Section 1: 10-Q (10-Q)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

☐ **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 ☒ No ☐

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 ☒ No ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

There were issued and outstanding 84,200,745 shares of the Registrant's common stock as of August 8, 2018.

MB FINANCIAL, INC.

FORM 10-Q

June 30, 2018

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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) June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$ 373,448	$ 397,880
Interest earning deposits with banks	119,672	181,341
Total cash and cash equivalents	493,120	579,221
Investment securities:		
Securities available for sale, at fair value	1,647,260	1,408,326
Securities held to maturity, at amortized cost ($940,203 fair value at June 30, 2018 and $992,455 at December 31, 2017)	923,036	959,082
Marketable equity securities, at fair value	10,922	—
Non-marketable securities - FHLB and FRB stock	115,453	114,111
Total investment securities	2,696,671	2,481,519
Loans held for sale	423,367	548,578
Loans:		
Total loans, excluding purchased credit-impaired loans	13,719,244	13,846,318
Purchased credit-impaired loans	101,001	119,744
Total loans	13,820,245	13,966,062
Less: Allowance for loan and lease losses	162,790	157,710
Net loans	13,657,455	13,808,352
Lease investments, net	433,505	409,051
Premises and equipment, net	281,458	286,690
Cash surrender value of life insurance	205,982	203,602
Goodwill	999,925	1,003,548
Other intangibles	50,968	54,766
Mortgage servicing rights, at fair value	296,629	276,279
Other real estate owned, net	10,869	9,736
Other real estate owned related to FDIC-assisted transactions	2,908	4,788
Other assets	413,700	420,810
Total assets	$ 19,966,557	$ 20,086,940
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 6,347,208	$ 6,381,512
Interest bearing	8,575,455	8,576,866
Total deposits	14,922,663	14,958,378
Short-term borrowings	651,462	861,039
Long-term borrowings	730,292	505,158
Junior subordinated notes issued to capital trusts	194,450	211,494
Accrued expenses and other liabilities	518,997	541,048
Total liabilities	17,017,864	17,077,117
STOCKHOLDERS' EQUITY		
Preferred stock, ($0.01 par value, authorized 10,000,000 shares at June 30, 2018 and December 31, 2017; Series A, 8% perpetual non-cumulative, none issued and outstanding at June 30, 2018 and 4,000,000 shares issued and outstanding at December 31, 2017, $25 liquidation value; Series C, 6% perpetual non-cumulative, 200,000 shares issued and outstanding at June 30, 2018 and December 31, 2017, $1,000 liquidation value)	194,719	309,999
Common stock, ($0.01 par value; authorized 120,000,000 shares at June 30, 2018 and December 31, 2017; issued 86,121,465 shares at June 30, 2018 and 85,801,702 shares at December 31, 2017)	861	858

Additional paid-in capital	1,698,057	1,691,007
Retained earnings	1,127,814	1,065,303
Accumulated other comprehensive (loss) income	(9,818)	3,584
Less: 1,926,871 and 1,883,810 shares of treasury common stock, at cost, at June 30, 2018 and December 31, 2017, respectively	(62,940)	(60,928)
Total stockholders' equity	2,948,693	3,009,823
Total liabilities and stockholders' equity	$ 19,966,557	$ 20,086,940

See Accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Interest income:				
Loans:				
Taxable	$ 164,401	$ 143,426	$ 321,520	$ 277,163
Nontaxable	2,330	2,791	4,601	5,671
Investment securities:				
Taxable	10,578	8,717	18,512	17,839
Nontaxable	9,439	9,837	18,915	19,810
Other interest earning accounts and Federal funds sold	244	228	375	427
Total interest income	186,992	164,999	363,923	320,910
Interest expense:				
Deposits	17,386	8,793	32,418	16,268
Short-term borrowings	2,769	3,912	5,285	6,292
Long-term borrowings and junior subordinated notes	7,768	3,300	13,770	6,313
Total interest expense	27,923	16,005	51,473	28,873
Net interest income	159,069	148,994	312,450	292,037
Provision for credit losses	6,219	9,699	13,727	13,433
Net interest income after provision for credit losses	152,850	139,295	298,723	278,604
Non-interest income:				
Mortgage banking revenue	18,926	30,152	43,973	58,608
Lease financing revenue, net	22,918	18,401	47,628	39,819
Treasury management fees	15,066	14,499	30,222	29,188
Wealth management fees	8,969	8,498	18,090	17,018
Card fees	5,654	4,413	10,441	8,979
Capital markets and international banking fees	3,785	3,586	6,783	6,839
Consumer and other deposit service fees	2,929	3,285	5,841	6,648
Brokerage fees	1,050	1,250	1,914	2,375
Loan service fees	2,148	2,037	4,393	4,006
Increase in cash surrender value of life insurance	1,272	1,301	2,380	2,589
Net (loss) gain on investment securities	(86)	137	(260)	368
Net loss on disposal of other assets	(397)	(4)	(754)	(127)
Other operating income	6,072	3,615	10,457	7,310
Total non-interest income	88,306	91,170	181,108	183,620
Non-interest expenses:				
Salaries and employee benefits expense	123,478	102,566	229,992	204,117
Occupancy and equipment expense	16,451	15,284	33,880	30,328
Computer services and telecommunication expense	10,871	9,785	22,027	19,225
Advertising and marketing expense	3,342	3,245	7,205	6,406
Professional and legal expense	8,887	2,450	10,785	5,141
Other intangibles amortization expense	1,896	2,086	3,798	4,176
Branch exit and facilities impairment charges	340	6,589	340	5,907
Net loss recognized on other real estate owned and other related expense	1,048	690	1,095	1,534
Loss on extinguishment of debt	—	—	3,136	—
Goodwill impairment loss	3,623	—	3,623	—
Other operating expenses	23,056	23,517	44,997	45,720
Total non-interest expenses	192,992	166,212	360,878	322,554
Income before income taxes	48,164	64,253	118,953	139,670

Income tax expense	9,631	19,787	23,663	40,667
Net income	38,533	44,466	95,290	99,003
Dividends on preferred shares	3,000	2,002	6,100	4,005
Return from preferred stockholders due to redemption	—	—	(15,280)	—
Net income available to common stockholders	$ 35,533	$ 42,464	$ 104,470	$ 94,998

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Common share data:				
Basic earnings per common share	$ 0.42	$ 0.51	$ 1.24	$ 1.13
Diluted earnings per common share	0.42	0.50	1.23	1.12
Weighted average common shares outstanding for basic earnings per common share	84,253,966	83,842,963	84,160,344	83,753,195
Diluted weighted average common shares outstanding for diluted earnings per common share	85,251,810	84,767,414	85,074,626	84,773,271

See Accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 38,533	$ 44,466	$ 95,290	$ 99,003
Unrealized holding (gains) losses on investment securities, net of reclassification adjustments	(7,968)	3,979	(20,060)	10,033
Reclassification adjustment for amortization of unrealized losses (gains) on investment securities transferred to held to maturity from available for sale	115	(350)	266	(823)
Reclassification adjustments for losses (gains) included in net income	86	(137)	260	(368)
Other comprehensive (loss) income, before tax	(7,767)	3,492	(19,534)	8,842
Income tax expense (benefit) related to items of other comprehensive (loss) income	2,097	(1,387)	5,225	(3,512)
Other comprehensive (loss) income, net of tax	(5,670)	2,105	(14,309)	5,330
Comprehensive income	$ 32,863	$ 46,571	$ 80,981	$ 104,333

See Accompanying Notes to Consolidated Financial Statements.

MB FINANCIAL, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2018 and 2017
(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	Non-controlling Interest	Total Stock-holders' Equity
Balance at December 31, 2016	$ 115,572	$ 856	$ 1,678,826	$ 838,892	$ 5,190	$ (60,384)	$ 257	$ 2,579,209
Net income	—	—	—	99,003	—	—	—	99,003
Other comprehensive income, net of tax	—	—	—	—	5,330	—	—	5,330
Cash dividends declared on preferred shares	—	—	—	(4,005)	—	—	—	(4,005)
Cash dividends declared on common shares ($0.40 per share)	—	—	—	(33,960)	—	—	—	(33,960)
Restricted common stock activity, net of tax	—	—	(6,837)	—	—	3,550	—	(3,287)
Stock option activity, net of tax	—	1	448	—	—	—	—	449
Repurchase of common shares in connection with employee benefit plans and held in trust for deferred compensation plan	—	—	461	—	—	(3,017)	—	(2,556)
Stock-based compensation expense	—	—	8,924	—	—	—	—	8,924
Purchase of additional investment in subsidiary from minority owners	—	—	(570)	—	—	—	(257)	(827)
Balance at June 30, 2017	$ 115,572	$ 857	$ 1,681,252	$ 899,930	$ 10,520	$ (59,851)	$ —	$ 2,648,280
Balance at December 31, 2017	$ 309,999	$ 858	$ 1,691,007	$ 1,065,303	$ 3,584	$ (60,928)	$ —	$ 3,009,823
Cumulative effect of accounting changes	—	—	—	(1,204)	907	—	—	(297)
Net income	—	—	—	95,290	—	—	—	95,290
Other comprehensive loss, net of tax	—	—	—	—	(14,309)	—	—	(14,309)
Redemption of preferred stock	(115,280)	—	—	15,280	—	—	—	(100,000)
Cash dividends declared on preferred shares	—	—	—	(6,100)	—	—	—	(6,100)
Cash dividends declared on common shares ($0.48 per share)	—	—	—	(40,755)	—	—	—	(40,755)
Restricted common stock activity, net of tax	—	1	(3,210)	—	—	—	—	(3,209)
Stock option activity, net of tax	—	2	428	—	—	—	—	430
Repurchase of common shares in connection with employee benefit plans and held in trust for deferred compensation plan	—	—	686	—	—	(2,012)	—	(1,326)
Stock-based compensation expense	—	—	9,146	—	—	—	—	9,146
Balance at June 30, 2018	$ 194,719	$ 861	$ 1,698,057	$ 1,127,814	$ (9,818)	$ (62,940)	$ —	$ 2,948,693

See Accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2018	**2017**
Cash Flows From Operating Activities		
Net income	$ 95,290	$ 99,003
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment and leased equipment	55,690	44,922
Branch exit and facilities impairment charges	340	5,907
Compensation expense for share-based payment plans	9,146	8,924
Net loss (gain) on sales of premises and equipment and leased equipment	684	(752)
Amortization of other intangibles	3,798	4,176
Provision for credit losses	13,727	13,433
Deferred income tax expense	26,233	22,072
Amortization of premiums and discounts on investment securities, net	16,731	20,754
Accretion of discounts on loans, net	(9,239)	(13,858)
Net loss (gain) on investment securities	260	(368)
Proceeds from sale of loans held for sale	2,046,650	2,340,861
Origination of loans held for sale	(1,949,399)	(2,321,902)
Net loss on sale of loans held for sale	13,732	887
Origination of mortgage servicing rights	(25,041)	(27,568)
Change in fair value of mortgage servicing rights	4,826	16,677
Net loss on other real estate owned	737	1,313
Increase in cash surrender value of life insurance	(2,380)	(2,589)
Loss on extinguishment of debt	3,136	—
Goodwill impairment loss	3,623	—
Increase in other assets, net	13,370	2,797
Decrease in other liabilities, net	(58,110)	(37,530)
Net cash provided by operating activities	263,804	177,159
Cash Flows From Investing Activities		
Proceeds from sales of investment securities available for sale	2,610	2,271
Proceeds from maturities and calls of investment securities available for sale	202,918	167,856
Purchases of investment securities available for sale	(480,158)	(47,016)
Proceeds from maturities and calls of investment securities held to maturity	62,668	72,250
Purchases of investment securities held to maturity	(26,443)	(29,457)
Purchase of marketable equity securities	(312)	—
Proceeds from sales of marketable equity securities	178	—
Purchases of non-marketable securities - FHLB and FRB stock	(33,212)	(110,711)
Redemption of non-marketable securities - FHLB and FRB stock	31,870	93,783
Net decrease (increase) in loans	143,580	(832,802)
Purchases of mortgage servicing rights	(135)	(786)
Purchases of premises and equipment and leased equipment	(76,901)	(78,833)
Proceeds from sales of premises and equipment and leased equipment	7,361	14,227
Proceeds from sale of other real estate owned	2,766	16,686
Proceeds from sale of other real estate owned related to FDIC-assisted transactions	1,213	2,587
Purchase of additional investment in subsidiary from minority owners	—	(827)
Net proceeds from FDIC related covered assets	434	(227)
Net cash used in investing activities	(161,563)	(730,999)
Cash Flows From Financing Activities		

Net (decrease) increase in deposits	(35,715)	151,371
Proceeds from short-term borrowings - FHLB advances	140,000	2,350,000
Principal paid on short-term borrowings - FHLB advances	(550,000)	(2,125,000)
Net increase in other short-term borrowings	15,423	49,070
Proceeds from long-term borrowings	451,827	262,864
Principal paid on long-term borrowings	(41,693)	(94,494)
Redemption of junior subordinated notes issued to capital trusts	(20,619)	—
Redemption of preferred stock	(100,000)	—
Treasury stock transactions, net	(1,326)	(2,556)
Stock options exercised	2,803	1,376
Dividends paid on preferred stock	(8,100)	(4,005)
Dividends paid on common stock	(40,942)	(33,998)
Net cash (used in) provided by financing activities	(188,342)	554,628
Net (decrease) increase in cash and cash equivalents	$ (86,101)	$ 788
Cash and cash equivalents:		
Beginning of period	579,221	463,469
End of period	$ 493,120	$ 464,257

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

	Six Months Ended June 30,	
	2018	2017
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest paid to depositors and on other borrowed funds	$ 50,873	$ 27,666
Income tax payments, net	1,951	2,486
Supplemental Schedule of Noncash Investing Activities:		
Investment securities held to maturity purchased not settled	$ 8,806	$ 2,553
Loans transferred to other real estate owned	3,890	2,658
Loans transferred to other real estate owned related to FDIC-assisted transactions	—	2,321
Loans transferred to repossessed assets	1,299	969
Operating leases rewritten as direct finance leases included as loans	2,359	1,547
Long-term borrowings transferred to short-term borrowings	185,000	150,000
Supplemental Schedule of Noncash Investing Activities From Acquisitions:		
Adjustments to noncash assets previously acquired:		
Loans	$ —	$ 1,846
Goodwill	—	(1,113)
Other assets	—	(733)
Total adjustments to noncash assets previously acquired	$ —	$ —

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 condition, results of operations and cash flows for the interim periods have been made. The results of operations for the six months ended June 30, 2018 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, 2017.

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" amends prior guidance to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company adopted this new authoritative guidance on January 1, 2018, and it did not have a significant 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's revenue is comprised of interest income on financial assets, which is excluded from the scope of this new guidance, and non-interest income. This new guidance changes how certain recurring revenue streams are recognized within lease financing revenue and insignificant components of non-interest income. The Company adopted this new authoritative guidance on January 1, 2018, and it did not have a significant impact on the Company's statements of operations or financial condition. See "Accounting changes" below.

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 Company adopted this new authoritative guidance on January 1, 2018, and it did not have a significant impact on the Company's statements of operations or financial condition. See "Accounting changes" below.

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 Company adopted this new authoritative guidance on January 1, 2018, and it did not 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. In July 2018, the Financial Accounting Standards Board issued new authoritative guidance to provide an additional transition method that allows entities to not apply this new guidance in the comparative periods presented in the financial statements and instead recognize a cumulative effect adjustment to the beginning retained earnings at the date of application. The Company is evaluating the new guidance and its impact on the Company's statements of operations and financial condition. The Company expects an increase in assets and liabilities as a result of recording additional lease contracts where the Company is lessee.

ASC Topic 815 "Derivatives and Hedging." New authoritative accounting guidance under ASC Topic 815 "Derivatives and Hedging" amended prior guidance to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The new authoritative guidance expands and refines hedge accounting for both nonfinancial and financial risk components. The new authoritative guidance will be effective for reporting periods after January 1, 2019 with early adoption 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" amends prior guidance by clarifying which changes to terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless the fair value, vesting conditions and classification of the modified award are the same as the original award. The Company adopted this new authoritative guidance on January 1, 2018, and it did not have a significant impact on the Company's statements of operations or financial condition.

ASC Topic 326 "Financial Instruments - Credit Losses." New authoritative accounting guidance under ASC Topic 326 "*Financial Instruments - Credit Losses*" amended the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new authoritative guidance also requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected (net of the allowance for credit losses). In addition, the credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses rather than a write-down. The new authoritative guidance will be effective for reporting periods after January 1, 2020. The Company is evaluating the new guidance and expects it to have an impact on the Company's statements of operations and financial condition, the significance of which is not yet known nor can it be reasonably estimated currently. Due to the significant differences in the new authoritative guidance from existing GAAP, the implementation of this guidance may result in material changes in our accounting for credit losses on the financial instruments and will be impacted by the Company's loan and securities portfolios' composition, attributes, and quality in addition to the prevailing economic conditions and forecasts at the time of adoption. As part of the Company's evaluation process, it has established a steering committee and working group, including individuals from various functional areas, to assess processes and related controls, portfolio segmentation, model development, system requirements, and needed resources.

ASC Topic 230 "Statement of Cash Flows." New authoritative accounting guidance under ASC Topic 230 "Statement of Cash Flows" addresses eight specific cash flow classification issues with the objective of reducing the existing diversity in practice. The Company adopted this new authoritative guidance on January 1, 2018, and it did not have a significant impact on the Company's statements of operations or financial condition.

New authoritative accounting guidance under ASC Topic 230 "Statement of Cash Flows" amends prior guidance to require an entity to include amounts generally described as restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The Company adopted this new authoritative guidance on January 1, 2018, and it did not have a significant impact on the Company's statements of operations or financial condition.

ASC Topic 740 "Income Taxes." New authoritative accounting guidance under ASC Topic 740 "Income Taxes" amends prior guidance to require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Company adopted this new authoritative guidance on January 1, 2018, and it did not have a significant impact on the Company's statements of operations or financial condition.

ASC Topic 350 "Intangibles-Goodwill and Other." New authoritative accounting guidance under ASC Topic 350 "Intangibles-Goodwill and Other" amends prior guidance to eliminate Step 2 from the goodwill impairment test and require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new authoritative guidance will be effective for reporting periods after January 1, 2020. The Company is evaluating the new guidance and its impact on the Company's statements of operations and financial condition.

ASC Topic 610 "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets." New authoritative accounting guidance under ASC Topic 610 "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets" amends prior guidance to clarify the scope of Subtopic 610-20 by defining in substance nonfinancial assets and to add guidance for partial sales of nonfinancial assets. The Company adopted this new authoritative guidance on January 1, 2018, and it did not have a significant impact on the Company's statements of operations or financial condition.

ASC Topic 310 "Receivables - Nonrefundable Fees and Other Costs." New authoritative accounting guidance under ASC Topic 310 "Receivables - Nonrefundable Fees and Other Costs" amends prior guidance by shortening the amortization period for certain callable debt securities held at a premium requiring the premium to be amortized to the earliest call date. The new authoritative guidance will be effective for reporting periods after January 1, 2019 with early adoption permitted. The Company is evaluating the new guidance and its impact on the Company's statements of operations and financial condition.

ASC Topic 220 "Income Statement - Reporting Comprehensive Income." New authoritative accounting guidance under ASC Topic 220 "Income Statement - Reporting Comprehensive Income" allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from enactment of H.R. 1, originally known as the "Tax Cuts and Jobs Act." The new authoritative guidance will be effective for reporting periods after January 1, 2019 with early adoption permitted. The Company early adopted the new guidance on January 1, 2018, and it did not have a significant impact on the Company's statements of operations or financial condition. See "Accounting changes" below.

Accounting changes. The Company adopted the new authoritative accounting guidance under ASC Topic 606, "Revenue from Contracts with Customers" on January 1, 2018 using the modified retrospective transition method for contracts that were not completed at the date of initial application. The Company recognized a cumulative effect reduction to the beginning retained earnings totaling $683 thousand. This amount relates to lease financing revenue where the Company's performance obligation is over time. Previously, such revenue was recognized immediately. See "*Lease financing revenue, net*" below.

The new authoritative accounting guidance under ASC Topic 606 requires an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To achieve this, the Company takes the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the Company satisfies a performance obligation. The non-interest revenue streams that are considered to be in the scope of this new guidance are discussed below.

Lease financing revenue, net. Fees from the sale of third-party equipment maintenance contracts are included within lease financing revenue, net. The Company sells third-party equipment maintenance contracts and provides customers with an asset and maintenance contract management tool over the life of the maintenance contract. Since the Company provides support for the asset and maintenance contract management tool, the Company's performance obligation is satisfied over the life of the maintenance contract, and the fees are recognized monthly over the life of the maintenance contract. Payment is typically received at the time of sale of the maintenance contract.

Treasury management fees and consumer and other deposit service fees. Deposit related fees (account analysis fees, monthly service fees, and other related fees) are included within treasury management fees and consumer and other deposit service fees. The Company's performance obligation is ongoing and either party may cancel at any time. These fees are generally recognized as the services are rendered on a monthly basis. Payment is typically received monthly.

Wealth management fees. Wealth management fees include revenue from the management and advisement of client assets and trust administration. The Company's performance obligation is generally satisfied over time, and the fees are recognized monthly. Payment is typically received quarterly or annually.

Card fees. Card fees include debit and credit card interchange fees and ATM fees. For debit and credit card transactions, the Company considers the merchant as the customer for interchange revenue with the performance obligation being satisfied when the cardholder purchases goods or services from the merchant. Interchange revenue is recognized as the services are provided. The Company's performance obligation for ATM fees is satisfied when services are provided, and the fees are recognized at that time. Payment is typically received immediately or in the following month.

Capital markets and international banking fees. Capital markets and international banking fees include M&A advisory and syndication fees. The Company's performance obligation is generally satisfied over time, and the fees are recognized monthly. For M&A advisory fees, a portion of the payment is received at the beginning of the engagement with the remainder once the transaction is completed. For syndication fees, payment is received annually.

The Company also adopted the new authoritative accounting guidance under ASC Topic 825 "Financial Instruments" and ASC Topic 220 "Income Statement - Reporting Comprehensive Income" on January 1, 2018. The Company recognized a cumulative effect increase to the beginning retained earnings and accumulated other comprehensive income totaling $385 thousand under ASC Topic 825 representing the fair value adjustment to equity securities at the date of initial application. In addition, the Company reclassified $729 thousand from accumulated other comprehensive loss to retained earnings for the stranded tax effects resulting from enactment of the Tax Cuts and Jobs Act at the date of initial application of the new guidance under ASC Topic 220.

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Distributed earnings allocated to common stock	$ 20,472	$ 17,829	$ 40,755	$ 33,960
Undistributed earnings	18,061	26,637	54,535	65,043
Net income	38,533	44,466	95,290	99,003
Less: preferred stock dividends	3,000	2,002	6,100	4,005
Plus: return from preferred stockholders due to redemption [(1)]	—	—	15,280	—
Net income available to common stockholders for basic earnings per common share	35,533	42,464	104,470	94,998
Plus: preferred stock dividends on convertible preferred stock	—	2	—	5
Less: earnings allocated to participating securities	1	1	3	2
Earnings allocated to common stockholders for diluted earnings per common share	$ 35,532	$ 42,465	$ 104,467	$ 95,001
Weighted average shares outstanding for basic earnings per common share	84,253,966	83,842,963	84,160,344	83,753,195
Dilutive effect of:				
Stock options	553,999	554,314	530,892	595,415
Restricted shares and units	443,845	363,003	383,390	417,433
Convertible preferred stock	—	7,134	—	7,228
Total dilutive effect of equity awards and convertible preferred stock	997,844	924,451	914,282	1,020,076
Weighted average shares outstanding for diluted earnings per common share	85,251,810	84,767,414	85,074,626	84,773,271
Basic earnings per common share	$ 0.42	$ 0.51	$ 1.24	$ 1.13
Diluted earnings per common share	0.42	0.50	1.23	1.12

(1) Represents the excess carrying amount over the redemption price of the 8% Series A non-cumulative perpetual preferred stock redeemed in the first quarter of 2018.

Note 4. Investment Securities

Amortized cost and fair value of investment securities, excluding marketable equity securities and non-marketable FHLB and FRB stock, were as follows as of the dates indicated (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
Available for Sale				
U.S. Government sponsored agencies and enterprises	$ 5,098	$ —	$ (72)	$ 5,026
States and political subdivisions	338,927	11,686	(552)	350,061
Residential mortgage-backed securities	1,225,978	1,594	(21,993)	1,205,579
Commercial mortgage-backed securities	63,527	84	(187)	63,424
Corporate bonds	23,179	—	(9)	23,170
Total Available for Sale	1,656,709	13,364	(22,813)	1,647,260
Held to Maturity				
States and political subdivisions	884,576	18,512	(1,745)	901,343
Residential mortgage-backed securities	38,460	400	—	38,860
Total Held to Maturity	923,036	18,912	(1,745)	940,203
Total	$ 2,579,745	$ 32,276	$ (24,558)	$ 2,587,463
December 31, 2017				
Available for Sale				
U.S. Government sponsored agencies and enterprises	$ 23,013	$ 3	$ (9)	$ 23,007
States and political subdivisions	363,813	15,998	(486)	379,325
Residential mortgage-backed securities	861,594	3,035	(11,930)	852,699
Commercial mortgage-backed securities	71,554	612	(131)	72,035
Corporate bonds	70,155	84	(42)	70,197
Equity securities [1]	11,236	—	(173)	11,063
Total Available for Sale	1,401,365	19,732	(12,771)	1,408,326
Held to Maturity				
States and political subdivisions	878,400	32,559	(447)	910,512
Residential mortgage-backed securities	80,682	1,261	—	81,943
Total Held to Maturity	959,082	33,820	(447)	992,455
Total	$ 2,360,447	$ 53,552	$ (13,218)	$ 2,400,781

[1] Reflected in marketable equity securities on the consolidated balance sheet following the adoption of the new guidance under ASC Topic 825 "Financial Instruments" on January 1, 2018.

The increase in investment securities was due to investments in residential mortgage-backed securities in the first quarter of 2018. The Company has no direct exposure to the State of Illinois in its investment securities portfolio, but approximately 20% of the state and political subdivisions portfolio consisted of securities issued by municipalities located in Illinois as of June 30, 2018. Approximately 95% of the state and political subdivisions securities were general obligation issues, and 27% were insured or had another form of credit enhancement as of June 30, 2018.

Unrealized losses on investment securities by length of time in a continuous unrealized loss position and the fair value of the related securities at June 30, 2018 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						
U.S. Government sponsored agencies and enterprises	$ 5,026	$ (72)	$ —	$ —	$ 5,026	$ (72)
States and political subdivisions	13,492	(57)	18,587	(495)	32,079	(552)
Residential mortgage-backed securities	713,248	(7,402)	398,203	(14,591)	1,111,451	(21,993)
Commercial mortgage-backed securities	31,993	(127)	11,263	(60)	43,256	(187)
Corporate bonds	23,170	(9)	—	—	23,170	(9)
Total Available for Sale	786,929	(7,667)	428,053	(15,146)	1,214,982	(22,813)
Held to Maturity						
States and political subdivisions	131,461	(1,191)	14,546	(554)	146,007	(1,745)
Total	$ 918,390	$ (8,858)	$ 442,599	$ (15,700)	$ 1,360,989	$ (24,558)

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, 2017 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						
U.S. Government sponsored agencies and enterprises	$ 5,111	$ (9)	$ —	$ —	$ 5,111	$ (9)
States and political subdivisions	9,016	(29)	18,754	(457)	27,770	(486)
Residential mortgage-backed securities	256,769	(1,853)	407,224	(10,077)	663,993	(11,930)
Commercial mortgage-backed securities	19,483	(20)	14,583	(111)	34,066	(131)
Corporate bonds	7,052	(8)	9,963	(34)	17,015	(42)
Equity securities	11,063	(173)	—	—	11,063	(173)
Total Available for Sale	308,494	(2,092)	450,524	(10,679)	759,018	(12,771)
Held to Maturity						
States and political subdivisions	45,499	(257)	12,561	(190)	58,060	(447)
Total	$ 353,993	$ (2,349)	$ 463,085	$ (10,869)	$ 817,078	$ (13,218)

The total number of security positions in the investment portfolio in an unrealized loss position at June 30, 2018 was 626 compared to 471 at December 31, 2017. This increase in total number of security positions in a continuous unrealized loss position from December 31, 2017 to June 30, 2018 was mainly attributable to the mortgage-backed securities 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 June 30, 2018, 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 securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, as of June 30, 2018, 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 securities portfolio would decline substantially if interest rates increase materially.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Realized gains	$ 62	$ 137	$ 150	$ 374
Realized losses	(148)	—	(410)	(6)
Net (losses) gains	$ (86)	$ 137	$ (260)	$ 368

The amortized cost and fair value of investment securities as of June 30, 2018 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	$ 61,670	$ 62,235
Due after one year through five years	124,424	128,078
Due after five years through ten years	40,076	40,532
Due after ten years	141,034	147,412
Residential and commercial mortgage-backed securities	1,289,505	1,269,003
	1,656,709	1,647,260
Held to maturity:		
Due in one year or less	42,695	42,916
Due after one year through five years	175,308	180,895
Due after five years through ten years	224,040	229,732
Due after ten years	442,533	447,800
Residential mortgage-backed securities	38,460	38,860
	923,036	940,203
Total	$ 2,579,745	$ 2,587,463

Investment securities with a carrying amount of $738.6 million at June 30, 2018 and $726.1 million at December 31, 2017 were pledged as collateral on public deposits and for other purposes as required or permitted by law, while only $606.0 million and $625.2 million were required to be pledged at June 30, 2018 and December 31, 2017, respectively.

Investment securities held to maturity with a carrying amount of $2.6 million were transferred to the available for sale portfolio and subsequently sold during the first quarter of 2018. These investment securities were obligations of states and political subdivisions that were downgraded and no longer met our credit criteria.

Note 5. Loans

Loans consist of the following at (in thousands):

	June 30, 2018	December 31, 2017
Commercial loans	$ 4,816,545	$ 4,786,180
Commercial loans collateralized by assignment of lease payments	2,100,460	2,113,135
Commercial real estate	3,929,327	4,147,529
Residential real estate	1,352,625	1,432,458
Construction real estate	495,805	406,849
Indirect vehicle	749,983	667,928
Home equity	192,785	219,098
Other consumer loans	81,714	73,141
Total loans, excluding purchased credit-impaired loans	13,719,244	13,846,318
Purchased credit-impaired loans	101,001	119,744
Total loans	$ 13,820,245	$ 13,966,062

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, asset-based loans, residential real estate loans, and indirect vehicle loans, credit risk tends to be geographically concentrated in that a majority of the loan customers are located in Illinois.

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 an annual basis.

Commercial Loans. Commercial credit is extended mostly 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 cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not perform 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. 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. In addition, leases that transfer substantially all of the benefits and risk related to the equipment ownership are classified as direct finance leases and are included in lease loans.

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 property income based loans and the repayment of these loans is largely dependent on the successful operation of the property, which also serves as collateral for the loan. In addition, $1.2 billion of commercial real estate loans at June 30, 2018 were secured by owner-occupied properties where the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the owner 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 monitored 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, these loans 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 residential real estate, home equity lines and loans, credit cards, and indirect vehicle loans (motorcycle, marine, recreational, and powersports 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 accounted for under ASC Topic 310-30, which include purchased credit-impaired loans acquired through business combinations, 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.

Pledged loans. A collateral pledge agreement exists whereby at all times, the Company must keep on hand, free of all other pledges, liens, and encumbrances, loans with unpaid principal balances aggregating no less than 160% for qualifying first mortgage loans, 170% for home equity loans, 161% for qualifying commercial real estate loans and 105% for loans held for sale, of the outstanding advances from the Federal Home Loan Bank. As of June 30, 2018 and December 31, 2017, the Company had $4.3 billion and $4.7 billion, respectively, of loans pledged as collateral for long-term Federal Home Loan Bank advances and third party letters of credit, while only $3.2 billion and $3.1 billion were required to be pledged at June 30, 2018 and December 31, 2017, respectively.

The Company also has a collateral pledge agreement with the Federal Reserve Bank. As of June 30, 2018 and December 31, 2017, the Company had $858.9 million and $902.2 million, respectively, of loans pledged as collateral at the Federal Reserve Bank for the discount window as a backup liquidity funding source.

The following table presents the contractual aging of the recorded investment in past due loans by class of loans as of June 30, 2018 and December 31, 2017 (in thousands):

	Current	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Total
June 30, 2018						
Commercial	$ 4,808,606	$ 116	$ 217	$ 7,606	$ 7,939	$ 4,816,545
Commercial collateralized by assignment of lease payments	2,069,443	16,560	10,769	3,688	31,017	2,100,460
Commercial real estate:						
Health care	694,863	—	—	—	—	694,863
Industrial	857,560	764	—	3,424	4,188	861,748
Multifamily	549,083	529	—	—	529	549,612
Retail	489,135	—	—	835	835	489,970
Office	430,984	—	—	228	228	431,212
Other	900,604	552	86	680	1,318	901,922
Residential real estate	1,341,504	617	1,687	8,817	11,121	1,352,625
Construction real estate	495,805	—	—	—	—	495,805
Indirect vehicle	744,297	3,947	1,131	608	5,686	749,983
Home equity	186,479	1,187	794	4,325	6,306	192,785
Other consumer	81,541	91	43	39	173	81,714
Total loans, excluding purchased credit-impaired loans	13,649,904	24,363	14,727	30,250	69,340	13,719,244
Purchased credit-impaired loans	60,429	4,685	5,124	30,763	40,572	101,001
Total loans	$ 13,710,333	$ 29,048	$ 19,851	$ 61,013	$ 109,912	$ 13,820,245
Non-performing loan aging	$ 30,509	$ 1,103	$ 6,663	$ 30,250	$ 38,016	$ 68,525
December 31, 2017						
Commercial	$ 4,769,244	$ 1,702	$ 6,926	$ 8,308	$ 16,936	$ 4,786,180
Commercial collateralized by assignment of lease payments	2,099,246	11,320	1,878	691	13,889	2,113,135
Commercial real estate:						
Health care	710,722	—	—	—	—	710,722
Industrial	908,394	—	—	755	755	909,149
Multifamily	601,844	688	—	732	1,420	603,264
Retail	503,224	—	—	474	474	503,698
Office	453,960	—	956	1,454	2,410	456,370
Other	956,181	7,035	76	1,034	8,145	964,326
Residential real estate	1,410,473	12,359	1,907	7,719	21,985	1,432,458
Construction real estate	404,595	2,254	—	—	2,254	406,849
Indirect vehicle	661,028	4,905	1,083	912	6,900	667,928
Home equity	210,831	3,161	1,073	4,033	8,267	219,098
Other consumer	72,846	202	36	57	295	73,141
Total loans, excluding purchased credit-impaired loans	13,762,588	43,626	13,935	26,169	83,730	13,846,318
Purchased credit-impaired loans	63,937	8,749	3,997	43,061	55,807	119,744
Total loans	$ 13,826,525	$ 52,375	$ 17,932	$ 69,230	$ 139,537	$ 13,966,062
Non-performing loan aging	$ 36,879	$ 8,799	$ 4,961	$ 26,169	$ 39,929	$ 76,808

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 June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018		December 31, 2017	
	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	$ 10,727	$ —	$ 14,001	$ 3,500
Commercial collateralized by assignment of lease payments	5,373	3,688	490	531
Commercial real estate:				
Health care	—	—	—	—
Industrial	3,485	—	8,807	—
Multifamily	635	—	860	—
Office	557	—	2,772	—
Retail	835	—	590	—
Other	5,813	75	8,016	190
Residential real estate	19,103	201	18,374	1,210
Construction real estate	—	—	—	—
Indirect vehicle	3,444	7	3,019	81
Home equity	14,541	—	14,305	—
Other consumer	2	39	4	58
Total	$ 64,515	$ 4,010	$ 71,238	$ 5,570

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. Loans rated but not adversely classified are deemed to be Pass. Risk ratings are updated any time the situation warrants and at least annually.

Loans not rated are included in groups of homogeneous loans with similar risk and loss characteristics and are not included in the table below. 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 June 30, 2018 and December 31, 2017 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2018					
Commercial	$ 4,518,183	$ 169,458	$ 128,904	$ —	$ 4,816,545
Commercial collateralized by assignment of lease payments	2,083,287	6,114	11,059	—	2,100,460
Commercial real estate:					
Health care	610,505	7,149	77,209	—	694,863
Industrial	833,104	19,720	8,924	—	861,748
Multifamily	546,488	1,345	1,779	—	549,612
Retail	465,899	21,226	2,845	—	489,970
Office	422,682	4,735	3,795	—	431,212
Other	854,186	16,600	31,136	—	901,922
Construction real estate	490,270	—	5,535	—	495,805
Total	$ 10,824,604	$ 246,347	$ 271,186	$ —	$ 11,342,137
December 31, 2017					
Commercial	$ 4,535,111	$ 147,232	$ 103,837	$ —	$ 4,786,180
Commercial collateralized by assignment of lease payments	2,095,668	7,527	9,940	—	2,113,135
Commercial real estate:					
Health care	640,751	33,672	36,299	—	710,722
Industrial	885,524	12,411	11,214	—	909,149
Multifamily	595,818	146	7,300	—	603,264
Retail	492,830	8,326	2,542	—	503,698
Office	452,902	696	2,772	—	456,370
Other	891,703	37,682	34,941	—	964,326
Construction real estate	406,849	—	—	—	406,849
Total	$ 10,997,156	$ 247,692	$ 208,845	$ —	$ 11,453,693

Approximately $27.5 million and $35.6 million of the substandard loans were non-performing as of June 30, 2018 and December 31, 2017, 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, excluding purchased credit-impaired loans, as of June 30, 2018 and December 31, 2017 (in thousands):

	Performing	Non-performing	Total
June 30, 2018			
Residential real estate	$ 1,333,321	$ 19,304	$ 1,352,625
Indirect vehicle	746,532	3,451	749,983
Home equity	178,244	14,541	192,785
Other consumer	81,673	41	81,714
Total	$ 2,339,770	$ 37,337	$ 2,377,107
December 31, 2017			
Residential real estate	$ 1,412,874	$ 19,584	$ 1,432,458
Indirect vehicle	664,828	3,100	667,928
Home equity	204,793	14,305	219,098
Other consumer	73,079	62	73,141
Total	$ 2,355,574	$ 37,051	$ 2,392,625

The recorded investment in residential mortgage loans secured by residential real estate properties (including purchased credit-impaired loans) for which foreclosure proceedings are in process totaled $54.7 million and $43.6 million at June 30, 2018 and December 31, 2017, respectively.

The following tables present loans individually evaluated for impairment by class of loans, excluding purchased credit-impaired loans, as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018							
					Three Months Ended		Six Months Ended	
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:								
Commercial	$ 5,862	$ 5,321	$ 541	$ —	$ 6,473	$ —	$ 6,768	$ —
Commercial collateralized by assignment of lease payments	—	—	—	—	—	—	—	—
Commercial real estate:								
Health care	—	—	—	—	—	—	—	—
Industrial	—	—	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—	—	—
Retail	—	—	—	—	—	—	—	—
Office	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	1,653	52
Residential real estate	4,089	4,051	38	—	4,142	—	3,770	—
Construction real estate	—	—	—	—	—	—	—	—
Indirect vehicle	647	334	313	—	644	21	562	28
Home equity	79	79	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—	—	—
With an allowance recorded:								
Commercial	4,795	4,795	—	1,421	4,917	78	4,921	97
Commercial collateralized by assignment of lease payments	5,078	5,078	—	3,144	331	—	166	—
Commercial real estate:								
Health care	—	—	—	—	—	—	539	28
Industrial	3,423	3,423	—	1,420	3,493	4	3,207	8
Multifamily	—	—	—	—	—	—	—	—
Retail	—	—	—	—	—	—	—	—
Office	—	—	—	—	—	—	—	—
Other	6,487	6,487	—	559	4,149	124	2,086	124
Residential real estate	20,461	18,603	1,858	1,729	18,605	31	18,956	32
Construction real estate	—	—	—	—	—	—	—	—
Indirect vehicle	—	—	—	—	—	—	—	—
Home equity	31,383	28,767	2,616	1,923	28,933	20	29,305	30
Other consumer	—	—	—	—	—	—	—	—
Total	$ 82,304	$ 76,938	$ 5,366	$ 10,196	$ 71,687	$ 278	$ 71,933	$ 399

	December 31, 2017					
					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	$ 8,312	$ 7,771	$ 541	$ —	$ 5,595	$ 95
Commercial collateralized by assignment of lease payments	—	—	—	—	301	—
Commercial real estate:						
Health care	—	—	—	—	—	—
Industrial	—	—	—	—	1,260	8
Multifamily	—	—	—	—	1,261	29
Retail	—	—	—	—	814	27
Office	527	527	—	—	1,426	18
Other	10,597	10,597	—	—	2,312	128
Residential real estate	1,950	1,912	38	—	483	—
Construction real estate	—	—	—	—	—	—
Indirect vehicle	408	202	206	—	411	26
Home equity	81	81	—	—	376	—
Other consumer	—	—	—	—	—	—
With an allowance recorded:						
Commercial	7,418	7,418	—	2,315	7,668	277
Commercial collateralized by assignment of lease payments	—	—	—	—	126	14
Commercial real estate:						
Health care	—	—	—	—	—	—
Industrial	8,339	8,317	22	2,669	3,215	171
Multifamily	568	568	—	320	426	—
Retail	—	—	—	—	1,345	28
Office	2,293	2,277	16	752	636	4
Other	—	—	—	—	29	—
Residential real estate	21,380	19,014	2,366	2,158	17,616	25
Construction real estate	—	—	—	—	—	—
Indirect vehicle	—	—	—	—	—	—
Home equity	30,762	28,286	2,476	2,200	27,982	54
Other consumer	—	—	—	—	—	—
Total	$ 92,635	$ 86,970	$ 5,665	$ 10,414	$ 73,282	$ 904

Impaired loans included accruing restructured loans of $25.7 million and $28.6 million that have been modified and are performing in accordance with those modified terms as of June 30, 2018 and December 31, 2017, respectively. In addition, impaired loans included $26.2 million and $30.8 million of non-performing restructured loans as of June 30, 2018 and December 31, 2017, 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.

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 June 30, 2018 (dollars in thousands):

	June 30, 2018			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Total	—	$ —	$ —	$ —
Non-Performing:				
Residential real estate	8	$ 935	$ 935	$ 152
Indirect vehicle	9	54	54	36
Home equity	2	76	76	5
Total	19	$ 1,065	$ 1,065	$ 193

The following table presents loans that were restructured during the six months ended June 30, 2018 (dollars in thousands):

	June 30, 2018			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Residential real estate	1	$ 88	$ 88	$ 9
Total	1	$ 88	$ 88	$ 9
Non-Performing:				
Residential real estate	16	$ 2,441	$ 2,441	$ 938
Indirect vehicle	20	120	120	38
Home equity	5	210	210	14
Total	41	$ 2,771	$ 2,771	$ 990

The following table presents loans that were restructured during the three months ended June 30, 2017 (dollars in thousands):

	June 30, 2017			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Commercial	5	$ 2,491	$ 2,491	$ 373
Commercial real estate:				
Industrial	2	2,787	2,787	—
Office	1	549	549	—
Other	1	147	147	—
Residential real estate	3	$ 493	$ 493	$ 86
Home equity	2	46	46	3
Total	14	$ 6,513	$ 6,513	$ 462
Non-Performing:				
Commercial	2	$ 676	$ 676	$ —
Commercial real estate:				
Multifamily	3	290	290	—
Retail	1	906	906	—
Residential real estate	8	1,122	1,122	289
Indirect vehicle	8	77	77	25
Home equity	2	593	593	57
Total	24	$ 3,664	$ 3,664	$ 371

The following table presents loans that were restructured during the six months ended June 30, 2017 (dollars in thousands):

	June 30, 2017			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Charge-offs and Specific Reserves
Performing:				
Commercial	5	$ 2,491	$ 2,491	$ 373
Commercial real estate				
Industrial	2	2,787	2,787	—
Office	1	549	549	—
Other	1	147	147	—
Residential real estate	6	902	902	135
Home equity	3	78	78	6
Total	18	$ 6,954	$ 6,954	$ 514
Non-Performing:				
Commercial	2	$ 676	$ 676	$ —
Commercial real estate:				
Multifamily	3	290	290	—
Retail	1	906	906	—
Residential real estate	17	2,380	2,380	443
Indirect vehicle	11	97	97	29
Home equity	3	593	593	57
Total	37	$ 4,942	$ 4,942	$ 529

Of the troubled debt restructurings entered into during the past twelve months, none subsequently defaulted during the six months ended June 30, 2018. 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 six months ended June 30, 2018 (in thousands):

	Performing	Non-performing
Beginning balance	$ 28,554	$ 30,836
Additions	88	2,771
Charge-offs	—	(130)
Principal payments, net	(4,774)	(5,364)
Removals	(77)	(8)
Transfer to other real estate owned	—	—
Transfers in	2,382	513
Transfers out	(513)	(2,382)
Ending balance	$ 25,660	$ 26,236

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 six months ended June 30, 2018 (in thousands):

	June 30, 2018			
	Extended Maturity, Amortization and Reduction of Interest Rate	Extended Maturity and/or Amortization	Delay in Payments and/or Reduction of Interest Rate	Total
Residential real estate	$ 1,256	$ 862	$ 411	$ 2,529
Indirect vehicle	—	—	120	120
Home equity	—	210	—	210
Total	$ 1,256	$ 1,072	$ 531	$ 2,859

The following table presents the activity in the allowance for credit losses, balance in allowance for credit losses and recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2018 and 2017 (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
June 30, 2018										
Allowance for credit losses:										
Three Months Ended										
Beginning balance	$ 45,551	$ 12,993	$ 65,798	$ 6,376	$ 19,803	$ 4,350	$ 4,346	$ 2,495	$ 1,678	$ 163,390
Charge-offs	1,534	716	2,621	28	—	1,328	184	309	—	6,720
Recoveries	167	149	329	26	37	664	228	89	—	1,689
Provision	(3,866)	669	1,885	(642)	6,952	1,052	(248)	307	110	6,219
Ending balance	$ 40,318	$ 13,095	$ 65,391	$ 5,732	$ 26,792	$ 4,738	$ 4,142	$ 2,582	$ 1,788	$ 164,578
Six Months Ended										
Beginning balance	$ 46,267	$ 13,007	$ 63,429	$ 7,012	$ 15,501	$ 4,728	$ 5,296	$ 2,470	$ 1,698	$ 159,408
Charge-offs	2,936	716	5,097	729	—	3,152	248	660	—	13,538
Recoveries	504	400	1,091	96	430	1,843	298	319	—	4,981
Provision	(3,517)	404	5,968	(647)	10,861	1,319	(1,204)	453	90	13,727
Ending balance	$ 40,318	$ 13,095	$ 65,391	$ 5,732	$ 26,792	$ 4,738	$ 4,142	$ 2,582	$ 1,788	$ 164,578
Ending allowance balance attributable to loans:										
Individually evaluated for impairment	$ 1,421	$ 3,144	$ 1,979	$ 1,729	$ —	$ —	$ 1,923	$ —	$ 616	$ 10,812
Collectively evaluated for impairment	38,823	9,951	62,400	4,003	26,757	4,738	2,219	2,582	1,172	152,645
Acquired and accounted for under ASC 310-30 (1)	74	—	1,012	—	35	—	—	—	—	1,121
Total ending allowance balance	$ 40,318	$ 13,095	$ 65,391	$ 5,732	$ 26,792	$ 4,738	$ 4,142	$ 2,582	$ 1,788	$ 164,578
Loans:										
Individually evaluated for impairment	$ 10,116	$ 5,078	$ 9,910	$ 22,654	$ —	$ 334	$ 28,846	$ —	$ —	$ 76,938
Collectively evaluated for impairment	4,806,429	2,095,382	3,919,417	1,329,971	495,805	749,649	163,939	81,714	—	13,642,306
Acquired and accounted for under ASC 310-30 (1)	10,459	—	24,286	51,485	3,641	—	9,855	1,275	—	101,001
Total ending loans balance	$ 4,827,004	$ 2,100,460	$ 3,953,613	$ 1,404,110	$ 499,446	$ 749,983	$ 202,640	$ 82,989	$ —	$ 13,820,245

	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
June 30, 2017										
Allowance for credit losses:										
Three Months Ended										
Beginning balance	$ 40,690	$ 12,143	$ 58,220	$ 8,131	$ 14,859	$ 3,624	$ 5,312	$ 1,191	$ 2,328	$ 146,498
Charge-offs	700	—	262	270	—	930	261	498	—	2,921
Recoveries	1,339	249	362	58	47	565	292	109	—	3,021
Provision	2,454	373	4,927	330	357	704	206	412	(64)	9,699
Ending balance	$ 43,783	$ 12,765	$ 63,247	$ 8,249	$ 15,263	$ 3,963	$ 5,549	$ 1,214	$ 2,264	$ 156,297
Six Months Ended										
Beginning balance	$ 44,661	$ 12,238	$ 51,807	$ 5,971	$ 14,758	$ 3,421	$ 5,469	$ 1,041	$ 2,476	$ 141,842
Charge-offs	868	—	1,347	360	—	2,341	434	944	—	6,294
Recoveries	2,849	712	880	586	159	1,217	575	338	—	7,316
Provision	(2,859)	(185)	11,907	2,052	346	1,666	(61)	779	(212)	13,433
Ending balance	$ 43,783	$ 12,765	$ 63,247	$ 8,249	$ 15,263	$ 3,963	$ 5,549	$ 1,214	$ 2,264	$ 156,297
Ending allowance balance attributable to loans:										
Individually evaluated for impairment	$ 1,076	$ —	$ 724	$ 1,839	$ —	$ —	$ 2,940	$ —	$ 516	$ 7,095
Collectively evaluated for impairment	42,619	12,765	62,115	6,410	15,227	3,963	2,609	1,214	1,748	148,670
Acquired and accounted for under ASC 310-30 [(1)]	88	—	408	—	36	—	—	—	—	532
Total ending allowance balance	$ 43,783	$ 12,765	$ 63,247	$ 8,249	$ 15,263	$ 3,963	$ 5,549	$ 1,214	$ 2,264	$ 156,297
Loans:										
Individually evaluated for impairment	$ 11,167	$ 1	$ 13,820	$ 16,956	$ —	$ 144	$ 29,019	$ —	$ —	$ 71,107
Collectively evaluated for impairment	4,692,161	2,076,910	3,868,934	1,394,303	449,116	627,675	209,933	74,925	—	13,393,957
Acquired and accounted for under ASC 310-30 [(1)]	17,797	—	38,859	73,872	5,201	—	11,558	1,790	—	149,077
Total ending loans balance	$ 4,721,125	$ 2,076,911	$ 3,921,613	$ 1,485,131	$ 454,317	$ 627,819	$ 250,510	$ 76,715	$ —	$ 13,614,141

(1) Loans acquired in business combinations 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 and lease 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 for in accordance with ASC Topic 310-20 "Nonrefundable Fees and Other Costs" as these loans do not have evidence of credit deterioration since origination.
- Non-impaired loans (typically performing substandard loans) are accounted for in accordance with ASC Topic 310-30 if 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 Topic 310-30 as they display significant credit deterioration since origination.

For pass rated loans (non-purchased credit-impaired loans), the difference between the estimated fair value of the loans and the principal outstanding is accreted over the remaining life of the loans.

In accordance with ASC 310-30, for both purchased non-impaired loans and purchased credit-impaired loans, the loans are pooled by loan type and 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 pools when there is a reasonable expectation about the amount and timing of such cash flows.

Substantially all of the loans acquired in FDIC-assisted transactions 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 six months ended June 30, 2018, there was a negative provision for credit losses of $413 thousand and net recoveries of $357 thousand in relation to purchased credit-impaired loans. There was $1.1 million and $1.2 million in allowance for loan and lease losses related to these purchased credit-impaired loans at June 30, 2018 and December 31, 2017, respectively. The provision for credit losses and accompanying charge-offs are included in the table above.

Changes in the accretable yield for loans acquired and accounted for under ASC 310-30 were as follows for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	$ 10,267	$ 14,911	$ 12,069	$ 16,050
Purchases	—	—	—	43
Accretion	(2,223)	(2,831)	(4,634)	(5,019)
Other [(1)]	197	606	806	1,612
Balance at end of period	$ 8,241	$ 12,686	$ 8,241	$ 12,686

(1) Primarily includes discount transfers from non-accretable discount to accretable discount due to better than expected performance of loan pools acquired and accounted for under ASC 310-30.

In our FDIC-assisted transactions, the fair value of purchased credit-impaired loans, on the acquisition date, was determined based on assigned risk ratings, expected cash flows and the fair value of loan collateral. The fair value of loans that were non-impaired was determined based on estimates of losses on defaults and other market factors. Due to the loss-share agreements with the FDIC, we 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.

For other loans acquired through business combinations, the fair value of purchased credit-impaired loans, on the acquisition date, was determined based on assigned risk ratings, expected cash flows and the fair value of loan collateral. The fair value of loans that were non-impaired was determined based on estimates of losses on defaults and other market factors.

The carrying amount of loans acquired through a business combination by loan pool type are as follows (in thousands):

June 30, 2018	Purchased Credit-Impaired Loans	Purchased Non-Credit-Impaired Loans	Total
Covered loans [(1)]:			
Consumer related	$ 14,005	$ —	$ 14,005
Non-covered loans:			
Commercial loans	10,459	176,660	187,119
Commercial loans collateralized by assignment of lease payments	—	15,406	15,406
Commercial real estate	24,285	601,356	625,641
Construction real estate	3,641	2,758	6,399
Consumer related	5,029	231,229	236,258
Total non-covered loans	43,414	1,027,409	1,070,823
Total acquired	$ 57,419	$ 1,027,409	$ 1,084,828

(1) Covered loans refer to loans covered under loss-sharing agreements with the FDIC. The remaining loss-share agreements expire between 2019 and 2020.

In addition to loans acquired through a business combination noted in the table above, consumer related purchased credit-impaired loans includes loans repurchased from GNMA of $43.6 million as of June 30, 2018.

Note 6. Goodwill and Intangibles

The excess of the cost of an acquisition over the fair value of the net assets acquired, including core deposit and client relationship intangibles, consists of goodwill. 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 units with the fair value of the reporting units.

The Company's annual assessment date is as of December 31. Goodwill is tested for impairment at the reporting unit level. The Company has three reporting units: Banking, Leasing, and Mortgage Banking. The carrying amount of goodwill was $1.0 billion at June 30, 2018 and December 31, 2017. On April 12, 2018, the Company announced the discontinuation of its national mortgage origination business, which includes substantially all originations outside of the Company's consumer banking footprint in the Chicagoland area. As a result, the Company recorded an impairment loss in the amount of $3.6 million within the Mortgage Banking segment in the second quarter of 2018. No impairment losses were recognized during the six months ended June 30, 2017.

The following table presents the carrying amount of goodwill by segment for the six months ended June 30, 2018 (in thousands):

	Banking	Leasing	Mortgage Banking	Total
Balance at beginning of period	$ 959,285	$ 40,640	$ 3,623	$1,003,548
Impairment	—	—	(3,623)	(3,623)
Balance at end of period	$ 959,285	$ 40,640	$ —	$ 999,925

The Company has other intangible assets consisting of core deposit and client relationship intangibles that had a remaining weighted average amortization period of approximately 12 years as of June 30, 2018.

The following table presents the changes during the six months ended June 30, 2018 in the carrying amount of core deposit and client relationship intangibles, and the gross carrying amount, accumulated amortization, and net book value as of June 30, 2018 (in thousands):

	June 30, 2018
Balance at beginning of period	$ 54,766
Amortization expense	(3,798)
Balance at end of period	$ 50,968
Gross carrying amount	$ 112,820
Accumulated amortization	(61,852)
Net book value	$ 50,968

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

Year ending December 31,	Amount
2018	$ 3,653
2019	5,674
2020	5,022
2021	4,790
2022	3,806
Thereafter	28,023
	$ 50,968

Note 7. Deposits

The composition of deposits was as follows as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Demand deposit accounts, non-interest bearing	$ 6,347,208	$ 6,381,512
NOW, money market, and interest bearing deposits	4,950,676	4,954,765
Savings accounts	1,181,078	1,167,810
Certificates of deposit, $250,000 or more	1,459,919	1,506,071
Other certificates of deposit	983,782	948,220
Total	$ 14,922,663	$ 14,958,378

Certificates of deposit of $250,000 or more included $1.1 billion of brokered deposits at June 30, 2018 and December 31, 2017. Brokered deposits typically consist of smaller individual time certificates that have the same liquidity characteristics and yields consistent with time certificates of $250,000 or more.

Note 8. Short-Term Borrowings

Short-term borrowings were as follows as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018		December 31, 2017	
	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount
Customer repurchase agreements	0.55%	$ 244,462	0.27%	$ 232,789
Federal Home Loan Bank advances	2.13	400,000	1.31	625,000
Federal funds purchased	2.21	7,000	1.26	3,250
Line of credit	—	—	—	—
Total	1.53%	$ 651,462	1.03%	$ 861,039

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 pledges mortgage-backed securities as collateral for the repurchase agreements and may be required to provide additional collateral based on the fair value of those securities.

The Company had Federal Home Loan Bank ("FHLB") advances with a maturity date less than one year of $400.0 million at June 30, 2018 and $625.0 million at December 31, 2017. At June 30, 2018, the interest rate on the advances outstanding on that date had rates ranging from 1.35% to 2.35% with maturities from September 2018 to June 2019. The Company has loans pledged as collateral on these Federal Home Loan Bank advances. See Note 5. Loans.

On December 18, 2015, the Company entered into a $35.0 million unsecured line of credit at the holding company level with a correspondent bank. Interest was payable at a rate of one month LIBOR + 1.75%. No borrowings under the line of credit were outstanding as of June 30, 2018 and December 31, 2017. The line of credit matured on June 30, 2018.

Note 9. Long-Term Borrowings

Long-term borrowings were as follows as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018		December 31, 2017	
	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount
Federal Home Loan Bank advances	2.52%	$ 478,096	1.73%	$ 231,317
Notes payable	4.57	79,196	4.14	90,807
Subordinated notes, net of issuance costs [(1)]	4.00	173,000	4.00	173,034
Term note	—	—	3.31	10,000
Total	3.09%	$ 730,292	2.97%	$ 505,158

(1) The amount decreased from December 31, 2017 as a result of an increase in issuance costs due to adjustments for actual costs.

The Company had Federal Home Loan Bank advances with remaining contractual maturities greater than one year of $478.1 million at June 30, 2018 and $231.3 million at December 31, 2017. As of June 30, 2018, the advances had interest rates ranging from 2.31% to 5.87% and maturities ranging from September 2019 to April 2035. The Company has loans pledged as collateral on these Federal Home Loan Bank advances. See Note 5. Loans.

The Company had notes payable to banks totaling $75.5 million and $76.3 million at June 30, 2018 and December 31, 2017, respectively, which as of June 30, 2018, were accruing interest at rates ranging from 2.25% to 7.25%, with a weighted average rate of 4.57%. Lease investments includes equipment with an amortized cost of $92.8 million and $91.9 million at June 30, 2018 and December 31, 2017, respectively, that is pledged as collateral on these notes. The Company also had $3.7 million and $14.5 million at June 30, 2018 and December 31, 2017, respectively, in other secured borrowings (included in the notes payable above) with a weighted average rate of 4.56% as of June 30, 2018.

On August 24, 2016, the Company assumed a $16.0 million unsecured term loan at the holding company level with a correspondent bank through the merger of American Chartered Bancorp, Inc. ("American Chartered") with and into the Company on that date. Interest was payable at a rate of one month LIBOR + 1.75%, and the loan was to mature on June 30, 2020. Principal payments of $1.0 million were due quarterly until maturity. As of June 30, 2018, nothing was outstanding on this loan as it was prepaid in full in the first quarter of 2018.

On November 16, 2017, MB Financial Bank issued $175.0 million in 4.00% fixed-to-floating subordinated notes that mature on December 1, 2027. The subordinated notes bear a fixed interest rate of 4.00% until December 1, 2022 and a variable interest rate of three month LIBOR + 1.873% thereafter until maturity. The subordinated notes are callable on a semi-annual basis beginning on December 1, 2022.

Note 10. 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 2 regulatory capital. Prior to the completion of the American Chartered merger, the trust preferred securities qualified, and were treated by the Company, as Tier 1 regulatory capital. The Company owns all of the common securities of each trust. The trust preferred securities issued by each trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the notes has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment.

The table below summarizes the outstanding junior subordinated notes and the related trust preferred securities issued by each trust as of June 30, 2018 (in thousands). Subsequent to June 30, 2018, the Company redeemed all of the outstanding junior subordinated notes held by Coal City Capital Trust I, which concurrently redeemed all of its outstanding trust preferred securities, and the Company called for redemption all of the outstanding junior subordinated notes held by TAYC Capital Trust II, which will concurrently redeem all of its outstanding trust preferred securities. See Note 18. Subsequent Events.

	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)	TAYC Capital Trust II (3)
Junior Subordinated Notes:				
Principal balance	$ 30,928	$ 23,196	$ 5,155	$ 41,238
Annual interest rate	3-mo LIBOR + 1.30%	3-mo LIBOR + 1.30%	3-mo LIBOR + 2.80%	3-mo LIBOR + 2.68%
Stated maturity date	December 15, 2037	October 30, 2037	January 23, 2034	June 17, 2034
Call date	December 15, 2012	October 30, 2012	January 23, 2009	June 17, 2009
Trust Preferred Securities:				
Face Value	$ 30,000	$ 22,500	$ 5,000	$ 40,000
Annual distribution rate	3-mo LIBOR + 1.30%	3-mo LIBOR + 1.30%	3-mo LIBOR + 2.80%	3-mo LIBOR + 2.68%
Issuance date	September 2007	October 2007	December 2003	June 2004
Distribution dates (1)	Quarterly	Quarterly	Quarterly	Quarterly

	American Chartered Statutory Trust II (4)
Junior Subordinated Notes:	
Principal balance	$ 10,310
Annual interest rate	3-mo LIBOR + 2.75%
Stated maturity date	October 7, 2034
Call date	October 7, 2009
Trust Preferred Securities:	
Face Value	$ 10,000
Annual distribution rate	3-mo LIBOR + 2.75%
Issuance date	August 2004
Distribution dates (1)	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 in 2006, and the junior subordinated notes issued by FOBB to FOBB Statutory Trust III were assumed by the Company upon completion of the acquisition.

[(3)] TAYC Capital Trust II was established by Taylor Capital Group, Inc. (“Taylor Capital”) prior to the Company's acquisition of Taylor Capital in 2014, and the junior subordinated notes issued by Taylor Capital to TAYC Capital Trust II were assumed by the Company upon completion of the acquisition. Principal balance and face value amounts associated with TAYC Capital Trust II do not include purchase accounting adjustments to such amounts, which in each case resulted in a remaining discount of $6.2 million at June 30, 2018.

[(4)] American Chartered Statutory Trust II was established by American Chartered prior to the Company's acquisition of American Chartered in August 2016, and the junior subordinated notes issued by American Chartered to American Chartered Statutory Trust II were assumed by the Company upon completion of the acquisition. Principal balance and face value amounts associated with American Chartered Statutory Trust II do not include acquisition accounting adjustments to such amounts, which in each case resulted in a remaining discount of $2.6 million at June 30, 2018.

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

On March 19, 2018, the Company redeemed the junior subordinated notes held by American Chartered Statutory Trust I and, as a result, all of the issued and outstanding three month LIBOR + 3.60% American Chartered Statutory Trust I capital (preferred) securities were concurrently redeemed. The aggregate liquidation amount of these trust preferred securities was $20.0 million. American Chartered Statutory Trust I was established by American Chartered prior to the Company's acquisition of American Chartered, and the junior subordinated notes issued by American Chartered to American Chartered Statutory Trust I were assumed by the Company upon completion of the acquisition. As a result, the Company recognized a $3.1 million loss on extinguishment of debt in the first quarter of 2018.

Note 11. Commitments and Contingencies

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

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

At June 30, 2018 and December 31, 2017, the following financial instruments were outstanding, the contractual amounts of which represent off-balance sheet credit risk (in thousands):

	Contractual Amount	
	June 30, 2018	**December 31, 2017**
Commitments to extend credit:		
Home equity lines	$ 185,528	$ 203,922
Other commitments	4,084,835	4,073,044
Letters of credit:		
Standby	165,960	161,014
Commercial	756	2,248

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

The Company, in the normal course of its business, regularly offers standby and commercial letters of credit to its bank customers. Standby and commercial letters of credit are a conditional but irrevocable form of guarantee. Under letters of credit, the Company typically guarantees payment to a third party beneficiary upon the default of payment or nonperformance by the bank customer and upon receipt of complying documentation from that beneficiary.

Both standby and commercial letters of credit may be issued for any length of time, but normally do not exceed a period of five years. These letters of credit may also be extended or amended from time to time depending on the bank customer's needs. As of June 30, 2018, the maximum remaining term for any standby letters of credit was December 31, 2025. A fee is charged to the bank customer and is recognized as income over the life of the letter of credit, unless considered non-rebatable under the terms of a letter of credit application.

At June 30, 2018, 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 $3.4 million to $166.7 million from $163.3 million at December 31, 2017. Of the $166.7 million in commitments outstanding at June 30, 2018, approximately $77.2 million of the letters of credit have been issued or renewed since December 31, 2017.

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

As of June 30, 2018, the Company had approximately $3.2 million in capital expenditure commitments outstanding which relate to various projects to renovate the corporate office space and branches.

Concentrations of credit risk: As of June 30, 2018, approximately 20% of our investments in securities issued by states and political subdivisions were within the state of Illinois. We did not hold any direct exposure to the state of Illinois as of June 30, 2018. Our commitments to extend credit are primarily related to commercial credits. Standby and commercial letters of credit are granted primarily to commercial borrowers. Our asset-based loans are made to borrowers located throughout the United States. Lease banking provides banking services to lessors located throughout the United States. Our leasing subsidiaries originate leases to companies located throughout the United States. In addition, our mortgage segment and indirect vehicle lenders originate loans to borrowers located throughout 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 12. 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 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. The change in fair value is recorded through an adjustment to the statement of other comprehensive income.

Marketable Equity Securities. The fair values of marketable equity securities are determined by quoted prices in active markets, when available, and classified as Level 1. The change in fair value is recorded through an adjustment to the statement of operations.

Loans Held for Sale. Mortgage loans originated and held for sale in the secondary market are carried at fair value. The fair value of loans held for sale is determined using quoted secondary market prices and classified as Level 2. The change in fair value is recorded through an adjustment to the statement of operations.

Loans. The Company has elected to record certain mortgage loans at fair value. The fair value of these loans is determined using quoted secondary market prices and classified as Level 2. The change in fair value is recorded through an adjustment to the statement of operations.

Mortgage Servicing Rights. The Company has elected to record its mortgage servicing rights at fair value. Mortgage servicing rights do not trade in an active market with readily observable prices. Accordingly, the Company determines the fair value of mortgage servicing rights by estimating the fair value of the future cash flows associated with the mortgage loans being serviced. Key economic assumptions used in measuring the fair value of mortgage servicing rights include, but are not limited to, prepayment speeds, discount rates, delinquencies and cost to service. The assumptions used in the model are validated on a regular basis. The fair value is validated on a quarterly basis with an independent third party. Any material discrepancies between the internal model and the third party validation are investigated and resolved by an internal committee. Due to the nature of the valuation inputs, mortgage servicing rights are classified in Level 3 of the fair value hierarchy. The change in fair value is recorded through an adjustment to the statement of operations.

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. The change in fair value is recorded through an adjustment to the statement of operations.

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. The Company also obtains dealer quotations for these derivatives for comparative purposes to assess the reasonableness of the model valuations. In addition, the Company uses forward commitments to buy to-be-announced mortgage securities for which we do not intend to take delivery of the security and will enter into an offsetting position before physical delivery to lessen the price volatility of the mortgage servicing rights asset. Dealer quotations are used for these derivatives and are classified as Level 1. The Company also offers 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. For certain interest rate lock commitments, the Company uses an external valuation model that relies on internally developed inputs to estimate the fair value of its interest rate lock commitments. This is based on unobservable inputs that reflect management’s assumptions and specific information about each borrower transaction and is classified in Level 3 of the hierarchy. The change in fair value is recorded through an adjustment to the statement of operations.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Financial assets				
Securities available for sale:				
U.S Government sponsored agencies and enterprises	$ 5,026	$ —	$ 5,026	$ —
States and political subdivisions	350,061	—	349,732	329
Residential mortgage-backed securities	1,205,579	—	1,205,566	13
Commercial mortgage-backed securities	63,424	—	63,424	—
Corporate bonds	23,170	—	23,170	—
Marketable equity securities	10,922	10,922	—	—
Loans held for sale	423,367	—	423,367	—
Loans	36,347	—	36,347	—
Mortgage servicing rights	296,629	—	—	296,629
Assets held in trust for deferred compensation	24,300	24,300	—	—
Derivative financial instruments	52,418	482	51,659	277
Financial liabilities				
Other liabilities [1]	24,300	24,300	—	—
Derivative financial instruments	52,572	1,217	51,355	—
December 31, 2017				
Financial assets				
Securities available for sale:				
U.S. Government sponsored agencies and enterprises	$ 23,007	$ —	$ 23,007	$ —
States and political subdivisions	379,325	—	378,996	329
Residential mortgage-backed securities	852,699	—	852,665	34
Commercial mortgage-backed securities	72,035	—	72,035	—
Corporate bonds	70,197	—	70,197	—
Equity securities	11,063	11,063	—	—
Loans held for sale	548,578	—	548,578	—
Loans	40,531	—	40,531	—
Mortgage servicing rights	276,279	—	—	276,279
Assets held in trust for deferred compensation	21,410	21,410	—	—
Derivative financial instruments	31,499	389	29,539	1,571
Financial liabilities				
Other liabilities [1]	21,410	21,410	—	—
Derivative financial instruments	40,296	1,072	39,224	—

[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 in thousands):

	Fair Value at June 30, 2018	Valuation Technique	Unobservable Input	Range
States and political subdivisions	$ 329	Discounted cash flows	Credit assumption	40% - 45% Loss
Residential mortgage-backed securities	13	Discounted cash flows	Constant pre-payment rates (CPR)	1% - 3%
Mortgage servicing rights	296,629	Discounted cash flows	CPR	6.30% - 6.71%
			Discount rate	9.53 - 11.07
			Maturity (months)	326 - 358
			Delinquency rate	2.19 - 4.88
			Costs to service	$ 67 - $ 227
			Additive delinquent costs to service	$ 175 - $ 1,000
Derivative financial instruments (mortgage interest rate lock commitments)	277	Sales cash flows	Expected closing ratio	70% - 95%
			Expected delivery price	98.12 bps - 106.46 bps

	Fair Value at December 31, 2017	Valuation Technique	Unobservable Input	Range
States and political subdivisions	$ 329	Discounted cash flows	Credit assumption	40-45% Loss
Residential mortgage-backed securities	34	Discounted cash flows	Constant pre-payment rates (CPR)	1% - 3%
Mortgage servicing rights	276,279	Discounted cash flows	CPR	6.7% - 7.8%
			Discount rate	9.53 - 11.06
			Maturity (months)	324 - 358
			Delinquency rate	2.42 - 5.30
			Costs to service	$ 67 - $ 227
			Additive delinquent costs to service	$ 175 - $ 1,000
Derivative financial instruments (mortgage interest rate lock commitments)	1,571	Sales cash flows	Expected closing ratio	70% - 95%
			Expected delivery price	97.38 bps - 106.87 bps

The significant unobservable inputs used in the fair value measurement of the Company's mortgage servicing rights include prepayment speeds, discount rates, maturities, delinquencies and cost to service. Significant increases in prepayment speeds, discount rates, delinquencies or cost to service would result in a significantly lower fair value measurement. Conversely, significant decreases in prepayment speeds, discount rates, delinquencies or costs to service would result in a significantly higher fair value measurement. With the exception of changes in delinquencies, which can change the cost to service, the unobservable inputs move independently of each other.

Key economic assumptions used in the measuring of the fair value of the mortgage servicing rights and the sensitivity of the fair value to immediate adverse changes in those assumptions at June 30, 2018 are presented in the following table. This table does not take into account the derivatives used to economically hedge the mortgage servicing rights.

(dollars in thousands, except for weighted average cost to service)	June 30, 2018
Weighted average CPR	6.49%
Impact on fair value of 10% adverse change	$ (8,581)
Impact on fair value of 20% adverse change	(16,741)
Weighted average discount rate	9.83%
Impact on fair value of 10% adverse change	$ (12,630)
Impact on fair value of 20% adverse change	(24,245)
Weighted average delinquency rate	4.65%
Impact on fair value of 10% adverse change	$ (3,657)
Impact on fair value of 20% adverse change	(6,023)
Weighted average costs to service	$ 91.39
Impact on fair value of 10% adverse change	(5,534)

Impact on fair value of 20% adverse change	(11,067)

The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during the six months ended June 30, 2018. The Company's policy for determining transfers between levels occurs at the end of the reporting period when circumstances in the underlying valuation criteria change and result in transfer between levels.

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

	Six Months Ended June 30,					
	2018	2017	2018	2017	2018	2017
(in thousands)	**Investment Securities**		**Mortgage Servicing Rights**		**Derivatives**	
Balance, beginning of period	$ 363	$ 544	$ 276,279	$ 238,011	$ 1,571	$ 3,160
Purchases	—	—	135	786	—	—
Originations	—	—	25,041	27,568	—	—
Included in earnings	—	—	(4,826)	(16,677)	(1,294)	(461)
Principal payments	(21)	(82)	—	—	—	—
Sales	—	—	—	—	—	—
Balance, ending of period	$ 342	$ 462	$ 296,629	$ 249,688	$ 277	$ 2,699

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 (100% at June 30, 2018), 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 and lease losses based upon the fair value of the foreclosed asset. The fair value of foreclosed assets, upon initial recognition, are estimated using Level 3 inputs based on customized discounting criteria.

Non-Financial Long-Lived Assets. Non-financial long-lived assets, when determined to be impaired, are measured and reported at fair value using Level 3 inputs based on customized discounting criteria.

Assets measured at fair value on a nonrecurring basis as of June 30, 2018 and December 31, 2017 are included in the table below (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Financial assets:				
Impaired loans	$ 62,089	$ —	$ —	$ 62,089
Non-financial assets:				
Foreclosed assets	14,420	—	—	14,420
December 31, 2017				
Financial assets:				
Impaired loans	$ 60,569	$ —	$ —	$ 60,569
Non-financial assets:				
Foreclosed assets	15,113	—	—	15,113

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 in thousands):

	Fair Value at June 30, 2018	Valuation Technique	Unobservable Input	Range
Impaired loans	$ 62,089	Appraisal of collateral	Appraisal adjustments - sales costs	5% - 10%
Foreclosed assets	14,420	Appraisal of collateral	Appraisal adjustments - sales costs	5% - 10%

	Fair Value at December 31, 2017	Valuation Technique	Unobservable Input	Range
Impaired loans	$ 60,569	Appraisal of collateral	Appraisal adjustments - sales costs	5% - 10%
Foreclosed assets	15,113	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 earning 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 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: 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, including increased interest rate spreads to incorporate a credit mark, estimating an exit price.

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

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

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

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

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

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

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

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

	June 30, 2018				
	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	$ 373,448	$ 373,448	$ 373,448	$ —	$ —
Interest earning deposits with banks	119,672	119,672	119,672	—	—
Investment securities available for sale	1,647,260	1,647,260	—	1,646,918	342
Investment securities held to maturity	923,036	940,203	—	940,203	—
Marketable equity securities	10,922	10,922	10,922	—	—
Non-marketable securities - FHLB and FRB stock	115,453	115,453	—	—	115,453
Loans held for sale	423,367	423,367	—	423,367	—
Loans, net	13,657,455	13,728,529	—	36,347	13,692,182
Accrued interest receivable	65,129	65,129	65,129	—	—
Derivative financial instruments	52,418	52,418	482	51,659	277
Financial Liabilities:					
Non-interest bearing deposits	$ 6,347,208	$ 6,347,208	$ 6,347,208	$ —	$ —
Interest bearing deposits	8,575,455	8,563,444	—	—	8,563,444
Short-term borrowings	651,462	651,328	—	—	651,328
Long-term borrowings	730,292	731,194	—	—	731,194
Junior subordinated notes issued to capital trusts	194,450	163,817	—	—	163,817
Accrued interest payable	7,058	7,058	7,058	—	—
Derivative financial instruments	52,572	52,572	1,217	51,355	—

	December 31, 2017				
	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	$ 397,880	$ 397,880	$ 397,880	$ —	$ —
Interest earning deposits with banks	181,341	181,341	181,341	—	—
Investment securities available for sale	1,408,326	1,408,326	11,063	1,396,900	363
Investment securities held to maturity	959,082	992,455	—	992,455	—
Non-marketable securities - FHLB and FRB stock	114,111	114,111	—	—	114,111
Loans held for sale	548,578	548,578	—	548,578	—
Loans, net	13,808,352	13,988,392	—	40,531	13,947,861
Accrued interest receivable	63,589	63,589	63,589	—	—
Derivative financial instruments	31,499	31,499	389	29,539	1,571
Financial Liabilities:					
Non-interest bearing deposits	$ 6,381,512	$ 6,381,512	$ 6,381,512	$ —	$ —
Interest bearing deposits	8,576,866	8,569,368	—	—	8,569,368
Short-term borrowings	861,039	860,676	—	—	860,676
Long-term borrowings	505,158	513,725	—	—	513,725
Junior subordinated notes issued to capital trusts	211,494	170,965	—	—	170,965
Accrued interest payable	6,458	6,458	6,458	—	—
Derivative financial instruments	40,296	40,296	1,072	39,224	—

Note 13. Stock Incentive Plans

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

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
Total compensation expense for share-based payment plans during the period	$	4,695	$	4,443	$	9,146	$	8,924
Amount of related income tax benefit recognized in income [1]		2,599		1,916		3,953		6,338

[1] Includes tax benefits recorded for the vesting of restricted shares and exercise of options.

The Company adopted the Omnibus Incentive Plan (the "Omnibus Plan") in 1997. On May 28, 2014, the Company's stockholders approved the third amendment and restatement of the Omnibus Plan to add 3,100,000 authorized shares for a total of 11,400,000 shares of common stock authorized to be utilized in connection with awards under the Omnibus Plan to directors, officers, and employees of the Company or any of its subsidiaries. The number of shares authorized increased by 2,400,000 to 13,800,000 upon completion of the Taylor Capital merger. 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. No more than 10% of the total number of authorized shares may be issued with respect to awards granted after May 28, 2014, other than stock appreciation rights, stock options and performance-based awards, which at the date of grant are scheduled to fully vest prior to three years from the date of grant (although such awards may provide scheduled vesting earlier with respect to some of such shares and for acceleration of vesting as provided in the Omnibus Plan). As of June 30, 2018, there were 2,114,097 shares available for future grants.

Annual equity-based incentive awards are generally granted to selected officers and employees in the first quarter of the 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 changes in stock options for the six months ended June 30, 2018:

	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, 2017	1,721,978	$	29.10	5.19		
Granted	160,644		41.14			
Exercised	(380,567)		26.39			
Expired	(1,092)		39.28			
Forfeited or cancelled	(9,411)		28.93			
Options outstanding as of June 30, 2018	1,491,552	$	31.08	6.11	$	23,303
Options exercisable as of June 30, 2018	989,220	$	28.19	4.99	$	18,313

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model based on certain assumptions. Expected volatility is based on historical volatility and the expectations of future volatility of Company shares. The risk free interest rate for periods within the contractual term of the option is based on the U.S. Treasury yield curve in effect at the

time of the grant. The expected life of options is estimated based on historical employee behavior and represents the period of time that options granted are expected to remain outstanding.

The following assumptions were used for options granted during the six months ended June 30, 2018:

	June 30, 2018
Risk-free interest rate	2.80%
Expected volatility of Company's stock	26.13%
Expected dividend yield	2.06%
Expected life of options	5.9 years
Weighted average fair value per option of options granted during the year	$ 9.65

The total intrinsic value of options exercised during the six months ended June 30, 2018 and 2017 was $8.3 million and $3.9 million, respectively.

The following is a summary of changes in restricted shares and units for the six months ended June 30, 2018:

	Number of Shares and Units	Weighted Average Grant Date Fair Value
Shares and units outstanding at December 31, 2017	973,201	$ 37.03
Granted	414,895	41.45
Vested	(303,774)	34.98
Forfeited or cancelled	(88,806)	34.86
Shares and units outstanding at June 30, 2018	995,516	39.69

The total intrinsic value of restricted shares and units that vested during the six months ended June 30, 2018 and 2017 was $12.8 million and $15.5 million, respectively.

The Company awarded 71,567, 65,476, and 80,780 market-based restricted stock units in 2018, 2017, and 2016, 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 Company awarded 71,560 market-based restricted stock units in 2015 that vested in 2018. The threshold performance for the units granted in 2015 was not met and, as a result, no shares were issued. 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 awarded.

As of June 30, 2018, there was $30.9 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements (including share option and nonvested share awards) granted under the Omnibus Plan. At June 30, 2018, the weighted-average period over which the unrecognized compensation expense is expected to be recognized was approximately two years.

Note 14. Derivative Financial Instruments

The Company offers various derivatives, including interest rate swaps and foreign currency forward contracts, to its qualifying 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 statement of operations.

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 June 30, 2018 and December 31, 2017 was approximately $1 thousand. The Company's credit exposure on interest rate swaps is limited to the Company's net favorable value and interest payments of all swaps to each counterparty. In such cases, collateral is generally required from the counterparties involved if the net value of the swaps exceeds a nominal amount. At June 30, 2018, the Company’s credit exposure relating to interest rate swaps was approximately $17.7 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 hedging 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 $32 thousand at June 30, 2018. 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.

Interest rate swaps, swaptions and treasury futures are used in order to lessen the price volatility of the mortgage servicing rights asset. The Company also uses forward commitments to buy to-be-announced ("TBA") mortgage securities for which the Company does not intend to take delivery of the security and will enter into an offsetting position before physical delivery to lessen the price volatility of the mortgage servicing rights asset. These derivatives are recorded at their fair value on the consolidated balance sheets in other assets with changes in fair value recorded on the consolidated statements of operations in mortgage banking revenue in non-interest income.

The Company's derivative financial instruments are summarized below as of June 30, 2018 and December 31, 2017 (in thousands):

	Asset Derivatives				Liability Derivatives			
	June 30, 2018		December 31, 2017		June 30, 2018		December 31, 2017	
	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]	$ —	$ —	$ —	$ —	$ 32	$ (1)	$ 58	$ (1)
Stand-alone derivative instruments: [2]								
Interest rate swap contracts	1,732,420	34,477	1,563,109	21,217	1,732,420	(34,477)	1,563,109	(21,217)
Interest rate options contracts	510,228	3,818	372,927	1,887	510,157	(3,818)	372,927	(1,887)
Foreign exchange contracts	64,661	2,309	40,713	1,934	53,842	(2,006)	34,029	(1,759)
Spot foreign exchange contracts	10,135	18	1,424	23	11,823	(23)	24	—
Mortgage related derivatives:								
Interest rate swap contracts	270,000	10,983	458,000	4,479	320,000	(11,031)	1,008,000	(14,360)
Interest rate swaptions contracts	240,000	54	—	—	—	—	—	—
Treasury futures contracts	20,000	66	28,000	39	32,500	(105)	30,000	(222)
TBA mortgage securities	50,000	359	15,000	16	—	—	100,000	(63)
Forward loan sale commitments	36,000	57	259,000	333	298,700	(1,111)	483,500	(787)
Interest rate lock commitments	66,093	277	404,557	1,571	—	—	—	—
Total stand-alone derivative instruments	2,999,537	52,418	3,142,730	31,499	2,959,442	(52,571)	3,591,589	(40,295)
Total	$ 2,999,537	$ 52,418	$ 3,142,730	$ 31,499	$ 2,959,474	$ (52,572)	$ 3,591,647	$ (40,296)

[1] Derivative instruments designated to hedge fixed-rate commercial real estate loans.
[2] These portfolio swaps are not designated as hedging instruments under ASC Topic 815.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Derivative instruments designated as hedges of fair value:				
Interest rate swap contracts	$ 1	$ 1	$ 1	$ 2
Stand-alone derivative instruments:				
Interest rate swap contracts	1,913	1,624	3,628	3,473
Interest rate options contracts	—	—	—	—
Foreign exchange contracts	212	197	255	260
Spot foreign exchange contracts	884	729	1,617	1,407
Mortgage related derivatives	(872)	(301)	(1,453)	(10,442)
Total stand-alone derivative instruments	2,137	2,249	4,047	(5,302)
Total	$ 2,138	$ 2,250	$ 4,048	$ (5,300)

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

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

Information about the Company's financial instruments that are eligible for offset in the consolidated balance sheet as of June 30, 2018 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 swap contracts, caps and floors	$ 33,823	$ —	$ 33,823	$ 4,649	$ —	$ 4,649
Foreign exchange contracts	1,338	—	1,338	966	—	966
Mortgage related derivatives	11,518	—	11,518	12,248	—	12,248
Total derivatives	46,679	—	46,679	17,863	—	17,863
Repurchase agreements	—	—	—	244,462	—	244,462
Total	$ 46,679	$ —	$ 46,679	$ 262,325	$ —	$ 262,325

	Financial Assets				Financial Liabilities			
	Net Amount Recognized	Financial Instruments	Collateral	Net Amount	Net Amount Recognized	Financial Instruments	Collateral	Net Amount
Derivatives:								
Counterparty A	$ 16,943	$ (11,030)	$ —	$ 5,913	$ 11,030	$ (11,030)	$ —	$ —
Counterparty B	9,885	(2,262)	—	7,623	2,262	(2,262)	—	—
Counterparty C	3,253	(492)	(2,761)	—	492	(492)	—	—
Other counterparties	16,598	(531)	(3,434)	12,633	4,079	(531)	(690)	2,858
Total derivatives	46,679	(14,315)	(6,195)	26,169	17,863	(14,315)	(690)	2,858
Repurchase agreements	—	—	—	—	244,462	—	(244,462)	—
Total	$ 46,679	$ (14,315)	$ (6,195)	$ 26,169	$ 262,325	$ (14,315)	$ (245,152)	$ 2,858

Information about the Company's financial instruments that are eligible for offset in the consolidated balance sheet as of December 31, 2017 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 swap contracts, caps and floors	$ 11,659	$ —	$ 11,659	$ 11,562	$ —	$ 11,562
Foreign exchange contracts	1,013	—	1,013	953	—	953
Mortgage related derivatives	4,868	—	4,868	15,432	—	15,432
Total derivatives	17,540	—	17,540	27,947	—	27,947
Repurchase agreements	—	—	—	232,789	—	232,789
Total	$ 17,540	$ —	$ 17,540	$ 260,736	$ —	$ 260,736

	Financial Assets				Financial Liabilities			
	Net Amount Recognized	Financial Instruments	Collateral	Net Amount	Net Amount Recognized	Financial Instruments	Collateral	Net Amount
Derivatives:								
Counterparty A	$ 6,068	$ (6,068)	$ —	$ —	$ 13,807	$ (6,068)	$ (7,739)	$ —
Counterparty B	3,261	(3,261)	—	—	5,595	(3,261)	(2,334)	—
Counterparty C	5,285	(3,640)	—	1,645	3,640	(3,640)	—	—
Other counterparties	2,926	(1,750)	—	1,176	4,905	(1,750)	(3,150)	5
Total derivatives	17,540	(14,719)	—	2,821	27,947	(14,719)	(13,223)	5

Repurchase agreements	—	—	—	—	232,789	—	(232,789)	—
Total	$ 17,540	$ (14,719)	$ —	$ 2,821	$ 260,736	$ (14,719)	$ (246,012)	$ 5

Note 15. Operating Segments

The Company's operations currently consist of three reportable operating segments: Banking, Leasing, and Mortgage Banking. The Company offers different products and services through its three segments. The accounting policies of the segments are generally the same as those of the consolidated company.

The Banking Segment generates its revenues primarily from its lending, deposit gathering and fee business activities. The profitability of this segment's operations depends primarily on its 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 almost entirely dependent on changes in the Banking Segment's loan portfolio and management's assessment of the collectability of the loan portfolio as well as prevailing economic and market conditions. The Banking Segment is also subject to an extensive system of laws and regulations that are intended primarily for the protection of depositors and other customers, federal deposit insurance funds and the banking system as a whole. These laws and regulations govern such areas as capital, permissible activities, allowance for loan and lease losses, loans and investments, and rates of interest that can be charged on loans.

The Leasing Segment generates its revenues through lease originations and related services. The Leasing Segment invests directly in equipment that the Company leases (referred to as direct finance, leveraged or operating leases) to "Fortune 1000," middle-market companies and health care providers located throughout the United States. The lease portfolio is made up of various kinds of equipment, generally technology related, such as computer systems, satellite equipment, medical equipment and general manufacturing, industrial, construction and transportation equipment. The Leasing Segment also specializes in selling third party equipment maintenance contracts to large companies.

The Mortgage Banking Segment originates residential mortgage loans for sale to investors and for the Company's portfolio through its retail and third party originator channels. This segment also services residential mortgage loans for various investors and for loans owned by the Company. The Mortgage Banking Segment is subject to an extensive system of laws and regulations that are intended primarily for the protection of customers. On April 12, 2018, the Company announced the discontinuation of its national mortgage origination business, which includes substantially all originations outside of the Company's consumer banking footprint in the Chicagoland area. The Company expects to stop operating its mortgage business as a defined segment with separate Mortgage Banking Segment reporting prior to the first quarter of 2019.

Net interest income for the Leasing and Mortgage Banking segments include adjustments based on the Company's internal funds transfer pricing model. Non-interest income for the Leasing Segment includes income on loans originated for the sole purpose of funding equipment purchases related to leases at the Company's lease subsidiaries.

The following tables present summary financial information for the reportable segments (in thousands):

	Banking	Leasing	Mortgage Banking	Consolidated
Three months ended June 30, 2018				
Net interest income	$ 146,614	$ 2,349	$ 10,106	$ 159,069
Provision for credit losses	5,746	500	(27)	6,219
Non-interest income	46,716	22,651	18,939	88,306
Non-interest expense [(1)]	124,682	15,212	53,098	192,992
Income tax expense	15,009	1,052	(6,430)	9,631
Net income	$ 47,893	$ 8,236	$ (17,596)	$ 38,533
Total assets	$ 16,581,205	$ 1,354,940	$ 2,030,412	$ 19,966,557
Three months ended June 30, 2017				
Net interest income	$ 135,982	$ 2,345	$ 10,667	$ 148,994
Provision for credit losses	8,890	410	399	9,699
Non-interest income	43,491	18,180	29,499	91,170
Non-interest expense [(1)]	117,022	13,436	35,754	166,212
Income tax expense	15,662	2,525	1,600	19,787
Net income	$ 37,899	$ 4,154	$ 2,413	$ 44,466
Total assets	$ 16,320,111	$ 1,275,386	$ 2,369,560	$ 19,965,057

[(1)] Includes merger related and repositioning expenses of $5.5 million and $19.5 million in the Banking and Mortgage Banking Segment, respectively, for the three months ended June 30, 2018 and $7.2 million in the Banking Segment for the three months ended June 30, 2017.

	Banking	Leasing	Mortgage Banking	Consolidated
Six months ended June 30, 2018				
Net interest income	$ 287,085	$ 4,831	$ 20,534	$ 312,450
Provision for credit losses	13,325	476	(74)	13,727
Non-interest income	89,808	47,507	43,793	181,108
Non-interest expense [(1)]	240,510	30,708	89,660	360,878
Income tax expense	28,617	1,808	(6,762)	23,663
Net income	$ 94,441	$ 19,346	$ (18,497)	$ 95,290
Total assets	$ 16,581,205	$ 1,354,940	$ 2,030,412	$ 19,966,557
Six months ended June 30, 2017				
Net interest income	$ 267,431	$ 4,614	$ 19,992	$ 292,037
Provision for credit losses	12,417	275	741	13,433
Non-interest income	86,699	39,643	57,278	183,620
Non-interest expense [(1)]	225,538	27,280	69,736	322,554
Income tax expense	31,322	6,644	2,701	40,667
Net income	$ 84,853	$ 10,058	$ 4,092	$ 99,003
Total assets	$ 16,320,111	$ 1,275,386	$ 2,369,560	$ 19,965,057

[(1)] Includes merger related and repositioning expenses of $5.5 million and $20.1 million in the Banking and Mortgage Banking Segment, respectively, for the six months ended June 30, 2018 and $7.4 million in the Banking Segment for the six months ended June 30, 2017.

Note 16. Preferred Stock

On August 18, 2014, in connection with the Taylor Capital merger, the Company issued one share of its Perpetual Non-Cumulative Preferred Stock, Series A (“Company Series A Preferred Stock”), in exchange for each of the 4,000,000 outstanding shares of Taylor Capital’s Perpetual Non-Cumulative Preferred Stock, Series A. Holders of the Company Series A Preferred Stock were entitled to receive, when as and if declared by the Company’s board of directors, non-cumulative cash dividends on the liquidation preference amount, which was $25 per share, at a rate of 8.00% per annum, payable quarterly. The Company Series A Preferred Stock was included in Tier 1 capital for regulatory capital purposes. On February 15, 2018, the Company redeemed all of the 4,000,000 issued and outstanding shares of Company Series A Preferred Stock at a redemption price of $25.00 per share, or $100.0 million in the aggregate. The excess carrying amount of the Series A Preferred Stock in the amount of $15.3 million was retained in stockholders' equity and reflected as income available to common stockholders, which was included in the calculation of earnings per common share.

On November 22, 2017, the Company issued 8,000,000 depositary shares, each representing a 1/40th interest in a share of its Non-Cumulative Preferred Stock, Series C (“Company Series C Preferred Stock”). Holders of the Company Series C Preferred Stock are entitled to receive, when as and if declared by the Company's board of directors, non-cumulative cash dividends on the liquidation preference, which is $25 per depositary share (equivalent to $1,000 per share of preferred stock), at a rate of 6.00% per annum, payable quarterly. The Company Series C Preferred Stock is included in Tier 1 capital for regulatory capital purposes and is redeemable at the option of the Company at a redemption price of $25 per depositary share, plus any declared and unpaid dividends, (i) in whole or in part from time to time, on any dividend payment date on or after November 25, 2022, and (ii) in whole but not in part prior to November 25, 2022, within 90 days following a “regulatory capital treatment event,” as defined in the terms of the Company Series C Preferred Stock. The Company must receive the approval of the Federal Reserve Board prior to any redemption of the Company Series C Preferred Stock.

Note 17. Definitive Merger Agreement

On May 20, 2018, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Fifth Third Bancorp, an Ohio corporation ("Fifth Third"), and its wholly-owned subsidiary, Fifth Third Financial Corporation, an Ohio corporation ("Intermediary"). The Merger Agreement provides for the combination of the Company and Fifth Third, either through the merger of the Company with and into Intermediary, with Intermediary as the surviving corporation (the "Direct Merger"), or through the merger of a newly formed subsidiary of Fifth Third with and into the Company, with the Company as the surviving corporation (the "Alternative Merger" and collectively with the Direct Merger, the "Merger"). Only if the Direct Merger is not approved by the holders of the Company Series C Preferred Stock will the Alternative Merger occur instead of the Direct Merger, if the holders of the Company's common stock ("Company Common Stock") approve the Merger and the Charter Amendment (as defined and described below).

At the effective time of the Merger (the "Effective Time"), each outstanding share of Company Common Stock will be converted into the right to receive (i) 1.45 shares of Fifth Third common stock ("Fifth Third Common Stock"), and (ii) $5.54 in cash (collectively, the "Merger Consideration"). In addition, if the Direct Merger is approved by the holders of Company Series C Preferred Stock, each share of Company Series C Preferred Stock will be converted into the right to receive one share of a newly created series of preferred stock of Fifth Third, having substantially the same terms as the Company Series C Preferred Stock, except that the new series of preferred stock will have no voting rights (including upon an arrearage in the payment of dividends thereon) except as required by Ohio law and have certain other differences consistent with Fifth Third’s currently outstanding series of preferred stock and its articles of incorporation. If the Direct Merger is not approved by the holders of Company Series C Preferred Stock, then the Alternative Merger will occur instead of the Direct Merger, in which case the holders of Company Common Stock will receive the same Merger Consideration as described above, but the Company Series C Preferred Stock will not be converted into a share of new Fifth Third preferred stock and will instead remain outstanding and unchanged (except as modified by the Charter Amendment) as preferred stock of the Company, which will be a subsidiary of Fifth Third.

Pursuant to an amendment to the Company's charter (the "Charter Amendment"), effective immediately prior to consummation of the Alternative Merger, the holders of Company Series C Preferred Stock will have the right to vote with the holders of Company Common Stock as a single class on all matters submitted to a vote of such common stockholders. Upon completion of the Alternative Merger, Fifth Third, as the sole holder of Company Common Stock, will control the Company. Following completion of the Alternative Merger, the holders of Company Series C Preferred Stock will vote with Fifth Third as a single class on all matters submitted to a vote of Fifth Third, as the sole common stockholder of the Company. Thus, the voting rights that would be conferred upon the holders of Company Series C Preferred Stock by the Charter Amendment would continue to apply with respect to the Company, and not Fifth Third, following completion of the Alternative Merger.

At the Effective Time, each option granted by the Company to purchase shares of Company Common Stock (the "Company Options") will be converted into an option to purchase shares of Fifth Third Common Stock on the same terms and conditions as were applicable to such Company Options prior to the Merger, subject to certain adjustments to the exercise price and the number of shares of Fifth Third Common Stock issuable upon exercise of such option in accordance with the Merger Agreement. In addition, each Company restricted stock award, restricted stock unit and performance-based award (the "Company Equity Awards") that remains unvested and would not automatically vest by its terms at the Effective Time will be assumed by Fifth Third and converted into a number of shares of Fifth Third Common Stock (the "Assumed Equity Awards") with such shares being subject to certain adjustments in accordance with the Merger Agreement but otherwise remaining subject to the same terms and conditions as applicable immediately prior to such conversion. Each Company Equity Award that is outstanding immediately prior to the Effective Time that is not assumed under the Merger Agreement will be cancelled and converted automatically into the right to receive the Merger Consideration.

The Merger is subject to regulatory approvals, approval by the Company's stockholders, and certain other customary closing conditions.

Note 18. Subsequent Events

On August 6, 2018, the Company redeemed the junior subordinated notes held by Coal City Capital Trust I and, as a result, all of the issued and outstanding three month LIBOR + 1.80% Coal City Capital Trust I capital (preferred) securities were concurrently redeemed. The aggregate liquidation amount of these trust preferred securities was $25.0 million.

On September 17, 2018, the Company will redeem the junior subordinated notes held by TAYC Capital Trust II and, as a result, all of the issued and outstanding three month LIBOR + 2.68% TAYC Capital Trust II capital (preferred) securities will be concurrently redeemed. The aggregate liquidation amount of these trust preferred securities is $40.0 million.

For additional information regarding these securities, see Note 10. Junior Subordinated Notes Issued to Capital Trusts.

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 consolidated 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: net lease financing revenue, treasury management fees, wealth management fees, card fees and capital markets and international banking fees. Non-interest income also included mortgage banking revenue, consumer and other deposit service fees, brokerage fees, loan service fees, increase in cash surrender value of life insurance, net gain (loss) on investment securities, net loss on disposal of other assets, and other operating income. During the periods under report, non-interest expenses included salaries and employee benefits expense, occupancy and equipment expense, computer services and telecommunication expense, advertising and marketing expense, professional and legal expense, other intangibles amortization expense, branch exit and facilities impairment charges, net loss on other real estate owned and other related expenses, loss on extinguishment of debt, and other operating expenses. Additionally, dividends on preferred shares reduced net income available to common stockholders, which, as discussed below, was more than offset during the six months ended June 30, 2018 by a return from preferred stockholders resulting from the redemption during that period of our 8% Series A non-cumulative perpetual preferred stock.

Net interest income is affected by changes in the volume and mix of interest earning assets, interest earned on those assets, the volume and mix of interest bearing liabilities and interest paid on interest bearing liabilities. Non-interest income and non-interest expenses are impacted by growth of operations and growth in the number of loan and deposit accounts through both acquisitions and core banking and leasing 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.

On April 12, 2018, the Company announced the discontinuation of its national mortgage origination business, which includes substantially all originations outside of the Company's consumer banking footprint in the Chicagoland area. As a result, the Company expects to incur one-time pre-tax costs of approximately $37 to $41 million during 2018, of which approximately $19 million were incurred in the second quarter of 2018, and to stop operating its mortgage business as a defined segment with separate Mortgage Banking Segment reporting prior to the first quarter of 2019. The first phase of staff reductions was completed in early July 2018. The Company plans to continue originating residential mortgage loans in the greater Chicago area through its mortgage retail offices, retain the mortgage servicing asset as well as its mortgage servicing operation in Wilmington, Ohio, and continue holding residential mortgages on its balance sheet.

On May 20, 2018, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Fifth Third Bancorp, an Ohio corporation ("Fifth Third"), and its wholly-owned subsidiary, Fifth Third Financial Corporation, an Ohio corporation ("Intermediary"). The Merger Agreement provides that upon the terms and subject to the conditions set forth therein, the Company will merge with a subsidiary of Fifth Third. The transaction is subject to regulatory approvals, approval by the Company's stockholders and certain other customary closing conditions. For additional information, see Note 17 of the notes to consolidated financial statements in Part I, Item 1 of this report.

The Company had net income of $38.5 million for the three months ended June 30, 2018 compared to $44.5 million for the three months ended June 30, 2017. Net income available to common stockholders was $35.5 million for the three months ended June 30, 2018 compared to $42.5 million for the three months ended June 30, 2017. Fully diluted earnings per common share were $0.42 for the three months ended June 30, 2018 compared to $0.50 per common share for the three months ended June 30, 2017.

The results of operations for the three months ended June 30, 2018 and 2017 were impacted by $24.9 million and $7.2 million in merger related and repositioning expenses, respectively. For the second quarter of 2018, $19.5 million related to the discontinuation of our national mortgage origination business and $5.5 million related to the pending merger with Fifth Third. See "Non-interest Expenses" section for a detailed schedule of merger related and repositioning expenses.

The Company had net income of $95.3 million for the six months ended June 30, 2018 compared to $99.0 million for the six months ended June 30, 2017. Net income available to common stockholders was $104.5 million for the six months ended June 30, 2018 compared to $95.0 million for the six months ended June 30, 2017. Fully diluted earnings per common share were $1.23 for the six months ended June 30, 2018 compared to $1.12 per common share for the six months ended June 30, 2017. Net income available to common stockholders and diluted earnings per common share in the first half of 2018 were positively impacted by a $15.3 million, or $0.18 per common share, return from preferred stockholders due to the redemption of all $100.0 million of our 8% Series A non-cumulative perpetual preferred stock. The $15.3 million represents the excess carrying amount over the redemption price of the Series A preferred stock.

The results of operations for the six months ended June 30, 2018 and 2017 were impacted by $25.6 million and $7.4 million in merger related and repositioning expenses, respectively. For the six months ended June 30, 2018, $19.5 million related to the discontinuation of our national mortgage origination business and $5.5 million related to the pending merger with Fifth Third. The results of operations for the six months ended June 30, 2018 were also impacted by the $3.1 million loss on extinguishment of debt due to the redemption of the junior subordinated notes held by American Chartered Statutory Trust I, which resulted in the concurrent redemption of all of the issued and outstanding three month LIBOR + 3.60% American Chartered Statutory Trust I capital (preferred) securities. The aggregate liquidation amount of these trust preferred securities was $20.0 million. See "Non-interest Expenses" section for a detailed schedule of merger related and repositioning expenses.

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

Allowance for Loan and Lease Losses. The allowance for loan and lease losses is subject to the use of estimates, assumptions, and judgments in management's evaluation process used to determine the adequacy of the allowance for loan and lease losses, which combines several factors: management's ongoing review and grading of the loan portfolio, consideration of past loan loss experience, trends in past due and non-performing 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 and lease 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 and lease losses, based on their judgments about information available to them at the time of their examination. We believe the allowance for loan and lease losses is appropriate and properly recorded in the financial statements. See “Allowance for Loan and Lease 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. The aggregate residual value of the equipment leased under our direct finance, leveraged, and operating leases totaled $195.5 million at June 30, 2018 and $214.3 million at

December 31, 2017. See Note 1 and Note 6 to the audited consolidated financial statements contained in our Annual Report Form 10-K for the year ended December 31, 2017 for additional information.

Income Tax Accounting. ASC Topic 740 provides guidance on accounting for income taxes by prescribing the minimum recognition threshold that a tax position must meet to be recognized in the financial statements. ASC Topic 740 also provides guidance on measurement, recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of June 30, 2018, the Company had $113 thousand in 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. 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 operations.

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 12 to the consolidated financial statements in Part I, Item 1 of this report 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, including core deposit and client relationship intangibles, consists of goodwill. See Note 6 to the consolidated financial statements in Part I, Item 1 of this report 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 units with the fair value of the reporting units.

The Company's annual assessment date for goodwill impairment testing is as of December 31. Goodwill is tested for impairment at the reporting unit level. The Company currently has three reporting units: Banking, Leasing, and Mortgage Banking. The carrying amount of goodwill was $1.0 billion at June 30, 2018 and December 31, 2017. On April 12, 2018, the Company announced the discontinuation of its national mortgage origination business, which includes substantially all originations outside of the Company's consumer banking footprint in the Chicagoland area. As a result, the Company recorded an impairment loss in the amount of $3.6 million within the Mortgage Banking segment in the second quarter of 2018. No impairment losses were recognized during the six months ended June 30, 2017.

Value of Mortgage Servicing Rights. The Company originates and sells residential mortgage loans in the secondary market and may retain the right to service the loans sold. Servicing involves the collection of payments from individual borrowers and the distribution of those payments to the investors. Upon a sale of mortgage loans for which servicing rights are retained, the retained mortgage servicing rights asset is capitalized at the fair value of future net cash flows expected to be realized for performing servicing activities. Purchased mortgage servicing rights are recorded at the purchase price at the date of purchase and at fair value thereafter.

Mortgage servicing rights do not trade in an active market with readily observable prices. The Company determines the fair value of mortgage servicing rights by estimating the fair value of the future cash flows associated with the mortgage loans being serviced. Key economic assumptions used in measuring the fair value of mortgage servicing rights include, but are not limited to, prepayment speeds, discount rates, delinquencies and cost to service. The assumptions used in the valuation model are validated on a periodic basis. The fair value is validated on a quarterly basis with an independent third party. Material discrepancies between the internal valuation and the third party valuation are analyzed, and an internal committee determines whether or not an adjustment is required.

The Company has elected to account for mortgage servicing rights using the fair value option. Changes in the fair value are recognized in mortgage banking revenue on the Company's Consolidated Statements of Operations.

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 anticipated effects on results of operations and financial condition.

Net Interest Income

The following table presents, 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 table 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. The table below and the discussion that follows also contains presentations of net interest margin on a tax equivalent basis excluding the effect of acquisition accounting discount accretion on loans acquired through the American Chartered and Taylor Capital mergers ("bank mergers").

Reconciliations of net interest income and net interest margin on a tax-equivalent basis and net interest margin on a tax-equivalent basis excluding the effect of acquisition accounting discount accretion on loans acquired through the bank mergers 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. For additional information, see "Non-GAAP Financial Information."

(dollars in thousands)	Three Months Ended June 30,					
	2018			2017		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest Earning Assets:						
Loans held for sale	$ 573,444	$ 5,429	3.79 %	$ 585,207	$ 5,434	3.71 %
Loans [(1) (2)]	13,560,785	158,971	4.65	12,850,707	137,992	4.26
Loans exempt from federal income taxes [(3)]	278,238	2,950	4.19	354,706	4,294	4.79
Taxable investment securities	1,510,287	10,579	2.80	1,539,432	8,717	2.26
Investment securities exempt from federal income taxes [(3)]	1,222,531	11,948	3.91	1,263,213	15,134	4.79
Federal funds sold	265	2	2.17	145	1	1.37
Other interest earning deposits	129,274	242	0.75	87,549	227	1.04
Total interest earning assets	17,274,824	$190,121	4.37	16,680,959	$171,799	4.10
Non-interest earning assets	2,882,363			2,708,504		
Total assets	$ 20,157,187			$ 19,389,463		
Interest Bearing Liabilities:						
Deposits:						
NOW, money market and interest bearing deposits	$ 4,878,700	$ 7,647	0.63 %	$ 4,506,765	$ 3,284	0.29 %
Savings deposits	1,209,360	886	0.29	1,113,159	244	0.09
Time deposits	2,493,726	8,853	1.42	2,138,021	5,265	0.99
Short-term borrowings	737,718	2,769	1.51	1,697,212	3,912	0.92
Long-term borrowings and junior subordinated notes	997,203	7,768	3.07	520,241	3,300	2.47
Total interest bearing liabilities	10,316,707	$ 27,923	1.08	9,975,398	$ 16,005	0.64
Non-interest bearing deposits	6,414,450			6,336,151		
Other non-interest bearing liabilities	490,314			451,071		
Stockholders' equity	2,935,716			2,626,843		
Total liabilities and stockholders' equity	$ 20,157,187			$ 19,389,463		
Net interest income/interest rate spread [(4)]		$162,198	3.29 %		$155,794	3.46 %
Less: taxable equivalent adjustment		3,129			6,800	
Net interest income, as reported		$159,069			$148,994	
Net interest margin [(5)]			3.66 %			3.55 %
Tax equivalent effect			0.07 %			0.16 %
Net interest margin on a fully tax equivalent basis (non-GAAP) [(5)]			3.73 %			3.71 %
Effect of acquisition accounting discount accretion on loans acquired through bank mergers			(0.11)%			(0.17)%
Net interest margin on a fully tax equivalent basis, excluding the effect of acquisition accounting discount accretion on loans acquired through bank mergers (non-GAAP) [(5)]			3.62 %			3.54 %

(1) Non-accrual loans are included in average loans.
(2) Interest income includes amortization of net deferred loan origination fees and costs.
(3) Non-taxable loan and investment income is presented on a fully tax equivalent basis assuming a Federal tax rate of 21% for 2018 and 35% for 2017.
(4) 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.
(5) Net interest margin represents net interest income as a percentage of average interest earning assets.

Net interest income on a fully tax equivalent basis increased $6.4 million during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 due to higher average loan balances and higher loan yields partly offset by higher funding costs. The average yield on loans increased as a result of an increase in short-term rates.

The net interest margin, expressed on a fully tax equivalent basis, was 3.73% for the second quarter of 2018 and 3.71% for the second quarter of 2017. Net interest income in the second quarter of 2018 included interest income of $4.5 million resulting from the accretion of the acquisition accounting discount recorded on loans acquired in bank mergers compared to $6.7 million in the second quarter of 2017. Excluding the accretion of the acquisition accounting discount recorded on loans acquired in bank mergers, our net interest margin on a fully tax equivalent basis would have been 3.62% and 3.54% for the three months ended June 30, 2018 and June 30, 2017, respectively. The increase in our net interest margin on a fully tax equivalent basis was due to higher loan yields and a favorable mix in liabilities partly offset by increased funding costs and a lower tax benefit on municipal investment securities and tax exempt loans as a result of the H.R. 1, originally known as the "Tax Cuts and Jobs Act" (the "TCJ Act"), which was enacted in the fourth quarter of 2017.

(dollars in thousands)	Six Months Ended June 30,					
	2018			2017		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest Earning Assets:						
Loans held for sale	$ 559,495	$ 9,860	3.52 %	$ 575,223	$ 10,467	3.64 %
Loans [1] [2]	13,595,255	311,659	4.57	12,578,441	266,696	4.23
Loans exempt from federal income taxes [3]	276,986	5,824	4.18	367,257	8,724	4.72
Taxable investment securities	1,387,964	18,513	2.67	1,566,172	17,839	2.28
Investment securities exempt from federal income taxes [3]	1,224,415	23,943	3.91	1,270,640	30,478	4.80
Federal funds sold	169	2	2.09	92	1	1.34
Other interest earning deposits	127,323	373	0.59	108,932	426	0.79
Total interest earning assets	17,171,607	$370,174	4.30	16,466,757	$334,631	4.05
Non-interest earning assets	2,876,869			2,730,533		
Total assets	$ 20,048,476			$ 19,197,290		
Interest Bearing Liabilities:						
Deposits:						
NOW and money market deposit	$ 4,875,120	$ 13,967	0.58 %	$ 4,518,021	$ 5,906	0.26 %
Savings deposit	1,209,103	1,703	0.28	1,122,407	499	0.09
Time deposits	2,476,119	16,748	1.36	2,099,536	9,863	0.95
Short-term borrowings	803,851	5,285	1.33	1,597,339	6,292	0.79
Long-term borrowings and junior subordinated notes	887,980	13,770	3.07	521,122	6,313	2.38
Total interest bearing liabilities	10,252,173	$ 51,473	1.01	9,858,425	$ 28,873	0.59
Non-interest bearing deposits	6,354,286			6,273,127		
Other non-interest bearing liabilities	493,595			458,039		
Stockholders' equity	2,948,422			2,607,699		
Total liabilities and stockholders' equity	$ 20,048,476			$ 19,197,290		
Net interest income/interest rate spread [4]		$318,701	3.29 %		$305,758	3.46 %
Less: taxable equivalent adjustment		6,251			13,721	
Net interest income, as reported		$312,450			$292,037	
Net interest margin [5]			3.63 %			3.54 %
Tax equivalent effect			0.07 %			0.16 %
Net interest margin on a fully tax equivalent basis (non-GAAP) [5]			3.70 %			3.70 %
Effect of acquisition accounting discount accretion on loans acquired through bank mergers			(0.12)%			(0.18)%
Net interest margin on a fully tax equivalent basis, excluding the effect of acquisition accounting discount accretion on loans acquired through bank mergers (non-GAAP)			3.58 %			3.52 %

(1) Non-accrual loans are included in average loans.
(2) Interest income includes amortization of net deferred loan origination fees and costs.
(3) Non-taxable loan and investment income is presented on a fully tax equivalent basis assuming a Federal tax rate of 21% for 2018 and 35% for 2017.
(4) 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.
(5) Net interest margin represents net interest income as a percentage of average interest earning assets.

Net interest income on a fully tax equivalent basis increased $12.9 million during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. This increase was due to higher average loan balances and higher loan yields partly offset by higher funding costs.

The net interest margin, expressed on a fully tax equivalent basis, was 3.70% for the six months ended June 30, 2018 and 2017. Net interest income in the six months ended June 30, 2018 included interest income of $9.2 million resulting from the accretion of the acquisition accounting discount recorded on loans acquired in bank mergers compared to $13.9 million in the same period of 2017. Excluding the accretion of the acquisition accounting discount recorded on loans acquired in bank mergers, our net interest margin on a fully tax equivalent basis would have been 3.58% and 3.52% for the six months ended June 30, 2018 and 2017, respectively. The increase in our net interest margin on a fully tax equivalent basis was due to higher loan yields partly offset by increased funding costs and a lower tax benefit on municipal investment securities and tax exempt loans as a result of the TCJ Act.

Non-interest Income

The following table presents non-interest income for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 (in thousands):

	Three Months Ended June 30,			
	2018	2017	Increase/ (Decrease)	Percentage Change
Non-interest income:				
Mortgage banking revenue	$ 18,926	$ 30,152	$ (11,226)	(37.2)%
Lease financing revenue, net	22,918	18,401	4,517	24.5
Treasury management fees	15,066	14,499	567	3.9
Wealth management fees	8,969	8,498	471	5.5
Card fees	5,654	4,413	1,241	28.1
Capital markets and international banking fees	3,785	3,586	199	5.5
Consumer and other deposit service fees	2,929	3,285	(356)	(10.8)
Brokerage fees	1,050	1,250	(200)	(16.0)
Loan service fees	2,148	2,037	111	5.4
Increase in cash surrender value of life insurance	1,272	1,301	(29)	(2.2)
Net (loss) gain on investment securities	(86)	137	(223)	(162.8)
Net loss on disposal of other assets	(397)	(4)	(393)	NM
Other operating income	6,072	3,615	2,457	68.0
Total non-interest income	$ 88,306	$ 91,170	$ (2,864)	(3.1)%

NM - Not meaningful

Non-interest income decreased by $2.9 million, or 3.1%, for the three months ended June 30, 2018 compared to the three months ended June 30, 2017.

- Mortgage banking revenue decreased due to lower mortgage origination volume as a result of the discontinuation of the national mortgage origination business in the second quarter of 2018.
- Lease financing revenue increased due to higher residual gains and promotional income partly offset by lower fees from the sale of third-party equipment maintenance contracts.
- Card fees increased due to higher prepaid card fees and credit card fees as a result of increased sales and volume.
- Other operating income increased as a result of stronger earnings from investments in Small Business Investment Companies.

The following table presents non-interest income for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 (in thousands):

	Six Months Ended June 30,			
	2018	2017	Increase/ (Decrease)	Percentage Change
Non-interest income:				
Mortgage banking revenue	$ 43,973	$ 58,608	$ (14,635)	(25.0)%
Lease financing revenue, net	47,628	39,819	7,809	19.6
Treasury management fees	30,222	29,188	1,034	3.5
Wealth management fees	18,090	17,018	1,072	6.3
Card fees	10,441	8,979	1,462	16.3
Capital markets and international banking fees	6,783	6,839	(56)	(0.8)
Consumer and other deposit service fees	5,841	6,648	(807)	(12.1)
Brokerage fees	1,914	2,375	(461)	(19.4)
Loan service fees	4,393	4,006	387	9.7
Increase in cash surrender value of life insurance	2,380	2,589	(209)	(8.1)
Net (loss) gain on investment securities	(260)	368	(628)	(170.7)
Net loss on sale of assets	(754)	(127)	(627)	493.7
Other operating income	10,457	7,310	3,147	43.1
Total non-interest income	$ 181,108	$ 183,620	$ (2,512)	(1.4)%

Non-interest income decreased by $2.5 million, or 1.4%, for the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

- Mortgage banking revenue decreased due to lower mortgage origination volume as a result of the discontinuation of the national mortgage origination business.
- Lease financing revenue increased due to higher residual gains and promotional income.
- Treasury management fees increased due to increased corporate treasury management services.
- Wealth management fees increased due to the addition of new customers.
- Card fees increased due to higher prepaid card fees and credit card fees as a result of increased sales and volume.
- Other operating income increased as a result of stronger earnings from investments in Small Business Investment Companies.

Non-interest Expenses

The following table presents non-interest expense for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 (in thousands):

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Increase/ (Decrease)	Percentage Change
Non-interest expenses:				
Salaries and employee benefits expense	$ 123,478	$ 102,566	$ 20,912	20.4 %
Occupancy and equipment expense	16,451	15,284	1,167	7.6
Computer services and telecommunication expense	10,871	9,785	1,086	11.1
Advertising and marketing expense	3,342	3,245	97	3.0
Professional and legal expense	8,887	2,450	6,437	262.7
Other intangibles amortization expense	1,896	2,086	(190)	(9.1)
Branch exit and facilities impairment charges	340	6,589	(6,249)	(94.8)
Net loss recognized on other real estate owned and other expense	1,048	690	358	51.9
Goodwill impairment loss	3,623	—	3,623	100.0
Other operating expenses	23,056	23,517	(461)	(2.0)
Total non-interest expenses	$ 192,992	$ 166,212	$ 26,780	16.1 %

Non-interest expenses increased by $26.8 million, or 16.1%, for the three months ended June 30, 2018 from the three months ended June 30, 2017. Non-interest expenses include $24.9 million and $7.2 million in merger related and repositioning expenses for the three months ended June 30, 2018 and 2017, respectively. For the second quarter of 2018, approximately $19 million of the merger related and repositioning expenses related to the discontinuation of our national mortgage origination business and approximately $6 million related to the pending merger with Fifth Third. Explanations for changes other than merger related and repositioning expenses are as follows:

- Salaries and employee benefits expense increased due to annual salary increases, new hires, and higher health insurance costs.
- Occupancy and equipment expense increased due to higher depreciation, as a result of our investment in our buildings and technology, and higher rental expenses, as a result of the office locations from the mortgage banking acquisition in the fourth quarter of 2017.
- Computer services and telecommunication expense increased due to investments in technology and infrastructure.
- Professional and legal expense increased due to case settlements and other legal and professional fees.

The following table presents the detail of the merger related and repositioning expenses for the three months ended June 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Merger related and repositioning expenses [(1)]:		
Salaries and employee benefits	$ 17,510	$ 552
Occupancy and equipment expense	1	6
Computer services and telecommunication expense	—	76
Professional and legal expense	3,453	3
Branch exit and facilities impairment charges	340	6,589
Goodwill impairment loss [(2)]	3,623	—
Other operating expenses	17	(60)
Total merger related and repositioning expenses	$ 24,944	$ 7,166

(1) Primarily includes costs incurred in connection with the pending merger with Fifth Third, the discontinuation of our national mortgage origination business, and the American Chartered merger.

(2) Represents the goodwill impairment charge within the Mortgage Banking Segment in the second quarter of 2018.

The following table presents non-interest expense for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 (in thousands):

	Six Months Ended June 30,			
	2018	2017	Increase/ (Decrease)	Percentage Change
Non-interest expenses:				
Salaries and employee benefits	$ 229,992	$ 204,117	$ 25,875	12.7 %
Occupancy and equipment expense	33,880	30,328	3,552	11.7
Computer services and telecommunication expense	22,027	19,225	2,802	14.6
Advertising and marketing expense	7,205	6,406	799	12.5
Professional and legal expense	10,785	5,141	5,644	109.8
Other intangibles amortization expense	3,798	4,176	(378)	(9.1)
Branch exit and facilities impairment charges	340	5,907	(5,567)	(94.2)
Net loss recognized on other real estate owned and other expense	1,095	1,534	(439)	(28.6)
Loss on extinguishment of debt	3,136	—	3,136	100.0
Goodwill impairment loss	3,623	—	3,623	100.0
Other operating expenses	44,997	45,720	(723)	(1.6)
Total non-interest expenses	$ 360,878	$ 322,554	$ 38,324	11.9 %

Non-interest expenses increased by $38.3 million, or 11.9%, for the six months ended June 30, 2018 from the six months ended June 30, 2017. Non-interest expenses include $25.6 million and $7.4 million in merger related and repositioning expenses for the six months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018 approximately $19 million of the merger related and repositioning expenses related to the discontinuation of our national mortgage origination business and approximately $6 million related to the pending merger with Fifth Third. Explanations for changes other than merger related and repositioning expenses are as follows:

- Salaries and employee benefits expense increased due to annual salary increases, new hires, and higher health insurance costs.
- Occupancy and equipment expense increased due to higher depreciation, as a result of our investment in our buildings and technology, and higher rental expenses, as a result of the office locations from the mortgage banking acquisition.
- Computer services and telecommunication expense increased due to investments in technology and infrastructure.
- Professional and legal expense increased due to case settlements and other legal and professional fees.
- A $3.1 million loss on extinguishment of debt was recognized in the first quarter of 2018 due to the redemption of the junior subordinated notes held by American Chartered Statutory Trust I, as noted earlier.

	Six Months Ended June 30,	
	2018	2017
Merger related and repositioning expenses [(1)]:		
Salaries and employee benefits	$ 18,067	$ 1,166
Occupancy and equipment expense	36	10
Computer services and telecommunication expense	—	261
Advertising and marketing expense	26	—
Professional and legal expense	3,457	100
Branch exit and facilities impairment charges	340	5,907
Goodwill impairment loss [(2)]	3,623	—
Other operating expenses	39	(20)
Total merger related and repositioning expenses	$ 25,588	$ 7,424

(1) Primarily includes costs incurred in connection with the pending merger with Fifth Third, the discontinuation of our national mortgage origination business, and the American Chartered merger.

(2) Represents the goodwill impairment charge within the Mortgage Banking Segment in the second quarter of 2018.

Income Taxes

Income tax expense for the six months ended June 30, 2018 was $23.7 million compared to $40.7 million for the six months ended June 30, 2017. The decrease was due to the decrease in the effective tax rate resulting from the TCJ Act for six months ended June 30, 2018.

The following table presents information on our income tax rate (dollars in thousands):

	Six Months Ended June 30,	
	2018	2017
Income before income taxes - as reported	$ 118,953	$ 139,670
Tax at Federal statutory rate (21% for 2018 and 35% for 2017)	24,980	48,885
Increase (decrease) due to:		
Tax exempt income, net	(5,320)	(9,715)
State tax expense (benefit), net of Federal impact	6,557	5,491
Other items, net	1,517	1,068
Tax expense before discrete items	27,734	45,729
Income tax rate before discrete items (effective tax rate)	23.3%	32.7%
Discrete tax expense (benefit) items [(1)]	(684)	(2,958)
Discrete tax benefit corporate tax rate changes [(2)]	(3,387)	—
Discrete tax expense (benefit) merger related items [(3)]	—	(2,104)
Income tax expense - as reported	$ 23,663	$ 40,667
Income tax rate	19.9%	29.1%

(1) Includes tax benefits on the vesting of restricted shares, exercise of options, and other compensation.
(2) Includes the impact of the Federal income tax rate decrease due to the TCJ Act (enacted on December 22, 2017) on our net deferred tax liabilities. The re-measurement of our net deferred tax liabilities due to the TCJ Act was determined to be provisional at June 30, 2018.
(3) Includes reversals of a tax liability no longer needed specifically related to two entities we acquired and certain non-deductible merger related items.

Operating Segments

The Company's operations currently consist of three reportable operating segments: Banking, Leasing and Mortgage Banking. Our Banking Segment generates revenues primarily from its lending, deposit gathering and fee business activities. Our Leasing Segment generates revenues through lease originations and related services. Our Mortgage Banking Segment originates residential mortgage loans for sale to investors through its retail and third party origination channels as well as residential mortgage loans held in our loan portfolio. The Mortgage Banking Segment also services residential mortgage loans owned by investors and the Company.

Three Month Comparison

Net income from our Banking Segment for the three months ended June 30, 2018 increased $10.0 million to $47.9 million compared to the three months ended June 30, 2017. The increase in net income was due to the increase in net interest income, higher card fees (more sales and volume in prepaid and credit cards), stronger earnings in SBIC investments, and lower provision for credit losses partly offset by higher non-interest expense. The increase in net interest income was due to higher average loan balances and higher loan yields partly offset by higher funding costs. The average yield on loans increased as a result of an increase in short-term rates. The increase in non-interest expense was due to higher salaries and employee benefits expense (annual pay increases, new hires, and higher insurance costs), occupancy and equipment expense (higher depreciation expense), computer services and telecommunication expense (investments in technology and infrastructure), and professional and legal expense (case settlements and other legal and professional fees). In addition, the Banking Segment was favorably impacted by a lower effective tax rate due to the TCJ Act. Merger related and repositioning expenses were $5.5 million for the three months ended June 30, 2018 compared to $7.2 million for the same period in the prior year.

Net income from our Leasing Segment for the three months ended June 30, 2018 increased $4.1 million to $8.2 million compared to the three months ended June 30, 2017. This increase in net income was due to higher lease financing revenue partly offset by increased salaries and employee benefits expense (the investment in sales and other revenue generating staff). Lease

financing revenue increased due to higher residual gains and promotional income partly offset by lower fees from the sale of third-party equipment maintenance contracts. The Leasing Segment was also favorably impacted by a $1.3 million reversal of a deferred tax liability as a result of the decrease in Federal income tax rate due to the TCJ Act.

Compared to the three months ended June 30, 2017, net income from our Mortgage Banking Segment decreased $20.0 million to a loss of $17.6 million for the three months ended June 30, 2018. This decrease was due to lower mortgage origination volume as a result of the discontinuation of our national mortgage origination business and increased salaries and benefits expense due to employee severance expense associated with the discontinuation of our national mortgage origination business.

Six Month Comparison

Net income from our Banking Segment for the six months ended June 30, 2018 increased $9.6 million to $94.4 million compared to the six months ended June 30, 2017. The increase in net income was due to the increase in net interest income, higher card fees (increased sales and volume in prepaid cards and higher credit card usage), and stronger earnings in SBIC investments partly offset by higher non-interest expense. The increase in net interest income was due to higher average loan balances and yields partly offset by higher funding costs. The increase in non-interest expense was due to higher salaries and employee benefits expense, computer services and telecommunication expense (investments in new technology), and professional and legal fees (case settlements and other legal and professional fees). Salaries and employee benefits expense increased due to annual salary increases, new hires, higher health insurance costs, and higher 401(k) and profit sharing contributions expense. In addition, the Banking Segment was favorably impacted by a lower effective tax rate due to the TCJ Act. Merger related and repositioning expenses were $5.5 million for the six months ended June 30, 2018 compared to $7.4 million for the same period in the prior year.

Net income from our Leasing Segment for the six months ended June 30, 2018 increased $9.3 million to $19.3 million compared to the six months ended June 30, 2017. This increase in net income was due to higher lease financing revenue partly offset by increased salaries and employee benefits expense (the investment in sales and other revenue generating staff). Lease financing revenue increased due to higher residual gains and promotional income. The Leasing Segment was also favorably impacted by a $3.8 million reversal of a deferred tax liability as a result of the decrease in Federal income tax rate due to the TCJ Act.

Compared to the six months ended June 30, 2017, net income from our Mortgage Banking Segment decreased $22.6 million to a loss of $18.5 million for the six months ended June 30, 2018. This decrease was due to lower mortgage origination volume as a result of the discontinuation of our national mortgage origination business and increased salaries and benefits expense due to employee severance expense associated with the discontinuation of our national mortgage origination business.

Balance Sheet

Total assets decreased $120.4 million, or 0.6%, to $20.0 billion at June 30, 2018 from December 31, 2017.

- Investment securities increased $215.2 million, or 8.7%, from December 31, 2017 to June 30, 2018 due to the purchase of residential mortgage-backed securities in March 2018.

- Total loans, excluding purchased credit-impaired, decreased by $127.1 million, or 0.9%, to $13.7 billion at June 30, 2018 from December 31, 2017 mostly due to a decrease in commercial real estate loans.

Total liabilities decreased by $59.3 million, or 0.3%, to $17.0 billion at June 30, 2018 from December 31, 2017 due to the decrease in non-interest bearing deposits and the redemption of the junior subordinated notes held by American Chartered Statutory Trust I, as noted earlier.

- Total deposits decreased by $35.7 million, or 0.2%, to $14.9 billion at June 30, 2018 from December 31, 2017 due to the decrease in non-interest bearing deposits.

- Total borrowings decreased by $1.5 million, or 0.1%, to $1.6 billion at June 30, 2018.

Total stockholders' equity decreased $61.1 million, or 2.0%, to $2.9 billion at June 30, 2018 compared to December 31, 2017 as a result of the redemption of all $100 million of our 8% Series A non-cumulative perpetual preferred stock partly offset by earnings for the six months ended June 30, 2018 net of dividends declared.

Investment Securities

The following table sets forth the amortized cost and fair value of our investment securities, excluding marketable equity securities and non-marketable FHLB and FRB stock, by type of security as indicated (in thousands):

	June 30, 2018		December 31, 2017		June 30, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale						
U.S. Government sponsored agencies and enterprises	$ 5,098	$ 5,026	$ 23,013	$ 23,007	$ 23,141	$ 23,229
States and political subdivisions	338,927	350,061	363,813	379,325	367,385	387,351
Residential mortgage-backed securities	1,225,978	1,205,579	861,594	852,699	920,005	917,605
Commercial mortgage-backed securities	63,527	63,424	71,554	72,035	88,159	89,326
Corporate bonds	23,179	23,170	70,155	70,197	137,948	138,556
Equity securities [(1)]	—	—	11,236	11,063	11,114	11,004
Total Available for Sale	1,656,709	1,647,260	1,401,365	1,408,326	1,547,752	1,567,071
Held to maturity						
States and political subdivisions	884,576	901,343	878,400	910,512	896,043	931,209
Residential mortgage-backed securities	38,460	38,860	80,682	81,943	126,869	129,835
Total Held to Maturity	923,036	940,203	959,082	992,455	1,022,912	1,061,044
Total	$ 2,579,745	$ 2,587,463	$ 2,360,447	$ 2,400,781	$ 2,570,664	$ 2,628,115

(1) Reflected in marketable equity securities on the consolidated balance sheet following the adoption of the new guidance under ASC Topic 825 "Financial Instruments" on January 1, 2018.

Loan Portfolio

The following table sets forth the composition of our loan portfolio (excluding loans held for sale) as of the dates indicated showing the balances of legacy loans and loans acquired through the American Chartered and Taylor Capital mergers (dollars in thousands):

	June 30, 2018				December 31, 2017			
	Legacy [(1)]	Acquired [(2)]	Total	% of Total	Legacy [(1)]	Acquired [(2)]	Total	% of Total
Commercial-related credits:								
Commercial loans	$ 4,639,885	$ 176,660	$ 4,816,545	35%	$ 4,532,153	$ 254,027	$ 4,786,180	34%
Commercial loans collateralized by assignment of lease payments	2,085,054	15,406	2,100,460	15	2,077,972	35,163	2,113,135	15
Commercial real estate	3,327,971	601,356	3,929,327	28	3,370,590	776,939	4,147,529	30
Construction real estate	493,047	2,758	495,805	4	401,189	5,660	406,849	3
Total commercial-related credits	10,545,957	796,180	11,342,137	82	10,381,904	1,071,789	11,453,693	82
Other loans:								
Residential real estate	1,159,942	192,683	1,352,625	10	1,212,120	220,338	1,432,458	10
Indirect vehicle	748,645	1,338	749,983	5	666,443	1,485	667,928	4
Home equity	155,877	36,908	192,785	1	165,297	53,801	219,098	2
Other consumer loans	81,414	300	81,714	1	72,742	399	73,141	1
Total other loans	2,145,878	231,229	2,377,107	17	2,116,602	276,023	2,392,625	17
Total loans excluding purchased credit-impaired loans	12,691,835	1,027,409	13,719,244	99	12,498,506	1,347,812	13,846,318	99
Purchased credit-impaired loans	66,229	34,772	101,001	1	79,066	40,678	119,744	1
Total loans	$12,758,064	$ 1,062,181	$13,820,245	100%	$12,577,572	$ 1,388,490	$13,966,062	100%

(1) Legacy loans include all loans other than those acquired through the American Chartered and Taylor Capital mergers, including loans acquired in connection with our FDIC-assisted transactions and our other acquisition transactions, as well as new loans originated subsequent to the American Chartered and Taylor Capital mergers, and American Chartered and Taylor Capital loans that have been renewed.

(2) Represents loans acquired through the American Chartered and Taylor Capital mergers that have not yet been renewed. These balances will decrease to zero over time.

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 and lease 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 a well-defined material weakness that we believe will result in a loss of principal and interest.

Non-performing loans exclude loans held for sale. Fair value of these loans includes estimates of credit losses.

The following table sets forth the amounts of non-performing loans, non-performing assets and purchased credit-impaired loans (excluding loans held for sale and other real estate owned acquired as part of our FDIC-assisted transactions) as well as other information regarding asset quality at the dates indicated (dollars in thousands):

	June 30, 2018	December 31, 2017	June 30, 2017
Non-performing loans:			
Non-accruing loans	$ 64,515	$ 71,238	$ 51,013
Loans 90 days or more past due, still accruing interest	4,010	5,570	1,190
Total non-performing loans	68,525	76,808	52,203
Other real estate owned	10,869	9,736	11,063
Repossessed assets	643	589	484
Total non-performing assets	$ 80,037	$ 87,133	$ 63,750
Purchased credit-impaired loans	$ 101,001	$ 119,744	$ 149,077
Total allowance for loan and lease losses	$ 162,790	$ 157,710	$ 154,033
Accruing restructured loans [1]	25,660	28,554	29,658
Total non-performing loans to total loans	0.50%	0.55%	0.38%
Total non-performing assets to total assets	0.40	0.43	0.32
Allowance for loan and lease losses to total non-performing loans	237.56	205.33	295.07

[1] Accruing restructured loans consists of 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 status at the time of restructuring. A period of sustained repayment for at least six months generally is required for return to accrual status.

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 net gain (loss) recognized on other real estate within non-interest expense. Expenses, net of rental income, from the operations of other real estate owned are reflected as a separate line item on the statement of operations. Other repossessed assets primarily consist of repossessed vehicles. Losses on repossessed vehicles are charged-off to the allowance when title is taken and the vehicle is valued. Once the Bank obtains title, repossessed vehicles are not included in loans, but are classified as "other assets" on the

consolidated balance sheets. The typical holding period for resale of repossessed automobiles is less than 90 days unless significant repairs to the vehicle are needed which occasionally results in a longer holding period. The typical holding period for motorcycles can be more than 90 days, as the average motorcycle re-sale period is longer than the average automobile re-sale period. The longer average period for motorcycles is a result of cyclical trends in the motorcycle market.

Other real estate owned that is related to our FDIC-assisted transactions is excluded from non-performing assets.

The following table presents a summary of other real estate owned, excluding assets related to FDIC-assisted transactions, for the six months ended June 30, 2018 and 2017 (in thousands):

	June 30,	
	2018	2017
Beginning balance	$ 9,736	$ 26,279
Transfers in at fair value less estimated costs to sell	3,890	2,658
Fair value adjustments	(160)	(1,858)
Net gains on sales of other real estate owned	169	670
Cash received upon disposition	(2,766)	(16,686)
Ending balance	$ 10,869	$ 11,063

Potential Problem Loans

We define potential problem loans as performing loans rated substandard and that do not meet the definition of a non-performing loan (See "Asset Quality" section above for non-performing loans). We do not necessarily expect to realize losses on potential problem loans, but we recognize potential problem loans carry a higher probability of default and require additional attention by management. The following table sets forth the aggregate principal amount of potential problem loans at the dates indicated (in thousands):

	June 30, 2018	December 31, 2017
Commercial loans	$ 118,178	$ 89,836
Commercial loans collateralized by assignment of lease payments	5,686	9,407
Commercial real estate	114,286	74,023
Construction real estate	5,534	—
Total	$ 243,684	$ 173,266

Potential problem loans increased compared to December 31, 2017 due to migrations from the health care and asset-based lending portfolios.

Allowance for Loan and Lease Losses

Management believes the allowance for loan and lease 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 and lease 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 and lease losses is comprised of three elements: a commercial-related general loss reserve; a commercial-related specific reserve for impaired loans; and a consumer related reserve for smaller-balance homogenous loans. 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 commercial-related loan is risk rated between one and nine by the originating loan officer, Senior Credit Management, Loan Review or loan committee. A loan rated "one" represents a loan least likely to default, while a loan rated "nine" represents a loss. The probability of loans defaulting for each risk rating, sometimes referred to as default factors, is 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 loan risk rating migrations and historical default data over a multi-year period to develop estimated default factors ("EDFs"). The model tracks annual loan rating migrations by loan type over the last 17 years and is adjusted to reflect average losses over an economic cycle. EDFs are updated annually in December.

EDFs are multiplied by individual loan balances in each risk-rating category and by a historical loss given default estimate for each loan type (which incorporates 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 also includes macroeconomic factor adjustments. 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. To determine our macroeconomic factors, we use specific economic data that are deemed predictive of future credit losses. We tested over 20 economic variables (U.S. manufacturing index, unemployment rate, U.S. GDP growth, etc.). We review this data annually to determine that such relationships continue to exist. We currently use the following macroeconomic indicators in our macroeconomic factor computation:

- Commercial loans and lease loans: BBB-rated debt yield and number of civilians unemployed for 27 weeks or more.

- Commercial real estate loans and construction loans: M2 Money stock, the U.S. Commercial Real Estate Index and the University of Michigan Consumer Sentiment Index.

Using the indicators noted above, a net charge-off rate is estimated and compared to our cycle average rate, resulting in a macroeconomic adjustment factor. The macroeconomic adjustment factor is applied to each commercial loan type. Each year, we evaluate the predictive nature of the macroeconomic factors and re-calibrate the macroeconomic models as needed.

Management may also adjust for other qualitative factors such as loan growth, migration trends, portfolio characteristics, loan concentrations, changing legal and regulatory landscape as well as other similar factors.

The commercial-related general loss reserve was $139.4 million as of June 30, 2018 and $132.8 million as of December 31, 2017. Reserves on impaired commercial-related loans are included in the “Commercial-Related Specific Reserves” section below.

Commercial-Related Specific Reserves. Our allowance for loan and lease 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 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 in December 2010. As part of our compliance with these guidelines, 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 to reflect current values.

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 was $6.5 million as of June 30, 2018 compared to $6.1 million as of December 31, 2017.

Consumer-Related Reserves. Pools of homogeneous loans with similar risk and loss characteristics are also assessed for probable losses. These loan pools include consumer, residential real estate, home equity, credit cards, and indirect vehicle loans. Migration probabilities obtained from past due roll rate analyses and historical loss rates are applied to current balances to forecast charge-offs over a one-year time horizon. The reserves for consumer-related loans totaled $16.9 million at June 30, 2018 and $18.9 million at December 31, 2017.

We consistently apply our methodology for determining the appropriateness of the allowance for loan and lease 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 and lease losses: historical net charge-offs as they relate to prior periods' allowance for loan and lease loss, comparison of historical loan migration in past years compared to the current year, overall credit trends and ratios, any significant changes in loan concentrations, lending policies, and emerging impacts in the legal/regulatory landscape. In reviewing this data, we adjust qualitative factors within our allowance methodology to appropriately reflect any changes warranted by the validation process. Management believes it has established an allowance for probable loan losses as appropriate under GAAP.

We recorded a provision for credit losses of $30 thousand for acquired loans related to the non-purchased credit-impaired bank merger loans as accounted for in accordance with ASC Topic 310-20 for the six months ended June 30, 2018. No additional provisions were recorded on the purchase credit-impaired bank merger loans accounted for in accordance with ASC Topic 310-30.

The provision for credit losses for non-purchased credit-impaired loans bank merger loans is calculated using a process similar to the one used for the legacy portfolio. A general loan loss reserve is calculated for the non-purchased credit-impaired bank merger loans that have renewed and not renewed separately using the same loan loss reserve model used for the legacy loans. The general loan loss reserve is calculated 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. The probability of loans defaulting for each risk rating (referred to as default factors) is estimated based on the frequency with which loans migrate from one risk rating to another and to default status over time. The 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 to determine the appropriate allowance. The bank merger loans are risk rated using the Company's rating methodology. The general loan loss reserve amount is adjusted upward to reflect uncertainty regarding the performance of the acquired portfolios due to our limited history with the borrowers.

For bank merger loans (non-purchased credit-impaired) that renewed during the period (quarter or year to date), the default factors were multiplied by the loan balance and loss given default estimate to calculate the required reserves. The amount of required reserves was recognized as a provision for credit losses in the statement of operations. For bank merger loans (non-purchased credit-impaired) that were not renewed subsequent to the merger consummation, the default factors were multiplied by the loan balance and the historical loss given default estimate. The resulting general loan loss reserve was compared to the remaining acquisition accounting discounts related to credit on the bank merger loans (non-purchased credit-impaired), with the excess recognized as a provision for credit losses in the statement of operations.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	$ 163,390	$ 146,498	$ 159,408	$ 141,842
Provision for credit losses	6,219	9,699	13,727	13,433
Charge-offs:				
Commercial loans	1,534	700	2,936	868
Commercial loans collateralized by assignment of lease payments	716	—	716	—
Commercial real estate	2,621	262	5,097	1,347
Construction real estate	—	—	—	—
Residential real estate	28	270	729	360
Home equity	184	261	248	434
Indirect vehicles	1,328	930	3,152	2,341
Other consumer loans	309	498	660	944
Total charge-offs	6,720	2,921	13,538	6,294
Recoveries:				
Commercial loans	167	1,339	504	2,849
Commercial loans collateralized by assignment of lease payments	149	249	400	712
Commercial real estate	329	362	1,091	880
Construction real estate	37	47	430	159
Residential real estate	26	58	96	586
Home equity	228	292	298	575
Indirect vehicles	664	565	1,843	1,217
Other consumer loans	89	109	319	338
Total recoveries	1,689	3,021	4,981	7,316
Net charge-offs (recoveries)	5,031	(100)	8,557	(1,022)
Allowance for credit losses	164,578	156,297	164,578	156,297
Allowance for unfunded credit commitments	(1,788)	(2,264)	(1,788)	(2,264)
Allowance for loan and lease losses	$ 162,790	$ 154,033	$ 162,790	$ 154,033
Total loans	$ 13,820,245	$ 13,614,141	$ 13,820,245	$ 13,614,141
Ratio of allowance to total loans	1.18%	1.13 %	1.18%	1.13 %
Ratio of net charge-offs (recoveries) to average loans (annualized)	0.15	(0.00)	0.12	(0.02)

Net charge-offs of $5.0 million were recorded in the three months ended June 30, 2018 compared to net recoveries of $100 thousand in the three months ended June 30, 2017. A provision for credit losses of $6.2 million was recorded for the three months ended June 30, 2018 compared to $9.7 million for the three months ended June 30, 2017. A provision for credit losses of $1.8 million was recorded for bank merger loans for the three months ended June 30, 2018 compared to a provision for credit losses of $1.5 million for bank merger loans for the three months ended June 30, 2017.

Net charge-offs of $8.6 million were recorded in the six months ended June 30, 2018 compared to net recoveries of $1.0 million in the six months ended June 30, 2017. A provision for credit losses of $13.7 million was recorded for the six months ended June 30, 2018 compared to $13.4 million for the six months ended June 30, 2017. A provision for credit losses of $30 thousand was recorded for bank merger loans for the six months ended June 30, 2018 compared to a provision for credit losses of $6.9 million for bank merger loans for the six months ended June 30, 2017.

Additions to the allowance for loan and lease 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 and lease 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 and lease 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 and lease 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 and lease 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 and lease losses at the time of their examination.

Although management believes that appropriate 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 and lease loss allowances may become necessary.

Lease Investments

The lease portfolio is comprised of various types of equipment, generally technology related, health care, material handling, and general manufacturing equipment.

Lease investments by categories follow (in thousands):

	June 30, 2018	December 31, 2017	June 30, 2017
Direct finance leases:			
Minimum lease payments	$ 460,476	$ 492,953	$ 454,283
Estimated unguaranteed residual values	64,717	74,220	68,135
Less: unearned income	(38,712)	(41,311)	(37,020)
Direct finance leases [1]	$ 486,481	$ 525,862	$ 485,398
Leveraged leases:			
Minimum lease payments	$ 45	$ 179	$ 390
Estimated unguaranteed residual values	10	10	54
Less: unearned income	—	(3)	(10)
Less: related non-recourse debt	(45)	(177)	(383)
Leveraged leases [1]	$ 10	$ 9	$ 51
Operating leases:			
Equipment, at cost	$ 620,227	$ 575,612	$ 491,844
Less accumulated depreciation	(186,722)	(166,561)	(145,808)
Lease investments, net	$ 433,505	$ 409,051	$ 346,036

[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 are classified as direct finance leases. If these direct finance leases have non-recourse debt associated with them and meet the additional requirements for a leveraged lease, they are further classified as leveraged leases, and the associated debt is netted with the outstanding balance in the consolidated financial statements. Interest income on direct finance and leveraged leases is recognized using methods which approximate a level yield over the term of the lease. Operating leases are investments in equipment leased to other companies, where the residual component makes up more than 10% of the investment. The Company funds most of the lease equipment purchases internally, but has some loans at other banks which totaled $75.5 million at June 30, 2018, $76.3 million at December 31, 2017, and $71.5 million at June 30, 2017.

At June 30, 2018, 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
2018	$ 5,112	$ 10	$ 10,050	$ 15,172
2019	9,190	—	12,240	21,430
2020	13,795	—	26,984	40,779
2021	5,629	—	21,085	26,714
2022	9,417	—	17,147	26,564
Thereafter	21,574	—	43,280	64,854
	$ 64,717	$ 10	$ 130,786	$ 195,513

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 annually, and any write-downs for permanent impairments deemed necessary are recorded in the period in which they become known. To mitigate this risk of loss, we seek to diversify both the type of equipment

leased and the industries in which the lessees participate. In addition, a portion of our leases are terminal rental adjustment clause or "TRAC" leases where the lessee effectively guarantees the full residual value through a rental adjustment at the end of term or those where partial residual value is guaranteed ("split-TRAC"), which has a limited residual risk. Under a split-TRAC structure, the limited residual risk would be satisfied first by the net sale proceeds of the leased asset. The lessee's at-risk portion, or top risk, is satisfied last and is subject to repayment as additional rent, if the TRAC amount is not satisfied by the net sale proceeds.

Often times, there are several individual lease schedules under one master lease. There were 4,718 leases at June 30, 2018 compared to 4,773 at December 31, 2017. The average residual value per lease schedule was approximately $41 thousand and $45 thousand at June 30, 2018 and December 31, 2017, respectively. The average residual value per master lease schedule was approximately $168 thousand at June 30, 2018 and $183 thousand at December 31, 2017. Certain residual values have less than full residual risk.

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 include net income, adjusted for items in net income that did not impact cash. Net cash flows provided by operating activities were $263.8 million for the six months ended June 30, 2018 compared to net cash flows provided by operating activities of $177.2 million for the six months ended June 30, 2017. The change was mostly due to lower net proceeds of loans held for sale in the six months ended June 30, 2017.

Cash flows from investing activities reflects the impact of loans and investment securities acquired for the Company's interest-earning asset portfolios, as well as cash flows from asset sales and the impact of acquisitions. For the six months ended June 30, 2018, the Company had net cash flows used in investing activities of $161.6 million compared to net cash flows used in investing activities of $731.0 million for the six months ended June 30, 2017. The change was mostly due to a decrease in loans partly offset by an increase in purchases of investment securities during the six months ended June 30, 2018.

Cash flows from financing activities include transactions and events whereby cash is obtained from depositors, creditors or investors. For the six months ended June 30, 2018, the Company had net cash flows used in financing activities of $188.3 million compared to net cash flows provided by financing activities of $554.6 million for the six months ended June 30, 2017. The change in cash flows from financing activities was mostly due to the decrease in short-term borrowings, the redemption of our 8% Series A non-cumulative perpetual preferred stock and junior subordinated notes held by American Chartered Statutory Trust I, and a decrease in deposits during the six months ended June 30, 2018 partly offset by an increase in long-term 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 June 30, 2018, there were no firm lending commitments in place, management believes that we could borrow approximately $641.5 million for a short time from these banks on a collective basis. Additionally, we are a member of Federal Home Loan Bank of Chicago ("FHLB"). As of June 30, 2018, the Company had $878.1 million outstanding in FHLB advances, and could borrow an additional amount of approximately $762.1 million. As a contingency plan for significant funding needs, the Asset/Liability Committee may also consider the sale of investment securities, selling securities under agreement to repurchase, or the temporary curtailment of lending activities. As of June 30, 2018, the Company had approximately $1.9 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. We previously maintained a $35.0 million unsecured line of credit at the holding company level with a correspondent bank. No borrowings were outstanding on the line of credit as of June 30, 2018, and the line of credit matured on June 30, 2018. The holding company had $165.4 million in cash as of June 30, 2018.

See Notes 8 and 9 to the consolidated financial statements in Part I, Item 1 of this report for details of period end balances and other information for these various funding sources. There were no material changes outside the ordinary course of business in the Company's contractual obligations at June 30, 2018 as compared to December 31, 2017.

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. The minimum ratios required for a bank to be considered "well capitalized" for regulatory purposes are a total risk-based capital ratio of 10.00%, a Tier 1 capital to risk-weighted assets ratio of 8.00%, a common equity Tier 1 capital to risk-weighted assets ratio of 6.50% and a Tier 1 capital to average assets ratio of 5.00%. In addition, we have an internal policy which provides that dividends paid to us by MB Financial Bank cannot exceed

an amount that would cause MB Financial Bank's total risk-based capital ratio, Tier 1 capital to risk-weighted assets ratio, common equity Tier 1 capital to risk-weighted assets ratio and Tier 1 capital to average assets ratio to fall below 11%, 9%, 7.5% and 7%, respectively. See "Item 1. Business — Supervision and Regulation" in our Annual Report on Form 10-K for the year ended December 31, 2017.

At June 30, 2018, the Company's total risk-based capital ratio was 13.75%, Tier 1 capital to risk-weighted assets ratio was 10.81%, common equity Tier 1 capital to risk-weighted assets ratio was 9.68% and Tier 1 capital to average asset ratio was 9.74%. At June 30, 2018, MB Financial Bank's total risk-based capital ratio was 12.79%, Tier 1 capital to risk-weighted assets ratio was 10.81%, common equity Tier 1 capital to risk-weighted assets ratio was 10.79% and Tier 1 capital to average asset ratio was 9.73%. MB Financial Bank was categorized as "Well-Capitalized" at June 30, 2018 under the regulations of the Office of the Comptroller of the Currency.

The Company and MB Financial Bank must maintain a capital conservation buffer consisting of additional common equity Tier 1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, repurchasing shares, and paying discretionary bonuses. The new capital conservation buffer requirement began phasing in on January 1, 2016 when a buffer greater than 0.625% of risk-weighted assets was required, which amount will increase each year until the buffer requirement is fully implemented on January 1, 2019. At June 30, 2018, the Company and MB Financial Bank maintained capital above the 1.875% conservation buffer required for 2018.

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, net interest margin on a fully tax equivalent basis and net interest margin on a fully tax equivalent basis excluding the effect of the acquisition accounting discount accretion on loans acquired through the bank mergers. 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 Federal tax rate of 21% for 2018 and 35% for 2017. 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. Management also believes that presenting net interest margin on a tax equivalent basis excluding the effect of the acquisition accounting discount accretion on loans acquired through the Taylor Capital and American Chartered mergers is useful in assessing the impact of acquisition accounting on net interest margin, as the effect of loan discount accretion is expected to decrease as the acquired loans mature or roll off our balance sheet. 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 and net interest margin on a fully tax equivalent basis excluding the effect of the acquisition accounting discount accretion on loans acquired through the Taylor Capital and American Chartered mergers 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) the possibility that our actual results on selected items relating to our mortgage operations for which we have provided projections or estimates in this document will be materially different from such projections or estimates; (2) the ability to satisfy closing conditions to our pending merger with Fifth Third, including the approvals by our stockholders, on the expected terms and schedule; (3) the ability to obtain regulatory approvals required to complete our pending merger with Fifth Third, and the timing and conditions for such approvals; (4) delays in closing our pending merger with Fifth Third; (5) disruptions to our business resulting from our pending merger with Fifth Third; (6) the risk that funds obtained from capital raising

activities will not be utilized efficiently or effectively; (7) expected revenues, cost savings, synergies, and other benefits from our other merger and acquisition activities might not be realized 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; (8) 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 and lease losses, which could necessitate additional provisions for loan losses, resulting both from originated loans and loans acquired from other financial institutions; (9) the quality and composition of our securities portfolio; (10) competitive pressures among depository institutions; (11) interest rate movements and their impact on customer behavior, net interest margin and the value of our mortgage servicing rights; (12) the possibility that our mortgage banking business may experience increased volatility in its revenues and earnings and the possibility that the profitability of our mortgage banking business could be significantly reduced, both before and after the discontinuation of our national mortgage origination business, if we are unable to originate and sell mortgage loans at profitable margins or if changes in interest rates negatively impact the value of our mortgage servicing rights; (13) the impact of repricing and competitors' pricing initiatives on loan and deposit products; (14) fluctuations in real estate values; (15) results of examinations of us and our bank subsidiary by regulatory authorities and the possibility that any such regulatory authority may, among other things, limit our business activities, require us to change our business mix, increase our allowance for loan and lease losses, write-down asset values or increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; (16) our ability to adapt successfully to technological changes to meet customers' needs and developments in the market place; (17) the possibility that security measures implemented might not be sufficient to mitigate the risk of a cyber attack or cyber theft, and that such security measures might not protect against systems failures or interruptions; (18) our ability to realize the residual values of our direct finance, leveraged, and operating leases; (19) our ability to access cost-effective funding; (20) changes in financial markets; (21) changes in economic conditions in general and in the Chicago metropolitan area in particular; (22) the costs, effects, and outcomes of litigation; (23) new legislation or regulatory changes, changes in the interpretation and/or application of laws and regulations by regulatory authorities, other governmental initiatives affecting the financial services industry and changes in federal and/or state tax laws, including but not limited to the TCJ Act, or interpretations thereof by taxing authorities; (24) changes in accounting principles, policies or guidelines; and (25) 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 14 to the consolidated financial statements in Part I, Item 1 of this report.

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, or that have similar maturities or repricing dates, are based on different indexes that 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 positive gap would tend to positively affect net interest income. Conversely, during a period of falling interest rates, a positive gap position would tend to result in a decrease in net interest income.

The following table sets forth the amounts of interest earning assets and interest bearing liabilities outstanding at June 30, 2018 that we anticipate, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined based on the earlier of the term to repricing or the term to repayment of the asset or liability.

The table is intended to provide an approximation of the projected repricing of assets and liabilities at June 30, 2018 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: 49%, 47%, and 31%, respectively, in the first three months, 5%, 10%, and 12%, respectively, in the next nine months, 19%, 30%, and 37%, respectively, from one year to five years, and 27%, 13%, and 20%, 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	$ 106,833	$ 10,519	$ 2,320	$ —	$ 119,672
Investment securities	95,850	279,635	1,257,482	1,063,704	2,696,671
Loans held for sale	423,367	—	—	—	423,367
Loans, including covered loans	8,200,144	1,530,777	3,386,908	702,416	13,820,245
Total interest earning assets	$ 8,826,194	$ 1,820,931	$ 4,646,710	$ 1,766,120	$ 17,059,955
Interest Bearing Liabilities:					
NOW, money market, and interest bearing deposits	$ 2,356,771	$ 378,214	$ 1,219,715	$ 995,976	$ 4,950,676
Savings deposits	370,623	145,882	442,857	221,716	1,181,078
Time deposits	384,151	970,464	1,088,115	971	2,443,701
Short-term borrowings	576,462	75,000	—	—	651,462
Long-term borrowings	383,282	19,260	323,762	3,988	730,292
Junior subordinated notes issued to capital trusts	194,450	—	—	—	194,450
Total interest bearing liabilities	$ 4,265,739	$ 1,588,820	$ 3,074,449	$ 1,222,651	$ 10,151,659
Rate sensitive assets (RSA)	$ 8,826,194	$ 10,647,125	$ 15,293,835	$ 17,059,955	$ 17,059,955
Rate sensitive liabilities (RSL)	4,265,739	5,854,559	8,929,008	10,151,659	10,151,659
Cumulative GAP (GAP=RSA-RSL)	4,560,455	4,792,566	6,364,827	6,908,296	6,908,296
RSA/Total assets	44.20%	53.32%	76.60%	85.44%	85.44%
RSL/Total assets	21.36	29.32	44.72	50.84	50.84
GAP/Total assets	22.84	24.00	31.88	34.60	34.60
GAP/RSA	51.67	45.01	41.62	40.49	40.49

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 and no growth in balances of our interest earning assets and interest bearing liabilities at June 30, 2018 and December 31, 2017, 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 One Year Horizon			
	June 30, 2018		December 31, 2017	
	Dollar Change	Percentage Change	Dollar Change	Percentage Change
+ 2.00%	$ 54,542	8.43 %	$ 46,967	7.33 %
+ 1.00%	27,675	4.28	25,565	3.99
- 1.00%	(27,058)	(4.18)	(33,889)	(5.29)

In the interest rate sensitivity table above, changes in net interest income between June 30, 2018 and December 31, 2017 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 higher cost certificates of deposit in a rising rate environment.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures: An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15 (e) under the Securities Exchange Act of 1934 (the “Act”)) was carried out as of June 30, 2018 under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and several other members of our senior management. Our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2018, our disclosure controls and procedures were effective in ensuring that the information we are required to disclose in the reports we file or submit under the Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control Over Financial Reporting: During the quarter ended June 30, 2018, 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

We are involved from time to time as plaintiff or defendant in various legal actions arising in the normal course of our businesses. While the ultimate outcome of pending proceedings cannot be predicted with certainty, it is the opinion of management, after consultation with counsel representing us in such proceedings, that the resolution of these proceedings should not have a material adverse effect on our consolidated financial position or results of operation.

Item 1A. Risk Factors

Except as set forth below, 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, 2017.

The discontinuation of our national residential mortgage origination business could adversely affect our results of operations.

On April 12, 2018, we announced the discontinuation of our national mortgage origination business, which includes substantially all originations outside of our consumer banking footprint in the Chicagoland area. As a result, we expect to incur one-time pre-tax costs of approximately $37 million to $41 million. It may take longer than we expect to complete the winding down of this business and we may incur costs that exceed our estimated costs. Although we expect the net impact of anticipated reductions in our quarterly net interest income from the Mortgage Banking Segment, mortgage origination revenue from the Mortgage Banking Segment, mortgage servicing revenue from the Mortgage Banking Segment and non-interest expense from the Mortgage Banking Segment to increase our quarterly pre-tax income from the first quarter of 2018 by approximately $7.4 million by the first quarter of 2019, no assurance can be given as to when or whether we will realize this benefit. In addition, we expect revenues from the Mortgage Banking Segment to decrease more quickly than expenses from the Mortgage Banking Segment, as we stopped accepting locked loans and loan applications from our national residential mortgage origination business during the second quarter of 2018.

Our merger agreement with Fifth Third may be terminated in accordance with its terms and the merger may not be completed.

Our merger agreement with Fifth Third is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include: approval of the merger and a charter amendment by our common stockholders, receipt of requisite regulatory approvals, absence of orders prohibiting completion of any of the proposed transactions, effectiveness of Fifth Third's registration statement filed with the SEC for the shares of Fifth Third stock to be issued in connection with the merger, the accuracy of the representations and warranties in the merger agreement by both parties (subject to the materiality standards set forth in the merger agreement) and the performance by both parties of their covenants and agreements under the merger agreement, and the receipt by both parties of legal opinions from their respective tax counsels. These conditions to the closing of the merger may not be fulfilled in a timely manner or at all, and, accordingly, the merger may not be completed. In addition, the parties can mutually decide to terminate the merger agreement at any time, before or after stockholder approval, and we or Fifth Third may elect to terminate the merger agreement in certain other circumstances.

Termination of the merger agreement could negatively impact us.

If the merger is not completed for any reason, including as a result of a failure to obtain the requisite approvals from our stockholders, our ongoing business may be adversely impacted and, without realizing any of the anticipated benefits of completing the merger, we would be subject to a number of risks, including the following:

- we may experience negative reactions from the financial markets, including negative impacts on our stock price (including to the extent that the current market price reflects a market assumption that the merger will be completed);
- we may experience negative reactions from our customers, vendors and employees;
- we will have incurred substantial expenses and will be required to pay certain costs relating to the merger, whether or not the merger is completed;
- the merger agreement places certain restrictions on the conduct of our businesses prior to completion of the merger. Such restrictions, the waiver of which is subject to the consent of Fifth Third (not to be unreasonably withheld, conditioned or delayed), may prevent us from making certain acquisitions or taking certain other specified actions during the pendency of the merger; and

- matters relating to the merger (including integration planning) will require substantial commitments of time and resources by our management, which would otherwise have been devoted to other opportunities that may have been beneficial to us as an independent company.

If the merger agreement is terminated and our board of directors seeks another merger or business combination, our stockholders cannot be certain that we will be able to find a party willing to offer equivalent or more attractive consideration than the consideration Fifth Third has agreed to provide in the merger, or that such other merger or business combination will be completed. If the merger agreement is terminated under certain circumstances, we may be required to pay a termination fee of $151.2 million to Fifth Third.

We will be subject to business uncertainties and contractual restrictions while the merger is pending.

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others that deal with us to seek to change existing business relationships with us. Retention of certain employees may be challenging during the pendency of the merger, as certain employees may experience uncertainty about their future roles. If key employees depart, our business could be negatively impacted. In addition, the merger agreement restricts us from making certain acquisitions and taking other specified actions without the consent of Fifth Third until the merger occurs. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the merger.

The merger agreement contains provisions that may discourage other companies from trying to acquire us for greater merger consideration.

The merger agreement contains provisions that may discourage a third party from submitting a business combination proposal to us that might result in greater value to our stockholders than the merger or may result in a potential competing acquirer proposing to pay a lower per share price to acquire us than it might otherwise have proposed to pay absent such provisions. These provisions include a general prohibition on us soliciting, or, subject to certain exceptions relating to the exercise of fiduciary duties by our board of directors, entering into discussions with any third party regarding any acquisition proposal or offers for competing transactions. We also have an unqualified obligation to submit the proposal to approve the merger to a vote by our stockholders, even if we receive an alternative acquisition proposal that our board of directors believes is superior to the proposed merger with Fifth Third, unless the merger agreement has been terminated in accordance with its terms. In addition, we may be required to pay Fifth Third a termination fee of $151.2 million upon termination of the merger agreement in certain circumstances involving acquisition proposals for competing transactions.

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

The following table sets forth information for the three months ended June 30, 2018 with respect to our repurchases of our outstanding common shares:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in Thousands)
April 1, 2018 — April 30, 2018	—	$ —	—	$ —
May 1, 2018 — May 31, 2018	—	—	—	—
June 1, 2018 — June 30, 2018	—	—	—	—
Total	—	$ —	—	

Item 6. Exhibits

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	Amendment, dated as of June 30, 3014, to Agreement and Plan of Merger, dated as of July 14, 2013, by and between 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 1, 2014 (File No.0-24566-01))
2.3	Letter Agreement, dated as of June 30, 3014, by and between the Registrant and Taylor Capital Group, Inc. (incorporated herein by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed on July 1, 2014 (File No.0-24566-01))
2.4	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))
2.5	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, 2009 (File No.0-24566-01))
2.6	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))
2.7	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))
2.8	Agreement and Plan of Merger, dated as of November 20, 2015, by and between the Registrant and American Chartered Bancorp, Inc. (incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on November 24, 2015 (File No.001-36599))
2.9	Agreement and Plan of Merger by and among Fifth Third Bancorp, Fifth Third Financial Corporation and MB Financial, Inc., dated as of May 20, 2018 (incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on May 23, 2018 (File No. 001-36599))
3.1	Charter of the Registrant, as amended (incorporated herein by reference to Exhibit 4.1 to the Post-Effective Amendment No. One on Form S-8 to the Registrant's Form S-4 Registration Statement filed on August 26, 2016 (Registration No. 333-208966))
3.1A	Articles Supplementary to the Charter of the Registrant for the Registrant's Perpetual Non-Cumulative Preferred Stock, Series A (incorporated herein by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form 8-A filed on August 14, 2014 (File No.001-36599))
3.1B	Articles Supplementary to the Charter of the Registrant for the Registrant's Cumulative Voting Convertible Preferred Stock, Series B (incorporated herein by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on August 30, 2016 (File No.001-36599))

Exhibit Number	Description
3.1C	Articles Supplementary to the Charter of the Registrant for the Registrant's 6.00% Non-Cumulative Perpetual Preferred Stock, Series C (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on November 21, 2017 (File No.001-36599))
3.2	By-laws of the Registrant, as amended (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on March 2, 2015 (File No. 001-36599))
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	Deposit Agreement, dated as of November 22, 2017, between the Registrant, Computershare Inc. and Computershare Trust Company, N.A., as depositary, and the holders from time to time of the depositary receipts described therein (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on November 22, 2017 (File No.001-36599))
10.1	Reserved
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))
10.4	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 Brian Wildman and Rosemarie Bouman (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 Mark A. Heckler (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))
10.4D	Form of Change in Control Severance Agreement between MB Financial Bank, National Association and Randall T. Conte (incorporated herein by reference to Exhibit 10.4D to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (File No. 001-36599))
10.5	Reserved
10.5A	Reserved
10.5B	Reserved
10.7	MB Financial, Inc. Third 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 11, 2014 (File No. 0-24566-01))

Exhibit Number	Description
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	Reserved
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, Mark A. Heckler 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, Jill E. York and Brian Wildman (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 10.17 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 0-24566-01))

Exhibit Number	Description
10.18	Form of Restricted Stock Agreement for Executive Officers under the Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.18 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 0-24566-01))
10.18A	Amendment to Form of Incentive Stock Option Agreement and Form of Restricted Stock Agreement for Executive Officers under the Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.18A to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-24566-01))
10.18B	Form of Performance-Based Restricted Stock Agreement for Executive Officers under the Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.18B to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 0-24566-01))
10.18C	Form of Restricted Stock Agreement for grants on December 2, 2009 to Mitchell Feiger and Jill E. York (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 10.19 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	Letter Agreement, dated as of June 30, 2014, by and among the Registrant and certain principal stockholders of Taylor Capital Group, Inc. (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 1, 2014 (File No.0-24566-01))
10.23A	Supplemental Agreement, dated as of August 15, 2014, by and among the Registrant, MB Financial Bank, N.A., and Jennifer W. Steans, as representative of certain principal stockholders of Taylor Capital Group, Inc. (incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on August 20, 2014 (File No.001-36599))

Exhibit Number	Description
10.23B	Escrow Agreement, dated as of August 15, 2014, by and among MB Financial Bank, N.A., Jennifer W. Steans, as representative of certain principal stockholders of Taylor Capital Group, Inc., and The Northern Trust Company, as escrow agent (incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on August 20, 2014 (File No.001-36599))
10.23C	Second Amendment to Letter Agreement Re: Escrow of Merger Consideration, dated as of December 16, 2016, by and among the Registrant, MB Financial Bank, N.A., and Jennifer W. Steans, as representative of certain principal stockholders of Taylor Capital Group, Inc. (incorporated herein by reference to Exhibit 10.23C to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-36599))
10.24	Reserved
10.24A	Amended and Restated Employment Agreement by and between the Registrant, MB Financial Bank, N.A. and Mark A. Hoppe (incorporated herein by reference to Exhibit 10.24A to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017 (File No. 001-36599))
10.25	Taylor Capital Group, Inc. Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.1 to the Annual Report on Form 10-K of Taylor Capital Group, Inc. for the year ended December 31, 2008 (File No. 000-50034))
10.25A	Trust Under Taylor Capital Group, Inc. Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.17 of the Registration Statement on Form S-1 of Taylor Capital Group, Inc. filed May 24, 2002 (Registration No. 333-89158))
10.25B	Amendment to the Taylor Capital Group, Inc. Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.25B to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (File No. 001-36599))
10.26	Taylor Capital Group, Inc. Senior Officer Change in Control Severance Plan (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q of Taylor Capital Group, Inc. for the quarterly period ended June 30, 2009 (File No. 000-50034))
10.26A	Amendment to the Taylor Capital Group, Inc. Senior Officer Change in Control Severance Plan (incorporated herein by reference to Exhibit 10.26A to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (File No. 001-36599))
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 (File No. 0-24566-01))
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))

Exhibit Number	Description
10.29B	Second Amendment to Transitional Employment Agreement between the Registrant (as successor to First Oak Brook) and Rosemarie Bouman ((incorporated herein by reference to Exhibit 10.28B to the Registrant’s Annual Report on Form 10-K/A for the year ended December 31, 2006, filed March 2, 2007 (File No. 0-24566-01))
10.30	Form of Performance Share Unit Award Agreement (incorporated herein by reference to Exhibit 10.30 to the Registrant's Current Report on Form 8-K filed on September 5, 2012 (File No. 0-24566-01))
10.31	Form of Incentive Stock Option Agreement (Management Committee) (incorporated herein by reference to Exhibit 10.31 to the Registrant's Current Report on Form 8-K filed on September 5, 2012 (File No. 0-24566-01))
10.32	Form of Restricted Stock Agreement (Management Committee) (incorporated herein by reference to Exhibit 10.32 to the Registrant's Current Report on Form 8-K filed on September 5, 2012 (File No. 0-24566-01))
10.32A	Form of Restricted Stock Unit Agreement (Management Committee) (incorporated herein by reference to Exhibit 10.32A to the Registrant's Current Report on Form 8-K filed on September 5, 2012 (File No. 0-24566-01))
31.1	Rule 13a — 14(a)/15d — 14(a) Certification (Chief Executive Officer)*
31.2	Rule 13a — 14(a)/15d — 14(a) Certification (Chief Financial Officer)*
32	Section 1350 Certifications*
101	The following financial statements from the MB Financial, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, 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

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:	**August 9, 2018**	**By:**	**/s/Mitchell Feiger**
			Mitchell Feiger President and Chief Executive Officer (Principal Executive Officer)
Date:	**August 9, 2018**	**By:**	**/s/Randall T. Conte**
			Randall T. Conte Vice President and Chief Financial Officer (Principal Financial Officer)

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Section 2: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1

CERTIFICATION

I, Mitchell Feiger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MB Financial, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2018

/s/ Mitchell Feiger
Mitchell Feiger
President and Chief Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2

CERTIFICATION

I, Randall T. Conte, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MB Financial, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2018

/s/ Randall T. Conte
Randall T. Conte
Vice President and Chief Financial Officer

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Section 4: EX-32 (EXHIBIT 32)

EXHIBIT 32

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned hereby certifies in his or her capacity as an officer of MB Financial, Inc. (the Company) that the Quarterly Report of the Company on Form 10-Q for the quarter ended June 30, 2018 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

Date:	August 9, 2018	/s/Mitchell Feiger
		Mitchell Feiger
		President and Chief Executive Officer
Date:	August 9, 2018	/s/Randall T. Conte
		Randall T. Conte
		Vice President and Chief Financial Officer

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