MB FINANCIAL INC /MD
Form 10-Q
May 05, 2016

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 March 31, 2016

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 001-36599

MB FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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 Exchange Act). Yes o No x

There were issued and outstanding 73,672,795 shares of the Registrant's common stock as of May 5, 2016.

MB FINANCIAL, INC.

FORM 10-Q

March 31, 2016

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	(Unaudited) March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$271,732	$307,869
Interest earning deposits with banks	113,785	73,572
Total cash and cash equivalents	385,517	381,441
Investment securities:		
Securities available for sale, at fair value	1,532,844	1,585,023
Securities held to maturity, at amortized cost ($1,246,656 fair value at March 31, 2016 and $1,274,767 at December 31, 2015)	1,191,910	1,230,810
Non-marketable securities - FHLB and FRB stock	121,750	114,233
Total investment securities	2,846,504	2,930,066
Loans held for sale	632,196	744,727
Loans:		
Total loans, excluding purchased credit impaired loans	9,820,903	9,652,592
Purchased credit impaired loans	140,445	141,406
Total loans	9,961,348	9,793,998
Less: Allowance for loan and lease losses	134,493	128,140
Net loans	9,826,855	9,665,858
Lease investments, net	216,046	211,687
Premises and equipment, net	238,578	236,013
Cash surrender value of life insurance	137,807	136,953
Goodwill	725,068	725,070
Other intangibles	43,186	44,812
Mortgage servicing rights, at fair value	145,800	168,162
Other real estate owned, net	28,309	31,553
Other real estate owned related to FDIC-assisted transactions	10,397	10,717
Other assets	339,390	297,948
Total assets	$15,575,653	$15,585,007
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$4,667,410	$4,627,184
Interest bearing	6,866,416	6,878,031
Total deposits	11,533,826	11,505,215
Short-term borrowings	884,101	1,005,737
Long-term borrowings	439,615	400,274
Junior subordinated notes issued to capital trusts	185,820	186,164
Accrued expenses and other liabilities	409,406	400,333
Total liabilities	13,452,768	13,497,723
STOCKHOLDERS' EQUITY		
	115,280	115,280

Preferred stock, ($0.01 par value, authorized 10,000,000 shares at March 31, 2016 and December 31, 2015; Series A, 8% perpetual non-cumulative, 4,000,000 shares issued and outstanding at March 31, 2016 and December 31, 2015, $25 liquidation value)		
Common stock, ($0.01 par value; authorized 100,000,000 shares at March 31, 2016 and December 31, 2015; issued 75,567,693 shares at March 31, 2016 and 75,566,885 shares at December 31, 2015)	756	756
Additional paid-in capital	1,284,438	1,280,870
Retained earnings	756,272	731,812
Accumulated other comprehensive income	24,687	15,777
Less: 1,928,206 and 1,888,556 shares of treasury common stock, at cost, at March 31, 2016 and December 31, 2015, respectively	(59,863)	(58,504)
Controlling interest stockholders’ equity	2,121,570	2,085,991
Noncontrolling interest	1,315	1,293
Total stockholders’ equity	2,122,885	2,087,284
Total liabilities and stockholders’ equity	$15,575,653	$15,585,007

See Accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31, 2016	2015
Interest income:		
Loans:		
Taxable	$104,923	$98,846
Nontaxable	2,586	2,174
Investment securities:		
Taxable	9,566	9,934
Nontaxable	10,776	9,113
Other interest earning accounts	141	62
Total interest income	127,992	120,129
Interest expense:		
Deposits	5,622	4,645
Short-term borrowings	721	277
Long-term borrowings and junior subordinated notes	2,345	1,812
Total interest expense	8,688	6,734
Net interest income	119,304	113,395
Provision for credit losses	7,563	4,974
Net interest income after provision for credit losses	111,741	108,421
Non-interest income:		
Lease financing revenue, net	19,046	25,080
Mortgage banking revenue	27,482	24,544
Commercial deposit and treasury management fees	11,878	11,038
Trust and asset management fees	7,950	5,714
Card fees	3,525	3,927
Capital markets and international banking fees	3,227	1,928
Consumer and other deposit service fees	3,025	3,083
Brokerage fees	1,158	1,678
Loan service fees	1,752	1,485
Increase in cash surrender value of life insurance	854	839
Net loss on investment securities	—	(460)
Net (loss) gain on sale of assets	(48)	4
Other operating income	1,844	2,408
Total non-interest income	81,693	81,268
Non-interest expenses:		
Salaries and employee benefits	85,591	84,786
Occupancy and equipment	13,260	12,940
Computer services and telecommunication	9,055	8,904
Advertising and marketing	2,878	2,446
Professional and legal	2,589	2,670
Other intangibles amortization	1,626	1,518
Branch exit and facilities impairment charges	44	7,391
Net (gain) loss recognized on other real estate owned and other related expenses	(346)	896
Prepayment fees on interest bearing liabilities	—	85
Other operating expenses	21,103	18,284

Total non-interest expenses	135,800	139,920
Income before income taxes	57,634	49,769
Income tax expense	18,520	15,658
Net income	39,114	34,111
Dividends on preferred shares	2,000	2,000
Net income available to common stockholders	$37,114	$32,111

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

	Three Months Ended March 31, 2016	2015
Common share data:		
Basic earnings per common share	$0.51	$ 0.43
Diluted earnings per common share	0.50	0.43
Weighted average common shares outstanding for basic earnings per common share	73,330,731	74,567,104
Diluted weighted average common shares outstanding for diluted earnings per common share	73,966,931	75,164,716

See Accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net income	$39,114	$34,111
Unrealized holding gains on investment securities, net of reclassification adjustments	15,576	9,404
Reclassification adjustment for amortization of unrealized gains on investment securities transferred to held to maturity from available for sale	(803)	(402)
Reclassification adjustments for losses included in net income	—	460
Other comprehensive income, before tax	14,773	9,462
Income tax expense related to items of other comprehensive income	(5,863)	(3,717)
Other comprehensive income, net of tax	8,910	5,745
Comprehensive income	$48,024	$39,856

See Accompanying Notes to Consolidated Financial Statements.

MB FINANCIAL, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2016 and 2015
(Amounts in thousands, except per share data) (Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Treasury Stock	Noncontrolling Interest	Total Stock-holders' Equity
Balance at December 31, 2014	$115,280	$ 751	$1,267,761	$629,677	$ 20,356	$(6,974)	$ 1,435	$2,028,286
Net income	—	—	—	34,111	—	—	71	34,182
Other comprehensive income, net of tax	—	—	—	—	5,745	—	—	5,745
Cash dividends declared on preferred shares	—	—	—	(2,000)	—	—	—	(2,000)
Cash dividends declared on common shares ($0.14 per share)	—	—	—	(10,610)	—	—	—	(10,610)
Restricted common stock activity, net of tax	—	3	(2,744)	—	—	2,876	—	135
Stock option activity, net of tax	—	—	35	—	—	—	—	35
Repurchase of common shares in connection with employee benefit plans and held in trust for deferred compensation plan	—	—	194	—	—	(1,179)	—	(985)
Stock-based compensation expense	—	—	3,605	—	—	—	—	3,605
Distributions to noncontrolling interest	—	—	—	—	—	—	(100)	(100)
Balance at March 31, 2015	$115,280	$ 754	$1,268,851	$651,178	$ 26,101	$(5,277)	$ 1,406	$2,058,293
Balance at December 31, 2015	$115,280	$ 756	$1,280,870	$731,812	$ 15,777	$(58,504)	$ 1,293	$2,087,284
Net income	—	—	—	39,114	—	—	97	39,211
Other comprehensive income, net of tax	—	—	—	—	8,910	—	—	8,910
Cash dividends declared on preferred shares	—	—	—	(2,000)	—	—	—	(2,000)
Cash dividends declared on common shares ($0.17 per share)	—	—	—	(12,654)	—	—	—	(12,654)
Restricted common stock activity, net of tax	—	—	(698)	—	—	699	—	1
	—	—	17	—	—	—	—	17

Stock option activity, net of tax								
Repurchase of common shares in connection with employee benefit plans and held in trust for deferred compensation plan	—	—	198	—	—	(2,058)	—	(1,860)
Stock-based compensation expense	—	—	4,051	—	—	—	—	4,051
Distributions to noncontrolling interest	—	—	—	—	—	—	(75)	(75)
Balance at March 31, 2016	$115,280	$ 756	$1,284,438	$756,272	$ 24,687	$(59,863)	$ 1,315	$2,122,885

See Accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31, 2016	2015
Cash Flows From Operating Activities		
Net income	$39,114	$34,111
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment and leased equipment	17,302	14,737
Branch exit and facilities impairment charges	44	7,391
Compensation expense for share-based payment plans	4,051	3,605
Net loss (gain) on sales of premises and equipment and leased equipment	121	(167)
Amortization of other intangibles	1,626	1,518
Provision for credit losses	7,563	4,974
Deferred income tax expense	11,751	8,384
Amortization of premiums and discounts on investment securities, net	12,059	11,231
Amortization of premiums and discounts on loans, net	(7,156)	(9,879)
Accretion of FDIC indemnification asset	—	(24)
Net loss on investment securities	—	460
Proceeds from sale of loans held for sale	1,365,630	1,741,704
Origination of loans held for sale	(1,241,245)	(1,701,005)
Net gain on sale of loans held for sale	(10,176)	(12,574)
Change in fair value of mortgage servicing rights	34,372	32,793
Net (gain) loss on other real estate owned	(637)	888
Net loss on other real estate owned related to FDIC-assisted transactions	154	273
Increase in cash surrender value of life insurance	(854)	(839)
Increase in other assets, net	(57,188)	(38,984)
Decrease in other liabilities, net	(9,867)	(41,616)
Net cash provided by operating activities	166,664	56,981
Cash Flows From Investing Activities		
Proceeds from sales of investment securities available for sale	842	28,067
Proceeds from maturities and calls of investment securities available for sale	62,891	51,922
Purchases of investment securities available for sale	(3,857)	(11,570)
Proceeds from maturities and calls of investment securities held to maturity	44,100	19,177
Purchases of investment securities held to maturity	(9,513)	(24,448)
Purchases of non-marketable securities - FHLB and FRB stock	(7,517)	(12,108)
Net (increase) decrease in loans	(163,704)	190,353
Purchases of mortgage servicing rights	(154)	(85)
Purchases of premises and equipment and leased equipment	(21,513)	(11,557)
Proceeds from sales of premises and equipment and leased equipment	1,185	1,326
Proceeds from sale of other real estate owned	5,151	1,086
Proceeds from sale of other real estate owned related to FDIC-assisted transactions	1,085	2,087
Net proceeds from FDIC related covered assets	(1,593)	(3,773)
Net cash (used in) provided by investing activities	(92,597)	230,477
Cash Flows From Financing Activities		
Net increase in deposits	28,611	28,559
Net decrease in short-term borrowings	(121,636)	(316,184)

Proceeds from long-term borrowings	86,070	7,650
Principal paid on long-term borrowings	(46,729)	(5,089)
Treasury stock transactions, net	(1,860)	(985)
Stock options exercised	55	45
Excess tax expense from share-based payment arrangements	—	12
Dividends paid on preferred stock	(2,000)	(2,000)
Dividends paid on common stock	(12,502)	(10,495)
Net cash used in financing activities	(69,991)	(298,487)
Net increase (decrease) in cash and cash equivalents	$4,076	$(11,029)
Cash and cash equivalents:		
Beginning of period	381,441	312,081
End of period	$385,517	$301,052

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

	Three Months Ended March 31,	
	2016	2015
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest paid to depositors and other borrowed funds	$8,734	$7,438
Income tax payments, net	1,832	987
Supplemental Schedule of Noncash Investing Activities:		
Investment securities held to maturity purchased not settled	$581	$6,416
Loans held for sale transferred to loans held for investment	—	20,829
Loans transferred to other real estate owned	1,270	4,615
Loans transferred to other real estate owned related to FDIC-assisted transactions	830	1,345
Loans transferred to repossessed vehicles	337	286
Operating leases rewritten as direct finance leases included as loans	137	5,590

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 months ended March 31, 2016 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 Annual Report on Form 10-K for the year ended December 31, 2015.
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 810 "Consolidation." New authoritative accounting guidance under ASC Topic 810, "Consolidation" amended prior guidance over the consolidation of certain legal entities. The new authoritative guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, affects the consolidation analysis of reporting entities that are involved with variable interest entities and provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements similar to those for registered money market funds. The Company adopted this new authoritative guidance on January 1, 2016, and it did not have an impact on the Company's statements of operations or financial condition.

ASC Topic 835 "Interest." New authoritative accounting guidance under ASC Topic 835, "Interest" amended prior guidance to simplify the presentation of debt issuance costs. The new authoritative guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company adopted this new authoritative guidance on January 1, 2016, and it did not have an impact on the Company's statements of operations or financial condition.

ASC Topic 805 "Business Combinations." New authoritative accounting guidance under ASC Topic 805, "Business Combinations" amended prior guidance to require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The new guidance requires that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. It also requires an entity to present separately on the face of the statement of operations or disclose in the notes the portion of the amount recorded in current-period earnings by line items that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of acquisition date. The Company adopted this new authoritative guidance on January 1, 2016, and it did not have an impact on the Company's statements of operations or financial condition.

ASC Topic 606 "Revenue from Contracts with Customers."   New authoritative accounting guidance under ASC Topic 606, "Revenue from Contracts with Customers" amended prior guidance to require an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new authoritative guidance was initially effective for reporting periods after January 1, 2017 but was deferred to January 1, 2018. The Company is evaluating the new guidance but does not expect it to have a significant impact on the Company's statements of operations or financial condition.

ASC Topic 825 "Financial Instruments." New authoritative accounting guidance under ASC Topic 825 "Financial Instruments" amended prior guidance to require equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The new guidance simplifies the impairment assessment of equity investments without readily determinable fair values, requires public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from changes in the instrument-specific credit risk when the entity has selected the fair value option for financial instruments and requires separate presentation of financial assets and liabilities by measurement category and form of financial asset. The new authoritative guidance will be effective for reporting periods after January 1, 2018 and is not expected to have a significant impact on the Company's statements of operations or financial condition.

ASC Topic 405 "Liabilities-Extinguishment of Liabilities."   New authoritative accounting guidance under ASC Topic 405, "Liabilities-Extinguishment of Liabilities" amended prior guidance to clarify that liabilities related to the sale of prepaid store-value products within the scope of this guidance are financial liabilities and that breakage for those liabilities are to be accounted for consistent with the breakage guidance in ASC Topic 606 "Revenue from Contracts with Customers." The new authoritative guidance will be effective for reporting periods after January 1, 2018. The Company is evaluating the new guidance but does not expect it to have a significant impact on the Company's statements of operations or financial condition.

ASC Topic 842 "Leases." New authoritative accounting guidance under ASC Topic 842 "Leases" amended prior guidance to require lessees to recognize the assets and liabilities arising from all leases on the balance sheet. The new authoritative guidance defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. In addition, the qualifications for a sale and leaseback transaction have been amended. The new authoritative guidance also requires qualitative and quantitative disclosures by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The new authoritative guidance will be effective for reporting periods after January 1, 2019. The Company is evaluating the new guidance and its 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 clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. An entity has an option to apply the amendments in this new authoritative guidance on either a prospective basis or a modified retrospective basis. The new authoritative guidance will be effective for reporting periods after January 1, 2017 and early adoption is permitted. This new authoritative guidance is not expected to have a significant impact on the Company's statements of operations or financial condition.

New authoritative accounting guidance under ASC Topic 815 "Derivatives and Hedging" amended prior guidance to clarify what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. An entity is required to consider whether (1) the payoff is adjusted based on changes in an index, (2) the payoff is indexed to an underlying other than interest rates or credit risk, (3) the debt involves a substantial premium or discount, and (4) the call (put) option is contingently exercisable. An entity should apply this new authoritative guidance on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. The new authoritative guidance will be effective for reporting periods after January 1, 2017 and early adoption is permitted. This new authoritative guidance is not expected to have a significant impact on the Company's statements of operations or financial condition.

ASC Topic 323 "Investment - Equity Method and Joint Ventures." New authoritative accounting guidance under ASC Topic 323 "Investment - Equity Method and Joint Ventures" amended prior guidance to eliminate the requirement to retroactively adopt the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The new authoritative guidance required that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The new authoritative guidance will be effective for reporting periods after January 1, 2017 and early adoption is permitted. This new authoritative guidance is not expected to have a significant impact on the Company's statements of operations or financial condition.

ASC Topic 718 "Compensation - Stock Compensation." New authoritative accounting guidance under ASC Topic 718 "Compensation - Stock Compensation" amended prior guidance on several aspects, including the income tax consequences, classification of awards as either equity or liability, and classification on the statement of cash flows. The new authoritative guidance allows for all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. For the statement of cash flows, excess tax benefits should be classified along with other income tax cash flows as an operating activity, and cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The new authoritative guidance also allows an entity to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. In addition, the threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions. The new authoritative guidance will be effective for reporting periods after January 1, 2017 and early adoption is permitted. The Company is evaluating the new guidance and its impact on the Company's statements of operations or 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 March 31,	
	2016	2015
Distributed earnings allocated to common stock	$12,654	$ 10,610
Undistributed earnings	26,460	23,501
Net income	39,114	34,111
Less: preferred stock dividends	2,000	2,000
Net income available to common stockholders	37,114	32,111
Less: earnings allocated to participating securities	2	1
Earnings allocated to common stockholders	$37,112	$ 32,110
Weighted average shares outstanding for basic earnings per common share	73,330,731	74,567,104
Dilutive effect of equity awards	636,204	597,612
Weighted average shares outstanding for diluted earnings per common share	73,966,935	75,164,716
Basic earnings per common share	$0.51	$ 0.43
Diluted earnings per common share	0.50	0.43

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Note 4. Business Combinations

MSA, Holding, LLC On December 31, 2015, MB Financial Bank acquired a 100% equity interest in MSA Holdings, LLC, ("MSA") the parent company of MainStreet Investment Advisors, LLC and Cambium Asset Management, LLC. Main Street Advisors provides investment management solutions to the bank trust and independent trust company markets. Through its registered investment advisor, Cambium LLC, MSA provides efficient, cost-effective account management solutions on a discretionary basis for high net worth clients, both individuals and institutions, and small accounts through its BluePrint portfolio solution.

This business combination was accounted for under the acquisition method of accounting. Accordingly, the results of operations of the acquired company were included in the Company’s results of operations starting on January 1, 2016. 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 was recorded as goodwill. The Company recorded $13.5 million in goodwill and $8.8 million in other intangibles as a result of this acquisition. The amounts recognized for the business combination in the financial statements as of March 31, 2016 have been determined only provisionally for the purchase price and goodwill.

American Chartered Bancorp, Inc. On November 20, 2015, the Company and American Chartered Bancorp, Inc. ("American Chartered") entered into an agreement and plan of merger whereby the Company will acquire American Chartered. The merger agreement provides that, upon the terms and subject to the conditions set forth therein, American Chartered will merge with and into the Company, with the Company as the surviving corporation in the merger. Immediately following the merger, American Chartered's wholly owned bank subsidiary, American Chartered Bank, will merge with and into the Company's wholly owned bank subsidiary, MB Financial Bank. American Chartered Bank is a commercial bank that operates 15 banking offices in the Chicago area and, as of March 31, 2016, had approximately $2.8 billion in total assets, $2.0 billion in loans, and $2.4 billion in deposits.

Subject to the terms and conditions of the merger agreement, each share of American Chartered common stock that is outstanding immediately prior to the merger, other than shares held by persons who have perfected dissenters' rights under Illinois law and any shares owned by the Company or American Chartered, will be converted into the right to receive, subject to the election and the proration and allocation procedures set forth in the merger agreement: (1) cash consideration in the amount of $9.30 or (2) stock consideration consisting of 0.2732 shares of the Company's common stock, with cash paid in lieu of fractional Company shares determined by multiplying the fractional Company share amount by the average closing sale price of the Company's common stock for the five full trading days ending on the day preceding the merger closing date. Holders of American Chartered common stock also can elect to receive a combination of the cash consideration and stock consideration for their shares, subject to the proration and allocation procedures.

The holders of American Chartered’s 8% Cumulative Voting Convertible Preferred Stock, Series D (“American Chartered Series D preferred stock”) and American Chartered’s Non-Voting Perpetual Preferred Stock, Series F (“American Chartered Series F preferred stock” and together with the American Chartered Series D preferred stock, the “American Chartered preferred stock”) have the right, pursuant to the terms of the American Chartered preferred stock and the merger agreement, to elect to receive the same consideration in the merger as the holders of American Chartered common stock (including the right to elect to receive the cash consideration, the stock consideration or a combination of both, subject to the proration and allocation provisions of the merger agreement). In the case of American Chartered Series D preferred stock, this right is based on the number of shares of American Chartered common stock into which each share of American Chartered Series D preferred stock would otherwise then be convertible. Any share of American Chartered preferred stock that has not been converted into American Chartered common stock prior to the merger, or that will not be converted into the right to receive the same consideration in the merger as the holders of American Chartered common stock as described above, will be converted into the right to receive one share of a newly designated series of preferred stock of MB Financial with terms that are not materially less favorable to the holder than the applicable series of American Chartered preferred stock.

Concurrent with the execution of the merger agreement, each holder of American Chartered Series F non-voting preferred stock irrevocably elected and agreed to receive the same consideration in the merger as the holders of American Chartered common stock and waived any rights that such holder might otherwise have had to receive shares of preferred stock of the Company in the merger.

The holder of each vested American Chartered stock option that is outstanding immediately prior to the merger will have the right to elect to receive, for the holder's "net option shares," the cash consideration, the stock consideration or a combination of both, subject to the proration and allocation provisions of the merger agreement. The number of "net option shares" per vested option will be determined by dividing (A) (i) the excess, if any, of $9.30 over the per share exercise price of the option, multiplied by (ii) the number of shares subject to the option, by (B) $9.30. Each unvested American Chartered stock option that is outstanding immediately prior to the merger will be assumed by the Company and converted into the right to receive an option to purchase shares of the Company's common stock, with adjustments to the number of shares underlying the option (determined by multiplying the pre-merger number of option shares by 0.2732, and rounding down to the nearest whole number of shares of the Company's common stock) and the per share exercise price of the option (determined by dividing the pre-merger exercise price by 0.2732, and rounding up to the nearest whole cent). Each American Chartered restricted stock award that is outstanding immediately prior to the merger will be assumed by the Company and converted into a Company restricted stock award, with an adjustment to the number of shares subject to the award (determined by multiplying the pre-merger number of shares subject to the award by 0.2732, and rounding up to the nearest whole share of the Company's common stock).

The merger agreement provides that the aggregate cash consideration that will be paid for shares of American Chartered stock and for the net option shares is $100.0 million, with the remaining consideration consisting of shares of Company common stock. If American Chartered shareholders and holders of vested American Chartered stock options elect to receive more of one form of consideration than is available, the available amount will be allocated ratably among the American Chartered shareholders and vested option holders electing to receive that form of consideration, and those shareholders and vested option holders will receive the other form of consideration for the balance of their shares and net option shares, as applicable. The only exception to this is that holders of American Chartered Series D preferred stock who have made a cash election with respect to shares of American Chartered Series D preferred stock will receive the cash consideration for all of such shares (based on the number of shares of American Chartered common stock into which each share of American Chartered Series D preferred stock is then otherwise convertible), regardless of the elections of other shareholders and vested option holders.

The transaction, which has been approved by American Chartered's shareholders and is subject to customary regulatory approvals, is expected to close around June 30, 2016.

Note 5. Investment Securities

Amortized cost and fair value of investment securities were as follows as of the dates indicated (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2016				
Available for Sale				
U.S. Government sponsored agencies and enterprises	$63,600	$ 1,162	$ —	$64,762
States and political subdivisions	371,006	27,019	(1)	398,024
Residential mortgage-backed securities	709,810	11,249	(790)	720,269
Commercial mortgage-backed securities	111,015	3,494	(219)	114,290
Corporate bonds	225,657	1,345	(2,472)	224,530
Equity securities	10,814	155	—	10,969
Total Available for Sale	1,491,902	44,424	(3,482)	1,532,844
Held to Maturity				
States and political subdivisions	986,340	46,659	(158)	1,032,841
Residential mortgage-backed securities	205,570	8,245	—	213,815
Total Held to Maturity	1,191,910	54,904	(158)	1,246,656
Total	$2,683,812	$ 99,328	$ (3,640)	$2,779,500
December 31, 2015				
Available for Sale				
U.S. Government sponsored agencies and enterprises	$63,805	$ 806	$ —	$64,611
States and political subdivisions	373,285	23,083	(1)	396,367
Residential mortgage-backed securities	759,816	7,363	(3,630)	763,549
Commercial mortgage-backed securities	128,509	1,839	(241)	130,107
Corporate bonds	222,784	815	(3,971)	219,628
Equity securities	10,757	4	—	10,761
Total Available for Sale	1,558,956	33,910	(7,843)	1,585,023
Held to Maturity				
States and political subdivisions	1,016,519	36,874	(638)	1,052,755
Residential mortgage-backed securities	214,291	7,721	—	222,012
Total Held to Maturity	1,230,810	44,595	(638)	1,274,767
Total	$2,789,766	$ 78,505	$ (8,481)	$2,859,790

The Company has no direct exposure to the State of Illinois, but approximately 21% of the state and political subdivisions portfolio consisted of securities issued by municipalities located in Illinois as of March 31, 2016. Approximately 97% of the state and political subdivisions securities were general obligation issues, and 76% were insured as of March 31, 2016.

Unrealized losses on investment securities by length of time in a continuous unrealized loss position and the fair value of the related securities at March 31, 2016 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	$ 328	$ (1)	$—	$ —	$328	$ (1)
Residential mortgage-backed securities	92,516	(495)	37,082	(295)	129,598	(790)
Commercial mortgage-backed securities	2,231	(1)	11,756	(218)	13,987	(219)
Corporate bonds	46,857	(383)	22,109	(2,089)	68,966	(2,472)
Total Available for Sale	141,932	(880)	70,947	(2,602)	212,879	(3,482)
Held to Maturity						
States and political subdivisions	16,883	(105)	5,960	(53)	22,843	(158)
Total	$ 158,815	$ (985)	$76,907	$ (2,655)	$235,722	$ (3,640)

Unrealized losses on investment securities by length of time in a continuous unrealized loss position and the fair value of the related securities at December 31, 2015 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	$219	$ (1)	$—	$ —	$219	$ (1)
Residential mortgage-backed securities	357,877	(2,835)	43,566	(795)	401,443	(3,630)
Commercial mortgage-backed securities	2,324	(5)	11,809	(236)	14,133	(241)
Corporate bonds	73,774	(1,164)	18,286	(2,807)	92,060	(3,971)
Total Available for Sale	434,194	(4,005)	73,661	(3,838)	507,855	(7,843)
Held to Maturity						
States and political subdivisions	66,152	(519)	6,190	(119)	72,342	(638)
Total	$500,346	$ (4,524)	$79,851	$ (3,957)	$580,197	$ (8,481)

The total number of security positions in the investment portfolio in an unrealized loss position at March 31, 2016 was 115 compared to 193 at December 31, 2015. This decrease in total number of security positions in a continuous unrealized loss position from December 31, 2015 to March 31, 2016, was mainly attributable to securities issued by states and political subdivisions in the investment securities portfolio. 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 the Company is more likely than not to sell the security before recovery of its cost basis.

As of March 31, 2016, management does not have the intent to sell any of the securities in the table above at March 31, 2016 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 securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, as of March 31, 2016, management believes the impairments detailed in the table above at March 31, 2016 are temporary.

Changes in market interest rates can significantly influence the fair value of securities, and the fair value of our municipal securities 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 March 31,	
	2016	2015
Realized gains	$21	$759
Realized losses	(21)	(1,219)
Net gains (losses)	$—	$(460)

The amortized cost and fair value of investment securities as of March 31, 2016 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	$55,844	$56,375
Due after one year through five years	246,328	246,516
Due after five years through ten years	42,386	44,414
Due after ten years	315,705	340,011
Equity securities	10,814	10,969
Residential and commercial mortgage-backed securities	820,825	834,559
	1,491,902	1,532,844
Held to maturity:		
Due in one year or less	83,040	83,253
Due after one year through five years	151,088	153,137
Due after five years through ten years	116,361	123,253
Due after ten years	635,851	673,198
Residential mortgage-backed securities	205,570	213,815
	1,191,910	1,246,656
Total	$2,683,812	$2,779,500

Investment securities with a carrying amount of $1.1 billion at March 31, 2016 and $1.4 billion at December 31, 2015 were pledged as collateral on public deposits and for other purposes as required or permitted by law, while only $784.4 million and $878.2 million were required to be pledged at March 31, 2016 and December 31, 2015, respectively. Of those pledged, the Company had investment securities pledged as collateral for advances from the Federal Home Loan Bank of $146 thousand and $108.8 million at March 31, 2016 and December 31, 2015, respectively.

Note 6. Loans

Loans consist of the following at (in thousands):

	March 31, 2016	December 31, 2015
Commercial loans	$3,509,604	$ 3,616,286
Commercial loans collateralized by assignment of lease payments	1,774,104	1,779,072
Commercial real estate	2,831,814	2,695,676
Residential real estate	677,791	628,169
Construction real estate	310,278	252,060
Indirect vehicle	432,915	384,095
Home equity	207,079	216,573
Other consumer loans	77,318	80,661
Total loans, excluding purchased credit-impaired loans	9,820,903	9,652,592
Purchased credit-impaired loans	140,445	141,406
Total loans	$9,961,348	$ 9,793,998

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. Except for commercial loans collateralized by assignment of lease payments and asset-based loans, 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. This policy is reviewed and approved by the Enterprise Risk Committee of the Company's 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. Asset-based loans, also included in commercial loans, are made to businesses with the primary source of repayment derived from payments on the related assets securing the loan. Collateral for these loans may include accounts receivable, inventory and equipment, and is monitored regularly to ensure ongoing sufficiency of collateral coverage and quality. The primary risk for these loans is a significant decline in collateral values due to general market conditions. Loan terms that mitigate these risks include typical industry amortization schedules, percentage of collateral advances, maintenance of cash collateral accounts and regular asset monitoring. Because of the national scope of our asset-based lending, the risk of these loans is also diversified by geography.

Commercial Loans Collateralized by Assignment of Lease Payments ("Lease Loans"). The Company makes lease loans to lessors where the underlying leases are with 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 policies 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 the financial wherewithal of the lessee using 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 vehicle loans (motorcycle, powersports, recreational and marine vehicles). Each loan type is underwritten based upon several factors including debt to income, type of collateral and loan to collateral value, credit history and the Company's relationship with the borrower. Indirect loan and credit card underwriting involves the use of risk-based pricing in the underwriting process.

Purchased credit-impaired loans. Purchased credit-impaired loans are loans accounted for under ASC 310-30, which include purchased credit-impaired loans acquired through a business combination, FDIC-assisted transactions and re-purchase transactions with the Government National Mortgage Association ("GNMA"). The loans re-purchased from GNMA were originally sold by the Company with servicing retained and subsequently became delinquent. These loans are also insured by the Federal Housing Administration (commonly referred to as "FHA") or the U.S. Department of Veterans Affairs (commonly referred to as "VA") where the Company would be able to recover the principal balance of these loans. All re-purchases from GNMA are at the Company's discretion.

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. As of March 31, 2016 and December 31, 2015, the Company had $3.3 billion and $3.2 billion, respectively, of loans pledged as collateral for long-term Federal Home Loan Bank advances and third party letters of credit, while only $2.3 billion and $2.2 billion were required to be pledged at March 31, 2016 and December 31, 2015, respectively.

The following table presents the contractual aging of the recorded investment in past due loans by class of loans as of March 31, 2016 and December 31, 2015 (in thousands):

	Current	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Total
March 31, 2016						
Commercial	$3,485,156	$ 7,931	$ 10,033	$ 6,484	$24,448	$3,509,604
Commercial collateralized by assignment of lease payments	1,756,427	10,405	2,377	4,895	17,677	1,774,104
Commercial real estate:						
Healthcare	543,296	—	—	—	—	543,296
Industrial	449,746	453	—	757	1,210	450,956
Multifamily	411,571	367	193	914	1,474	413,045
Retail	470,682	691	3,466	13,947	18,104	488,786
Office	238,758	238	168	4,041	4,447	243,205
Other	689,799	1,295	76	1,356	2,727	692,526
Residential real estate	662,752	6,529	488	8,022	15,039	677,791
Construction real estate	310,278	—	—	—	—	310,278
Indirect vehicle	430,388	1,677	391	459	2,527	432,915
Home equity	198,892	2,234	964	4,989	8,187	207,079
Other consumer	77,000	121	125	72	318	77,318
Total loans, excluding purchased credit-impaired loans	9,724,745	31,941	18,281	45,936	96,158	9,820,903
Purchased credit-impaired loans	88,308	6,221	9	45,907	52,137	140,445
Total loans	$9,813,053	$ 38,162	$ 18,290	$ 91,843	$148,295	$9,961,348
Non-performing loan aging	$33,990	$ 8,516	$ 6,431	$ 45,777	$60,724	$94,714
December 31, 2015						
Commercial	$3,586,372	$ 22,956	$ 97	$ 6,861	$29,914	$3,616,286
Commercial collateralized by assignment of lease payments	1,758,839	3,399	5,902	10,932	20,233	1,779,072
Commercial real estate:						
Healthcare	476,939	—	—	—	—	476,939
Industrial	400,182	—	—	757	757	400,939
Multifamily	399,333	622	88	934	1,644	400,977
Retail	410,958	6,189	7,411	180	13,780	424,738
Office	223,935	58	—	5,189	5,247	229,182
Other	760,530	622	82	1,667	2,371	762,901
Residential real estate	612,573	5,193	1,729	8,674	15,596	628,169
Construction real estate	252,060	—	—	—	—	252,060
Indirect vehicle	380,899	2,085	698	413	3,196	384,095
Home equity	207,818	1,774	1,398	5,583	8,755	216,573
Other consumer	80,225	254	84	98	436	80,661
Total loans, excluding purchased credit-impaired loans	9,550,663	43,152	17,489	41,288	101,929	9,652,592
Purchased credit-impaired loans	81,250	3,311	4,439	52,406	60,156	141,406
Total loans	$9,631,913	$ 46,463	$ 21,928	$ 93,694	$162,085	$9,793,998
Non-performing loan aging	$44,290	$ 9,827	$ 9,367	$ 41,177	$60,371	$104,661

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The following table presents the recorded investment in non-accrual loans and loans past due ninety days or more and still accruing by class of loans, excluding purchased credit-impaired loans, as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016		December 31, 2015	
	Non-accrual	Loans past due 90 days or more and still accruing	Non-accrual	Loans past due 90 days or more and still accruing
Commercial	$21,458	$ 531	$24,689	$ 42
Commercial collateralized by assignment of lease payments	6,445	156	7,027	5,318
Commercial real estate:				
Healthcare	—	—	—	—
Industrial	1,106	—	1,136	—
Multifamily	3,240	—	3,415	—
Office	4,464	57	4,496	693
Retail	17,584	—	17,594	—
Other	1,300	35	1,544	195
Residential real estate	18,170	264	17,951	253
Construction real estate	—	—	—	—
Indirect vehicle	2,024	—	2,046	—
Home equity	17,801	—	18,156	—
Other consumer	10	69	11	95
Total	$93,602	$ 1,112	$98,065	$ 6,596

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 any time the situation warrants and at least annually. 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, excluding purchased credit-impaired loans, as of March 31, 2016 and December 31, 2015 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2016					
Commercial	$3,278,544	$133,873	$ 97,187	$ —	$3,509,604
Commercial collateralized by assignment of lease payments	1,751,658	9,398	13,048	—	1,774,104
Commercial real estate:					
Healthcare	538,702	4,594	—	—	543,296
Industrial	430,553	18,731	1,672	—	450,956
Multifamily	408,412	552	4,081	—	413,045
Retail	459,492	11,422	17,872	—	488,786
Office	230,732	3,771	8,702	—	243,205
Other	663,011	6,133	23,382	—	692,526
Construction real estate	309,724	554	—	—	310,278
Total	$8,070,828	$189,028	$ 165,944	$ —	$8,425,800
December 31, 2015					
Commercial	$3,373,943	$115,548	$ 126,795	$ —	$3,616,286
Commercial collateralized by assignment of lease payments	1,760,674	4,367	14,031	—	1,779,072
Commercial real estate:					
Healthcare	472,599	4,340	—	—	476,939
Industrial	380,200	19,011	1,728	—	400,939
Multifamily	396,117	595	4,265	—	400,977
Retail	393,543	13,310	17,885	—	424,738
Office	216,584	3,797	8,801	—	229,182
Other	730,713	6,193	25,995	—	762,901
Construction real estate	252,060	—	—	—	252,060
Total	$7,976,433	$167,161	$ 199,500	$ —	$8,343,094

Approximately $55.8 million and $59.6 million of the substandard and doubtful loans were non-performing as of March 31, 2016 and December 31, 2015, respectively.

For residential real estate, home equity, indirect vehicle and other consumer loan classes, which are not rated, the Company 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, excluding purchased credit-impaired loans, as of March 31, 2016 and December 31, 2015 (in thousands):

	Performing	Non-performing	Total
March 31, 2016			
Residential real estate	$659,357	$ 18,434	$677,791
Indirect vehicle	430,891	2,024	432,915
Home equity	189,278	17,801	207,079
Other consumer	77,239	79	77,318
Total	$1,356,765	$ 38,338	$1,395,103
December 31, 2015			
Residential real estate	$609,965	$ 18,204	$628,169

Indirect vehicle	382,049	2,046	384,095
Home equity	198,417	18,156	216,573
Other consumer	80,555	106	80,661
Total	$1,270,986	$ 38,512	$1,309,498

The recorded investment in residential mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process totaled $18.4 million and $20.8 million at March 31, 2016 and December 31, 2015, respectively.

The following tables present loans individually evaluated for impairment by class of loans, excluding purchased credit-impaired loans, as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016					
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Loan Losses Allocated	Three Months Ended Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:						
Commercial	$—	$—	$ —	$ —	$—	$ —
Commercial collateralized by assignment of lease payments	2,512	1,433	1,079	—	1,935	—
Commercial real estate:						
Healthcare	—	—	—	—	—	—
Industrial	820	757	63	—	776	—
Multifamily	2,098	2,098	—	—	2,391	—
Retail	7,395	5,654	1,741	—	5,838	—
Office	1,608	1,031	577	—	1,031	—
Other	240	240	—	—	240	—
Residential real estate	—	—	—	—	—	—
Construction real estate	—	—	—	—	—	—
Indirect vehicle	—	—	—	—	—	—
Home equity	577	577	—	—	577	—
Other consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial	31,869	31,869	—	12,174	28,927	—
Commercial collateralized by assignment of lease payments	4,121	4,121	—	2,299	3,340	9
Commercial real estate:						
Healthcare	—	—	—	—	—	—
Industrial	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
Retail	16,059	16,059	—	4,767	16,542	—
Office	2,909	2,909	—	1,705	2,995	—
Other	352	352	—	50	352	—
Residential real estate	13,047	13,047	—	2,642	13,045	—
Construction real estate	—	—	—	—	—	—
Indirect vehicle	122	122	—	—	285	—
Home equity	28,683	28,683	—	3,044	28,788	—
Other consumer	—	—	—	—	—	—
Total	$112,412	$108,952	$ 3,460	$ 26,681	$107,062	$ 9

	December 31, 2015				Year Ended	
	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	$11,253	$11,253	$ —	$ —	$6,628	$ —
Commercial collateralized by assignment of lease payments	3,453	2,949	504	—	1,035	54
Commercial real estate:						
Healthcare	—	—	—	—	—	—
Industrial	820	757	63	—	3,467	—
Multifamily	575	575	—	—	1,540	17
Retail	7,872	6,131	1,741	—	2,768	—
Office	1,608	1,031	577	—	1,663	—
Other	—	—	—	—	965	—
Residential real estate	970	970	—	—	717	—
Construction real estate	—	—	—	—	—	—
Indirect vehicle	—	—	—	—	—	—
Home equity	927	927	—	—	1,000	—
Other consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial	23,394	23,394	—	7,523	18,820	—
Commercial collateralized by assignment of lease payments	3,297	3,297	—	1,790	4,013	104
Commercial real estate:						
Healthcare	—	—	—	—	—	—
Industrial	—	—	—	—	228	—
Multifamily	2,155	2,155	—	17	3,307	27
Retail	16,034	16,034	—	4,926	8,885	—
Office	2,929	2,929	—	1,717	2,457	—
Other	592	592	—	199	9,629	—
Residential real estate	12,950	12,769	181	2,634	13,484	—
Construction real estate	—	—	—	—	214	—
Indirect vehicle	119	119	—	—	287	—
Home equity	28,696	28,583	113	3,131	27,747	—
Other consumer	—	—	—	—	—	—
Total	$117,644	$114,465	$ 3,179	$ 21,937	$108,854	$ 202

Impaired loans included accruing restructured loans of $27.3 million and $27.0 million that have been modified and are performing in accordance with those modified terms as of March 31, 2016 and December 31, 2015, respectively. In addition, impaired loans included $24.0 million and $23.6 million of non-performing restructured loans as of March 31, 2016 and December 31, 2015, 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 non-performing) through the calendar year of the restructuring that the historical payment performance has been established. As of March 31, 2016 and December 31, 2015, there was one A/B structure with a recorded investment of $971 thousand and $1.0 million, respectively, which is included above as an accruing restructured loan.

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 and lease losses 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 were restructured during the three months ended March 31, 2016 (dollars in thousands):

	March 31, 2016			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Home equity	2	$ 410	$ 410	$ —
Total	2	$ 410	$ 410	$ —
Non-Performing:				
Residential real estate	1	$ 72	$ 72	$ —
Indirect vehicle	10	80	80	22
Home equity	9	1,081	1,081	51
Total	20	$ 1,233	$ 1,233	$ 73

The following table presents loans that were restructured during the three months ended March 31, 2015 (dollars in thousands):

	March 31, 2015			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Home equity	6	$ 2,346	$ 2,346	$ —

Total	6	$ 2,346	$ 2,346	$ —
Non-Performing:				
Indirect vehicle	3	$ 9	$ 9	$ —
Home equity	5	798	798	122
Total	8	$ 807	$ 807	$ 122

Of the troubled debt restructurings entered into during the past twelve months, none subsequently defaulted during the three months ended March 31, 2016. 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 table presents the troubled debt restructurings activity during the three months ended March 31, 2016 (in thousands):

	Performing	Non-performing
Beginning balance	$ 26,991	$ 23,619
Additions	410	1,233
Charge-offs	—	(46)
Principal payments, net	(103)	(226)
Removals	(379)	(155)
Transfer to other real estate owned	—	(108)
Transfers in	411	61
Transfers out	(61)	(411)
Ending balance	$ 27,269	$ 23,967

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 during the three months ended March 31, 2016 (in thousands):

	March 31, 2016			
	Extended Maturity, Amortization and Reduction of Interest Rate	Extended Maturity and/or Amortization	Extended Maturity	Total
Residential real estate	—	72	—	72
Indirect vehicle	—	—	80	80
Home equity	1,392	99	—	1,491
Total	$ 1,392	$ 171	$ 80	$ 1,643

The following table presents the activity in the allowance for credit losses, balance in allowance for credit losses and recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2016 and 2015 (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
March 31, 2016										
Allowance for credit losses:										
Three Months Ended										
Beginning balance	$ 39,316	$ 10,434	$ 45,475	$ 5,734	$ 15,113	$ 2,418	$ 7,374	$ 2,276	$ 3,368	$ 131,508
Charge-offs	713									