing liabilities	171,336			139,915		
Stockholders' equity	1,297,498			1,247,846		
Total liabilities and stockholders' equity	$9,261,291			$9,516,159		
Net interest income/interest rate spread (5)		$74,813	3.52 %		$77,331	3.48 %
Less: taxable equivalent adjustment		5,905			5,256	
Net interest income, as reported		$68,908			$72,075	
Net interest margin (6)			3.37 %			3.42 %
Tax equivalent effect			0.29 %			0.25 %
Net interest margin on a fully tax equivalent basis (6)			3.66 %			3.67 %

(1) Non-accrual loans are included in average loans.
(2) Interest income includes amortization of deferred loan origination fees of $839 thousand and $749 thousand for the three months ended September 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 $2.5 million during the three months ended September 30, 2013 compared to the three months ended September 30, 2012, primarily due to lower average earning asset balances, as a result of a $254.8 million decrease in covered loans. The net interest margin, expressed on a fully tax equivalent basis, was 3.66% for the third quarter of 2013 and 3.67% for the third quarter of 2012.

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(dollars in thousands)	Nine Months Ended September 30, 2013			2012		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest Earning Assets:						
Loans (1) (2) (3)	$5,292,496	$173,217	4.38 %	$5,446,682	$202,017	4.95 %
Loans exempt from federal income taxes (4)	327,618	11,188	4.50	271,297	9,788	4.74
Taxable investment securities	1,383,975	18,749	1.81	1,554,243	27,053	2.32
Investment securities exempt from federal income taxes (4)	930,653	37,537	5.38	798,660	33,268	5.55
Federal funds sold	3,249	9	0.37	—	—	—
Other interest bearing deposits	232,529	420	0.24	329,252	639	0.26
Total interest earning assets	8,170,520	$241,120	3.95	8,400,134	$272,765	4.34
Non-interest earning assets	1,162,210			1,176,758		
Total assets	$9,332,730			$9,576,892		
Interest Bearing Liabilities:						
Deposits:						
NOW and money market deposit	$2,702,567	$2,622	0.13 %	$2,619,297	$3,278	0.17 %
Savings deposit	835,754	409	0.07	784,706	642	0.11
Time deposits	1,692,760	12,243	0.97	2,219,554	20,272	1.22
Short-term borrowings	195,677	395	0.27	225,390	910	0.54
Long-term borrowings and junior subordinated notes	226,133	4,324	2.52	393,464	9,322	3.11
Total interest bearing liabilities	5,652,891	$19,993	0.47	6,242,411	$34,424	0.74
Non-interest bearing deposits	2,194,648			1,924,656		
Other non-interest bearing liabilities	193,203			131,890		
Stockholders' equity	1,291,988			1,277,935		
Total liabilities and stockholders' equity	$9,332,730			$9,576,892		
Net interest income/interest rate spread (5)		$221,127	3.48 %		$238,341	3.60 %
Less: taxable equivalent adjustment		17,054			15,069	
Net interest income, as reported		$204,073			$223,272	
Net interest margin (6)			3.34 %			3.55 %
Tax equivalent effect			0.28 %			0.24 %
Net interest margin on a fully tax equivalent basis (6)			3.62 %			3.79 %

(1) Non-accrual loans are included in average loans.
(2) Interest income includes amortization of deferred loan origination fees of $2.6 million and $2.5 million for the nine months ended September 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 $17.2 million during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012, primarily due to lower average earning asset balances (as a result of a $244.4 million 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 3.62% for the nine months ended September 30, 2013 and 3.79% for the nine months ended September 30, 2012. The decrease in margin during 2013 was primarily due to a decrease in yields on loans and investment securities, partially offset by a lower cost of funds.

Non-interest Income

	Three Months Ended September 30,			
	2013	2012	Increase/ (Decrease)	Percentage Change
Non-interest income (in thousands):				
Capital markets and international banking fees	$972	$1,400	$(428)	(30.6)%
Commercial deposit and treasury management fees	6,327	5,860	467	8.0%
Lease financing, net	14,070	9,671	4,399	45.5%
Trust and asset management fees	4,799	4,428	371	8.4%
Card fees	2,745	2,388	357	14.9%
Loan service fees	1,427	1,075	352	32.7%
Consumer and other deposit service fees	3,648	3,786	(138)	(3.6)%
Brokerage fees	1,289	1,185	104	8.8%
Net gain on investment securities	1	281	(280)	99.6%
Increase in cash surrender value of life insurance	851	890	(39)	(4.4)%
Net loss on sale of assets	—	(12)	12	100.0%
Accretion of FDIC indemnification asset	64	204	(140)	(68.6)%
Net loss recognized on other real estate owned	(791)	(3,938)	3,147	79.9%
Net gain on sale of loans	177	575	(398)	(69.2)%
Other operating income	1,337	760	577	75.9%
Total non-interest income	$36,916	$28,553	$8,363	29.3%

Non-interest income increased by $8.4 million, or 29.3%, for the three months ended September 30, 2013 compared to the three months ended September 30, 2012.

- Net lease financing revenue increased due to the impact of leasing revenues attributed to Celtic (approximately $6 million).
- Non-interest income was also impacted by lower losses recognized on other real estate owned in the third quarter of 2013 compared to the third quarter of 2012 due to stabilization in appraised values.

	Nine Months Ended September 30, 2013	2012	Increase/ (Decrease)	Percentage Change
Non-interest income (in thousands):				
Capital markets and international banking fees	$2,719	$2,700	$19	0.7 %
Commercial deposit and treasury management fees	18,322	17,541	781	4.5 %
Lease financing, net	45,435	23,963	21,472	89.6 %
Trust and asset management fees	14,167	13,367	800	6.0 %
Card fees	8,175	6,863	1,312	19.1 %
Loan service fees	4,349	3,409	940	27.6 %
Consumer and other deposit service fees	10,487	10,773	(286)	(2.7)%
Brokerage fees	3,680	3,704	(24)	(0.6)%
Net gain on investment securities	14	244	(230)	94.3 %
Increase in cash surrender value of life insurance	2,537	2,677	(140)	(5.2)%
Net loss on sale of assets	—	(37)	37	100.0 %
Accretion of FDIC indemnification asset	307	901	(594)	(65.9)%
Net gain (loss) recognized on other real estate owned	894	(15,968)	16,862	105.6 %
Net gain on sale of loans	1,322	1,503	(181)	(12.0)%
Other operating income	3,835	3,674	161	4.4 %
Total non-interest income	$116,243	$75,314	$40,929	54.3 %

Non-interest income increased by $40.9 million, or 54.3%, for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012, driven by revenue from our key fee initiatives.

- Net lease financing income increased due to the impact of leasing revenues attributable to Celtic (approximately $19 million), as well as an increase in remarketing gains and fees from the sale of equipment maintenance contracts.
- 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.

Non-interest Expenses

	Three Months Ended September 30,			
	2013	2012	Increase/ (Decrease)	Percentage Change
Non-interest expenses (in thousands):				
Salaries and employee benefits	$44,918	$42,083	$2,835	6.7 %
Occupancy and equipment expense	8,797	8,274	523	6.3 %
Computer services and telecommunication expense	4,870	3,777	1,093	28.9 %
Advertising and marketing expense	1,917	1,936	(19)	(1.0)%
Professional and legal expense	3,102	1,554	1,548	99.6 %
Other intangibles amortization expense	1,513	1,251	262	20.9 %
Branch impairment charges	—	758	(758)	(100.0)%
Other real estate expense, net	240	874	(634)	(72.5)%
Prepayment fees on interest bearing liabilities	—	12,682	(12,682)	(100.0)%
Other operating expenses	10,117	7,976	2,141	26.8 %
Total non-interest expenses	$75,474	$81,165	$(5,691)	(7.0)%

Non-interest expenses decreased by $5.7 million, or 7.0%, for the three months ended September 30, 2013 from the three months ended September 30, 2012.

- Prepayment fees of $12.7 million related to the early redemption of interest bearing liabilities were recognized in the third quarter of 2012.
- Salaries and employee benefits increased due to annual salary increases and the impact of Celtic.
- 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 third quarter of 2013.
- Professional and legal expense increased due to merger related expenses related to fairness opinion, legal and consulting expenses.
- Computer services and telecommunication expense increased due to an increased investment in security, storage and our key fee initiatives.

	Nine Months Ended September 30,			
	2013	2012	Increase/ (Decrease)	Percentage Change
Non-interest expenses (in thousands):				
Salaries and employee benefits	$132,341	$122,658	$9,683	7.9 %
Occupancy and equipment expense	27,609	27,032	577	2.1 %
Computer services and telecommunication expense	13,374	11,339	2,035	17.9 %
Advertising and marketing expense	6,187	5,848	339	5.8 %
Professional and legal expense	5,750	4,470	1,280	28.6 %
Other intangibles amortization expense	4,595	3,759	836	22.2 %
Branch impairment charges	—	758	(758)	(100.0)%
Other real estate expense, net	572	2,541	(1,969)	(77.5)%
Prepayment fees on interest bearing liabilities	—	12,682	(12,682)	(100.0)%
Other operating expenses	28,413	24,243	4,170	17.2 %
Total non-interest expenses	$218,841	$215,330	$3,511	1.6 %

Non-interest expenses increased by $3.5 million, or 1.6%, for the nine months ended September 30, 2013 from the nine months ended September 30, 2012.

- Prepayment fees of $12.7 million related to the early redemption of interest bearing liabilities were recognized in the third quarter of 2012.

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- Salaries and employee benefits increased due to annual salary increases and the impact of Celtic.
- 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 nine months ended September 30, 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 September 30, 2013 and 2012 was $9.3 million. Income tax expense for the nine months ended September 30, 2013 was $29.7 million compared to income tax expense of $26.8 million for the nine months ended September 30, 2012. The increase was primarily due to an increase in our pre-tax income during the nine months ended September 30, 2013.

Balance Sheet

Total assets decreased $314.2 million, or 3.3%, from $9.6 billion at December 31, 2012 to $9.3 billion at September 30, 2013. Investment securities decreased $82.4 million, or 3.4%, from December 31, 2012 to September 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 decreased by $3.8 million to $5.3 billion at September 30, 2013 from 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 $347.9 million, or 4.2%, from $8.3 billion at December 31, 2012 to $7.9 billion at September 30, 2013. Total deposits decreased by $244.0 million, or 3.2%, to $7.3 billion at September 30, 2013 from December 31, 2012 due to the decline in certificates of deposits. Total borrowings decreased by $33.6 million, or 6.9%, to $455.1 million at September 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 $33.7 million to $1.3 billion at September 30, 2013 compared to December 31, 2012 primarily as a result of our earnings for the nine months ended September 30, 2013 partly offset by dividends and 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):

	September 30, 2013		December 31, 2012		September 30, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale						
U.S. Government sponsored agencies and enterprises	$50,678	$52,527	$38,605	$41,315	$39,233	$42,187
States and political subdivisions	19,461	19,312	679,991	725,019	620,489	668,966
Residential mortgage-backed securities	685,126	691,276	930,413	939,202	1,009,509	1,021,983
Commercial mortgage-backed securities	50,944	53,446	51,100	54,126	51,156	53,979
Corporate bonds	265,293	263,021	97,014	96,674	16,617	16,626
Equity securities	10,574	10,541	11,398	11,835	10,644	11,231
	1,082,076	1,090,123	1,808,521	1,868,171	1,747,648	1,814,972
Held to maturity						
States and political subdivisions	941,273	946,309	237,563	258,602	238,211	259,950
Residential mortgage-backed securities	252,271	266,439	255,858	277,079	257,640	277,039
	1,193,544	1,212,748	493,421	535,681	495,851	536,989
Total	$2,275,620	$2,302,871	$2,301,942	$2,403,852	$2,243,499	$2,351,961

Securities of states and political subdivisions with a fair value of $656.6 million were transferred from available for sale to held to maturity during the third quarter of 2013, which is the new cost basis. As of the date of the transfer, the resulting unrealized holding gain continues to be reported as a separate component of stockholders' equity as accumulated other comprehensive income, net of tax. This unrealized gain will be amortized over the remaining life of the securities as a yield adjustment.

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):

	September 30, 2013			December 31, 2012			September 30, 2012		
	Amount	% of Total		Amount	% of Total		Amount	% of Total	
Commercial related credits:									
Commercial loans	$1,169,009	21	%	$1,220,472	21	%	$1,073,981	19	%
Commercial loans collateralized by assignment of lease payments	1,468,814	26		1,303,020	23		1,219,361	22	
Commercial real estate	1,638,368	29		1,761,832	30		1,770,261	31	
Construction real estate	136,146	2		110,261	2		149,872	3	
Total commercial related credits	4,412,337	78		4,395,585	76		4,213,475	75	
Other loans:									
Residential real estate	311,256	6		314,359	5		308,866	5	
Indirect vehicle	257,740	5		208,633	4		206,973	3	
Home equity	274,484	5		305,186	5		314,718	6	
Other consumer loans	57,418	1		93,317	2		84,651	2	
Total other loans	900,898	17		921,495	16		915,208	16	
Gross loans excluding covered loans	5,313,235	95		5,317,080	92		5,128,683	91	
Covered loans (1)	273,497	5		449,850	8		496,162	9	
Total loans (2)	$5,586,732	100	%	$5,766,930	100	%	$5,624,845	100	%

(1) Loans that MB Financial Bank will share losses with the FDIC are referred to as “covered loans.”
(2) Gross loan balances at September 30, 2013, December 31, 2012, and September 30, 2012 are net of unearned income, including net deferred loans fees of $1.5 million, $1.1 million, and $955 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 15.0% while commercial real estate and construction loan balances decreased by 7.6%.

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):

	September 30, 2013	December 31, 2012	September 30, 2012
Non-performing loans:			
Non-accruing loans	$102,042	$115,387	$104,813
Loans 90 days or more past due, still accruing interest	410	1,599	470
Total non-performing loans	102,452	116,986	105,283
Other real estate owned	31,356	36,977	42,427
Repossessed assets	861	773	113
Total non-performing assets	$134,669	$154,736	$147,823
Total allowance for loan losses	$118,031	$124,204	$121,182
Accruing restructured loans (1)	29,911	21,256	17,929
Total non-performing loans to total loans	1.83 %	2.03 %	1.87 %
Total non-performing assets to total assets	1.45	1.62	1.56
Allowance for loan losses to non-performing loans	115.21	106.17	115.10

(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 a repossessed automobile 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 $23.9 million and $21.4 million at September 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 nine months ended September 30, 2013 and 2012 (in thousands):

	September 30, 2013	2012
Beginning balance	$36,977	$78,452
Transfers in at fair value less estimated costs to sell	6,060	2,724
Capitalized OREO costs	53	2,304
Fair value adjustments	80	(13,919)
Net gains on sales of OREO	977	1,264
Cash received upon disposition	(12,791)	(28,398)
Ending balance	$31,356	$42,427

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):

	September 30, 2013	December 31, 2012
Commercial loans	$40,500	$27,224
Commercial loans collateralized by assignment of lease payments	4,293	6,375
Commercial real estate	49,133	66,996
Construction real estate	2,484	10,958
Total	$96,410	$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.

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 $87.1 million as of September 30, 2013 and $91.7 million as of December 31, 2012. The reduction in the general loss reserve was a result in the improvement of credit quality of performing commercial related loans. Reserves on impaired commercial related 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 decreased from $13.2 million as of December 31, 2012 to $12.4 million as of September 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 $18.5 million at September 30, 2013 and $19.2 million at 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Balance at beginning of period	$125,497	$128,840	$128,279	$135,975
Provision for credit losses	(3,304)	(13,000)	(2,804)	(9,900)
Charge-offs:				
Commercial loans	1,686	75	3,030	2,065
Commercial loans collateralized by assignment of lease payments	—	—	—	1,720
Commercial real estate	1,236	2,994	5,131	8,412
Construction real estate	26	71	855	3,951
Residential real estate	713	474	2,074	1,876
Home equity	437	1,209	2,547	3,157
Indirect vehicles	572	433	1,930	1,636
Other consumer loans	485	332	1,501	864
Total charge-offs	5,155	5,588	17,068	23,681
Recoveries:				
Commercial loans	579	306	1,808	2,730
Commercial loans collateralized by assignment of lease payments	—	111	1,131	460
Commercial real estate	966	12,893	5,353	16,116
Construction real estate	420	752	827	1,458
Residential real estate	48	8	461	230
Home equity	228	303	442	423
Indirect vehicles	372	224	1,111	835
Other consumer loans	74	77	185	280
Total recoveries	2,687	14,674	11,318	22,532
Net charge-offs	2,468	(9,086)	5,750	1,149
Allowance for credit losses	119,725	124,926	119,725	124,926
Allowance for unfunded credit commitments	(1,694)	(3,744)	(1,694)	(3,744)
Allowance for loan losses	$118,031	$121,182	$118,031	$121,182
Total loans	$5,586,732	$5,624,845	$5,586,732	$5,624,845
Ratio of allowance to total loans	2.11%	2.15%	2.11%	2.15%
Ratio of net charge-offs to average loans	0.18	(0.64)	0.14	0.03

Net charge-offs of $5.8 million were recorded in the nine months ended September 30, 2013 compared to net charge-offs of $1.1 million in the nine months ended September 30, 2012. The negative provision for credit losses was $2.8 million for the nine months ended September 30, 2013 compared to a negative provision of $9.9 million for the nine months ended September 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):

	September 30, 2013	December 31, 2012	September 30, 2012
Direct finance leases:			
Minimum lease payments	$133,438	$90,160	$49,395
Estimated unguaranteed residual values	12,660	11,140	5,919
Less: unearned income	(11,270)	(7,135)	(4,538)
Direct finance leases (1)	$134,828	$94,165	$50,776
Leveraged leases:			
Minimum lease payments	$151,541	$154,549	$27,072
Estimated unguaranteed residual values	21,428	23,586	2,606
Less: unearned income	(4,981)	(2,879)	(2,397)
Less: related non-recourse debt	(143,759)	(145,719)	(25,655)
Leveraged leases (1)	$24,229	$29,537	$1,626
Operating leases:			
Equipment, at cost	$202,879	$222,083	$206,798
Less accumulated depreciation	(90,388)	(92,260)	(93,618)
Lease investments, net	$112,491	$129,823	$113,180

(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 $17.7 million at September 30, 2013 and $21.1 million at December 31, 2012.

At September 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	$2,210	$3,096	$3,539	$8,845
2014	3,501	6,165	10,864	20,530
2015	2,596	5,730	8,242	16,568
2016	2,485	4,022	8,349	14,856
2017	921	1,620	6,285	8,826
Thereafter	947	795	2,659	4,401
	$12,660	$21,428	$39,938	$74,026

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, there are several individual lease schedules under one master lease. There were 3,560 leases at September 30, 2013 compared to 3,464 at December 31, 2012. The average residual value per lease schedule was approximately $21 thousand at September 30, 2013 and $22 thousand at December 31, 2012. The average residual value per master lease schedule was approximately $80 thousand at September 30, 2013 and $79 thousand at 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 $126.3 million for the nine months ended September 30, 2013 compared to net cash flows provided by operating activities of $112.5 million for the nine months ended September 30, 2012. The change is due to the increase in earnings for the nine months ended September 30, 2013.

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 nine months ended September 30, 2013, the Company had net cash flows provided by investing activities of $139.0 million compared to net cash flows provided by investing activities of $554.3 million for the nine months ended September 30, 2012. The change was primarily due to more purchases of investment securities and a smaller decrease in loans as well as lower proceeds from FDIC related covered assets.

Cash flows from financing activities include transactions and events whereby cash is obtained from depositors, creditors or investors. For the nine months ended September 30, 2013, the Company had net cash flows used in financing activities of $296.2 million compared to net cash flows used in financing activities of $454.7 million for the nine months ended September

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 and repayment of borrowings.

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 September 30, 2013, there were no firm lending commitments in place, management believes that we could borrow approximately $280 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 September 30, 2013, the Company had $4.3 million outstanding in FHLB advances, and could borrow an additional amount of approximately $517 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 September 30, 2013, the Company had approximately $1.2 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 September 30, 2013, no amount was outstanding. The holding company had $94.5 million in cash as of September 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 September 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 September 30, 2013, the Company’s total risk-based capital ratio was 16.70%, Tier 1 capital to risk-weighted assets ratio was 15.44% and Tier 1 capital to average asset ratio was 11.39%. MB Financial Bank’s total risk-based capital ratio was 15.15%, Tier 1 capital to risk-weighted assets ratio was 13.90% and Tier 1 capital to average asset ratio was 10.24%. MB Financial Bank was categorized as “Well-Capitalized” at September 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:

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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 other 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 September 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 September 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	$40,533	$697	$470	$—	$41,700
Federal funds sold	47,500	—	—	—	47,500
Investment securities	184,266	236,153	1,255,446	658,672	2,334,537
Loans held for sale	1,120	—	—	—	1,120
Loans, including covered loans	2,345,712	1,150,942	2,010,861	79,217	5,586,732
Total interest earning assets	$2,619,131	$1,387,792	$3,266,777	$737,889	$8,011,589
Interest Bearing Liabilities:					
NOW and money market deposit accounts	$205,223	$554,222	$1,486,289	$434,393	$2,680,127
Savings deposits	46,215	130,279	479,166	188,011	843,671
Time deposits	349,155	704,575	396,892	54,899	1,505,521
Short-term borrowings	24,060	62,556	139,548	14,436	240,600
Long-term borrowings	2,525	6,638	50,845	2,420	62,428
Junior subordinated notes issued to capital trusts	152,065	—	—	—	152,065
Total interest bearing liabilities	$779,243	$1,458,270	$2,552,740	$694,159	$5,484,412
Rate sensitive assets (RSA)	$2,619,131	$4,006,923	$7,273,700	$8,011,589	$8,011,589
Rate sensitive liabilities (RSL)	779,243	2,237,513	4,790,253	5,484,412	5,484,412
Cumulative GAP (GAP=RSA-RSL)	1,839,888	1,769,410	2,483,447	2,527,177	2,527,177
RSA/Total assets	28.29 %	43.28 %	78.57 %	86.54 %	86.54 %
RSL/Total assets	8.42	24.17	51.74	59.24	59.24
GAP/Total assets	19.87	19.11	26.83	27.30	27.30
GAP/RSA	70.25	44.16	34.14	31.54	31.54

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 Levels of Interest Rates	Changes in Net Interest Income Over Once Year Horizon			
	September 30, 2013		December 31, 2012	
	Dollar Change	Percentage Change	Dollar Change	Percentage Change
+ 2.00%	$8,789	3.22 %	$7,932	2.72 %
+ 1.00%	4,709	1.73	4,174	1.43
- 1.00%	(5,568)	(2.07)	(3,915)	(1.34)

In the interest rate sensitivity table above, changes in net interest income between September 30, 2013 and December 31, 2012 reflect changes in the composition of interest earning assets and interest bearing liabilities, related interest rates, repricing frequencies, and the fixed or variable characteristics of the interest earning assets and interest bearing liabilities. The changes in net interest income incorporate the impact of loan floors as well as shifts from low cost deposits to certificates of deposit in a rising rate environment.

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

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 September 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 September 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 September 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 class action complaint, captioned James Sullivan v. Taylor Capital Group, Inc., et al., was filed under Case No. 2013-CH-17751 in the Circuit Court of Cook County, Illinois, against Taylor Capital, its directors and MB Financial challenging the pending MB Financial/Taylor Capital merger. On August 8, 2013, a second class action complaint, captioned Dennis Panozzo v Taylor Capital Group, Inc., et. al., was filed under Case No. 2013-CH-18546 in the Circuit Court of Cook County, Illinois, against these same defendants. Subsequently, the two cases were consolidated pursuant to court order under the first-filed Sullivan case number. A consolidated amended complaint was filed on October 24, 2013. The lawsuits allege, among other things, that the Taylor Capital directors breached their fiduciary duties to Taylor Capital and its stockholders by agreeing to the proposed merger at an unfair price pursuant to a flawed sales process, by agreeing to terms with MB Financial that discouraged other bidders and by not providing material information necessary for Taylor Capital stockholders to make an informed vote on the transaction. Plaintiffs further allege that certain Taylor Capital directors and officers were not independent or disinterested with respect to the merger. Plaintiffs also allege that MB Financial aided and abetted the Taylor Capital directors' breaches of fiduciary duties. The complaints seek, among other things, an order enjoining the defendants from consummating the merger, as well as attorneys' and experts' fees and certain other damages. MB Financial believes that the actions against it are without merit and intends to vigorously defend itself against such actions.

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, whereby Taylor Capital would be merged with MB Financial, Inc. and Taylor Capital's subsidiary bank, Cole Taylor Bank, would be merged with MB Financial Bank, is subject to a number of uncertain factors, including, but not limited to:

- obtaining the requisite regulatory approvals in order to consummate the transactions. MB Financial and Taylor Capital must obtain approvals from the Federal Reserve Board and the Office of the Comptroller of the Currency. Other approvals, waivers or consents from regulators may also be required. An adverse development in either party's regulatory standing or other factors could result in an inability to obtain approval or delay their receipt. These regulators may impose conditions on the completion of the transactions. It is a condition to each company's obligation to complete the merger that the requisite regulatory approvals be obtained without the imposition of any condition or restriction that would reasonably be expected to have a material adverse effect on, or materially and adversely affect the economic benefits to be realized by MB Financial (as the surviving corporation of the merger) and its subsidiaries, taken as a whole, after giving effect to the merger;
- 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. The success of the acquisition, including anticipated benefits and cost savings, will depend, in part, on

MB Financial's ability to successfully combine the businesses of MB Financial and Taylor Capital. To realize these anticipated benefits and cost savings, after the completion of the acquisition, MB Financial expects to integrate Taylor Capital's business into its own. 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 the combined company's ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. The loss of key employees could adversely affect MB Financial's ability to successfully conduct its business in the markets in which Taylor Capital now operates, which could have an adverse effect on MB Financial's financial results and the value of its common stock. If MB Financial experiences difficulties with the integration process, the anticipated benefits of the acquisition may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause MB Financial and/or Taylor Capital to lose customers or cause customers to close their accounts with MB Financial and/or Taylor Capital and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources.

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

The following table sets forth information for the three months ended September 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 of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2013 — July 30, 2013	52,124	$ 29.17	—	1,000,000
August 1, 2013 — August 31, 2013	333	27.43	—	1,000,000
September 1, 2013 — September 30, 2013	14,570	27.43	—	1,000,000
Total	67,027	$ 28.78	—	

(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:	October 30, 2013	By:	/s/Mitchell Feiger Mitchell Feiger President and Chief Executive Officer (Principal Executive Officer)
Date:	October 30, 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 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 September 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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