

UMB FINANCIAL CORP
Form 10-Q
August 02, 2012

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, 2012

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 0-4887

UMB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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Missouri
(State or other jurisdiction of

43-0903811
(I.R.S. Employer

incorporation or organization)

Identification Number)

1010 Grand Boulevard, Kansas City, Missouri
(Address of principal executive offices)

64106
(ZIP Code)

(Registrant's telephone number, including area code): (816) 860-7000

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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

As of July 26, 2012, UMB Financial Corporation had 40,578,007 shares of common stock outstanding.

UMB FINANCIAL CORPORATION

FORM 10-Q

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PART I FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****UMB FINANCIAL CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS***(unaudited, dollars in thousands, except share and per share data)*

	June 30, 2012	December 31, 2011
<u>ASSETS</u>		
Loans:	\$ 5,315,609	\$ 4,960,343
Allowance for loan losses	(72,652)	(72,017)
Net loans	5,242,957	4,888,326
Loans held for sale	11,027	10,215
Securities:		
Available for sale	6,329,724	6,107,882
Held to maturity (market value of \$110,194 and \$102,287, respectively)	96,250	89,246
Trading	56,844	58,142
Federal Reserve Bank stock and other	21,705	22,212
Total investment securities	6,504,523	6,277,482
Federal funds sold and securities purchased under agreements to resell	30,733	66,078
Interest-bearing due from banks	295,499	1,164,007
Cash and due from banks	402,893	446,580
Bank premises and equipment, net	234,754	227,936
Accrued income	71,396	75,997
Goodwill	211,114	211,114
Other intangibles	76,604	84,331
Other assets	101,162	89,332
Total assets	\$ 13,182,662	\$ 13,541,398
<u>LIABILITIES</u>		
Deposits:		
Noninterest-bearing demand	\$ 4,217,487	\$ 3,941,372
Interest-bearing demand and savings	4,920,957	4,680,125
Time deposits under \$100,000	575,714	615,475
Time deposits of \$100,000 or more	615,692	932,939
Total deposits	10,329,850	10,169,911
Federal funds purchased and repurchase agreements	1,400,566	1,950,827
Short-term debt	10,000	12,000
Long-term debt	5,260	6,529
Accrued expenses and taxes	169,812	186,380
Other liabilities	15,176	24,619
Total liabilities	11,930,664	12,350,266

SHAREHOLDERS' EQUITY

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Common stock, \$1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 40,529,293 and 40,426,342 shares outstanding, respectively	55,057	55,057
Capital surplus	726,708	723,299
Retained earnings	756,835	697,923
Accumulated other comprehensive income	81,244	81,099
Treasury stock, 14,527,437 and 14,630,388 shares, at cost, respectively	(367,846)	(366,246)
Total shareholders' equity	1,251,998	1,191,132
Total liabilities and shareholders' equity	\$ 13,182,662	\$ 13,541,398

See Notes to Condensed Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited, dollars in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<u>INTEREST INCOME</u>				
Loans	\$ 54,000	\$ 55,106	\$ 108,055	\$ 109,095
Securities:				
Taxable interest	21,178	22,077	41,307	44,385
Tax-exempt interest	9,468	8,282	18,843	16,520
Total securities income	30,646	30,359	60,150	60,905
Federal funds and resell agreements	25	13	41	28
Interest-bearing due from banks	362	843	1,197	2,005
Trading securities	317	230	640	491
Total interest income	85,350	86,551	170,083	172,524
<u>INTEREST EXPENSE</u>				
Deposits	4,376	6,163	9,364	12,829
Federal funds and repurchase agreements	508	398	948	1,066
Other	93	72	309	263
Total interest expense	4,977	6,633	10,621	14,158
Net interest income	80,373	79,918	159,462	158,366
Provision for loan losses	4,500	5,600	9,000	12,700
Net interest income after provision for loan losses	75,873	74,318	150,462	145,666
<u>NONINTEREST INCOME</u>				
Trust and securities processing	55,755	53,635	110,465	105,363
Trading and investment banking	7,140	6,478	16,818	15,497
Service charges on deposits	19,009	18,181	39,020	36,789
Insurance fees and commissions	913	1,165	1,922	2,368
Brokerage fees	2,705	2,573	5,219	4,914
Bankcard fees	16,830	16,545	31,565	30,987
Gain on sales of securities available for sale, net	3,222	6,023	19,763	13,480
Other	4,652	3,256	17,755	6,208
Total noninterest income	110,226	107,856	242,527	215,606
<u>NONINTEREST EXPENSE</u>				
Salaries and employee benefits	78,001	72,922	157,915	145,821
Occupancy, net	9,211	9,579	18,489	19,184
Equipment	11,004	10,774	21,669	21,710
Supplies and services	5,218	5,577	10,261	11,157
Marketing and business development	5,986	5,158	10,246	9,280
Processing fees	12,593	13,319	25,409	25,492
Legal and consulting	4,012	4,075	7,527	6,692
Bankcard	4,630	4,219	8,872	8,072
Amortization of intangible assets	3,733	4,159	7,585	8,165

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Regulatory fees	2,314	2,394	4,733	6,111
Class action litigation settlement		7,800		7,800
Other	7,984	5,605	13,884	11,613
Total noninterest expense	144,686	145,581	286,590	281,097
Income before income taxes	41,413	36,593	106,399	80,175
Income tax provision	12,248	10,272	30,867	22,984
NET INCOME	\$ 29,165	\$ 26,321	\$ 75,532	\$ 57,191

PER SHARE DATA

Net income basic	\$ 0.73	\$ 0.66	\$ 1.89	\$ 1.43
Net income diluted	0.72	0.65	1.87	1.42
Dividends	0.205	0.195	0.410	0.390
Weighted average shares outstanding	40,034,649	40,080,402	40,030,052	40,075,428

See Notes to Condensed Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(unaudited, dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Income	\$ 29,165	\$ 26,321	\$ 75,532	\$ 57,191
Other comprehensive income, net of tax:				
Unrealized gains on securities:				
Change in unrealized holding gains, net	30,771	62,003	20,155	60,513
Less: Reclassifications adjustment for gains included in net income	(3,222)	(6,023)	(19,763)	(13,480)
Change in unrealized gains on securities during the period	27,549	55,980	392	47,033
Income tax expense	(10,173)	(20,679)	(247)	(17,387)
Other comprehensive income	17,376	35,301	145	29,646
Comprehensive income	\$ 46,541	61,622	\$ 75,677	86,837

See Notes to Condensed Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, dollars in thousands, except per share data)

		Accumulated					
					Other		
		Common Stock	Capital Surplus	Retained Earnings	Comprehensive Income	Treasury Stock	Total
Balance	January 1, 2011	\$ 55,057	\$ 718,306	\$ 623,415	\$ 25,465	\$ (361,383)	\$ 1,060,860
Total comprehensive income				57,191	29,646		86,837
Cash dividends (\$0.39 per share)				(15,801)			(15,801)
Purchase of treasury stock						(3,382)	(3,382)
Issuance of equity awards			(1,918)			2,157	239
Recognition of equity based compensation			3,262				3,262
Net tax benefit related to equity compensation plans			97				97
Sale of treasury stock			115			116	231
Exercise of stock options			128			485	613
Balance	June 30, 2011	\$ 55,057	\$ 719,990	\$ 664,805	\$ 55,111	\$ (362,007)	\$ 1,132,956
Balance	January 1, 2012	\$ 55,057	\$ 723,299	\$ 697,923	\$ 81,099	\$ (366,246)	\$ 1,191,132
Total comprehensive income				75,532	145		75,677
Cash dividends (\$0.41 per share)				(16,620)			(16,620)
Purchase of treasury stock						(5,284)	(5,284)
Issuance of equity awards			(1,698)			1,942	244
Recognition of equity based compensation			3,565				3,565
Net tax benefit related to equity compensation plans			164				164
Sale of treasury stock			234			189	423
Exercise of stock options			1,144			1,553	2,697
Balance	June 30, 2012	\$ 55,057	\$ 726,708	\$ 756,835	\$ 81,244	\$ (367,846)	\$ 1,251,998

See Notes to Condensed Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	Six Months Ended June 30,	
	2012	2011
Operating Activities		
Net Income	\$ 75,532	\$ 57,191
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	9,000	12,700
Depreciation and amortization	20,505	22,401
Deferred income tax expense (benefit)	876	(2,458)
Net decrease (increase) in trading securities	1,298	(800)
Gains on sales of securities available for sale, net	(19,763)	(13,480)
Gains on sales of assets	(655)	(1)
Amortization of securities premiums, net of discount accretion	24,866	20,622
Originations of loans held for sale	(107,658)	(94,110)
Net gains on sales of loans held for sale	(919)	(1,051)
Proceeds from sales of loans held for sale	107,765	102,994
Issuance of equity awards	244	239
Equity based compensation	3,565	3,262
Changes in:		
Accrued income	4,601	(1,476)
Accrued expenses and taxes	(10,040)	5,673
Other assets and liabilities, net	(14,106)	7,025
Net cash provided by operating activities	95,111	118,731
Investing Activities		
Proceeds from maturities of securities held to maturity	3,930	5,081
Proceeds from sales of securities available for sale	974,581	884,275
Proceeds from maturities of securities available for sale	826,048	928,392
Purchases of securities held to maturity	(10,849)	(10,793)
Purchases of securities available for sale	(2,032,803)	(1,688,797)
Net increase in loans	(364,749)	(166,027)
Net decrease in fed funds sold and resell agreements	35,345	190,690
Net decrease in interest-bearing balances due from other financial institutions	94,023	38,122
Purchases of bank premises and equipment	(20,303)	(15,210)
Net cash received (paid) for acquisitions	701	(8,000)
Proceeds from sales of bank premises and equipment	661	43
Net cash (used in) provided by investing activities	(493,415)	157,776
Financing Activities		
Net increase in demand and savings deposits	516,947	1,179,954
Net decrease in time deposits	(357,008)	(294,894)
Net decrease in fed funds purchased and repurchase agreements	(550,261)	(578,405)
Net decrease in short-term debt	(2,000)	(10,296)
Repayment of long-term debt	(1,269)	(2,539)
Payment of contingent consideration on acquisitions	(7,651)	
Cash dividends paid	(16,626)	(15,654)
Net tax benefit related to equity compensation plans	164	97
Proceeds from exercise of stock options and sales of treasury shares	3,120	844

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Purchases of treasury stock	(5,284)	(3,382)
Net cash (used in) provided by financing activities	(419,868)	275,725
(Decrease) increase in cash and due from banks	(818,172)	552,232
Cash and due from banks at beginning of period	1,459,631	1,033,617
Cash and due from banks at end of period	\$ 641,459	\$ 1,585,849
Supplemental Disclosures:		
Income taxes paid	\$ 23,908	\$ 13,627
Total interest paid	\$ 11,588	\$ 15,256
See Notes to Condensed Consolidated Financial Statements.		

UMB FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

1. Financial Statement Presentation

The condensed consolidated financial statements include the accounts of UMB Financial Corporation and its subsidiaries (collectively, the Company) after elimination of all significant intercompany transactions. In the opinion of management of the Company, all adjustments, which were of a normal recurring nature and necessary for a fair presentation of the financial position and results of operations, have been made. The results of operations and cash flows for the interim periods presented may not be indicative of the results of the full year. The financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

2. Summary of Accounting Policies

The Company is a multi-bank financial holding company, which offers a wide range of banking and other financial services to its customers through its branches and offices in the states of Missouri, Kansas, Colorado, Illinois, Oklahoma, Arizona, Nebraska, Pennsylvania, South Dakota, Indiana, Wisconsin, New Jersey, and Massachusetts. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also impact reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A summary of the significant accounting policies to assist the reader in understanding the financial presentation is listed in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Interest-bearing Due From Banks

Amounts due from the Federal Reserve Bank which are interest-bearing for all periods presented, and amounts due from certificates of deposits held at other financial institutions are included in interest-bearing due from banks. The amount due from the Federal Reserve Bank totaled \$238.6 million and \$1,238.5 million at June 30, 2012 and June 30, 2011, respectively, and is considered cash and cash equivalents. The amounts due from certificates of deposit totaled \$56.9 million and \$133.0 million at June 30, 2012 and June 30, 2011, respectively.

This table provides a summary of cash and due from banks as presented on the Consolidated Statement of Cash Flows as of June 30, 2012 and June 30, 2011 (in thousands):

	June 30,	
	2012	2011
Due from the Federal Reserve	\$ 238,566	\$ 1,238,480
Cash and due from banks	402,893	347,369
Cash and due from banks at end of period	\$ 641,459	\$ 1,585,849

Per Share Data

Basic income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted quarterly per share data includes the dilutive effect of 442,499 and 323,509 shares issuable upon the exercise of options granted by the Company and outstanding at June 30, 2012 and 2011, respectively. Diluted year-to-date income per share includes the dilutive effect of 397,060 and 318,004 shares issuable upon the exercise of stock options granted by the Company and outstanding at June 30, 2012 and 2011, respectively.

Options issued under employee benefit plans to purchase 521,705 shares of common stock were outstanding at June 30, 2012, but were not included in the computation of year-to-date diluted EPS because the options were anti-dilutive. Options issued under employee benefit plans to purchase 765,818 shares of common stock were outstanding at June 30, 2011, but were not included in the computation of quarterly diluted EPS because the options were anti-dilutive. Options issued under employee benefit plans to purchase 874,914 shares of common stock were outstanding at June 30, 2011, but were not included in the computation of year-to-date diluted EPS because the options were anti-dilutive.

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

3. New Accounting Pronouncements

Fair Value Measurements and Disclosure Requirements In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), which amends the FASB Standards Codification to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The Company adopted this standard for the quarter ended March 31, 2012 which resulted in a \$6.9 million (\$4.7 million, net of tax) reduction of the contingent consideration liabilities and a corresponding increase to other non-interest income due to the Company changing its fair value methodology. The adoption of this accounting pronouncement also resulted in additional fair value financial statement disclosures.

Presentation of Comprehensive Income In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income: Presentation of Comprehensive Income (ASU 2011-05), which amends the FASB Standards Codification to allow the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 was effective for the Company for the period ended March 31, 2012; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU No. 2011-12 (ASU 2011-12) Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12. The Company adopted ASU 2011-05 for the quarter ended March 31, 2012 with no material impact on its financial statements except for a change in presentation.

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

4. Loans and Allowance for Loan Losses

Loan Origination/Risk Management

The Company has certain lending policies and procedures in place that are designed to minimize the level of risk within the loan portfolio. Diversification of the loan portfolio manages the risk associated with fluctuations in economic conditions. The Company maintains an independent loan review department that reviews and validates the credit risk program on a continual basis. Management regularly evaluates the results of the loan reviews. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Commercial loans are made based on the identified cash flows of the borrower and on the underlying collateral provided by the borrower. The cash flows of the borrower, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts from its customers. Commercial credit cards are generally unsecured and are underwritten with criteria similar to commercial loans including an analysis of the borrower's cash flow, available business capital, and overall credit-worthiness of the borrower.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. The Company requires an appraisal of the collateral be made at origination, on an as-needed basis, in conformity with current market conditions and regulatory requirements. The underwriting standards address both owner and non-owner occupied real estate.

Construction loans are underwritten using feasibility studies, independent appraisal reviews, sensitivity analysis or absorption and lease rates and financial analysis of the developers and property owners. Construction loans are based upon estimates of costs and value associated with the complete project. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term borrowers, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their repayment being sensitive to interest rate changes, governmental regulation of real property, economic conditions and the availability of long-term financing.

Underwriting standards for residential real estate and home equity loans are based on the borrower's loan-to-value percentage, collection remedies, and overall credit history.

Consumer loans are underwritten based on the borrower's repayment ability. The Company monitors delinquencies on all of its consumer loans and leases and periodically reviews the distribution of FICO scores relative to historical periods to monitor credit risk on its credit card loans. The underwriting and review practices, combined with the relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Consumer loans and leases that are 90 days past due or more are considered non-performing.

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

This table provides a summary of loan classes and an aging of past due loans at June 30, 2012 and December 31, 2011 (*in thousands*):

		June 30, 2012				
		30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non- Accrual Loans	Total Past Due	Total Loans
Commercial:						
Commercial		\$ 4,622	\$ 877	\$ 14,115	\$ 19,614	\$ 2,616,327
Commercial	credit card	428	105		533	103,938
Real estate:						
Real estate	construction	435	651	655	1,741	79,948
Real estate	commercial	6,032	1,110	8,574	15,716	1,336,696
Real estate	residential	2,121	139	1,819	4,079	190,448
Real estate	HELOC	877	113	463	1,453	557,275
Consumer:						
Consumer	credit card	2,752	2,371	3,632	8,755	308,169
Consumer	other	2,527	832	1,384	4,743	48,802
Leases		204			204	17,168
Total loans		\$ 19,998	\$ 6,198	\$ 30,642	\$ 56,838	\$ 5,258,771

		December 31, 2011				
		30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non- Accrual Loans	Total Past Due	Total Loans
Commercial:						
Commercial		\$ 2,986	\$ 767	\$ 9,234	\$ 12,987	\$ 2,221,830
Commercial	credit card	896	284		1,180	94,159
Real estate:						
Real estate	construction	430		642	1,072	83,518
Real estate	commercial	2,368	313	7,218	9,899	1,384,656
Real estate	residential	1,713	247	1,660	3,620	182,266
Real estate	HELOC	819	41	696	1,556	531,476
Consumer:						
Consumer	credit card	2,858	3,394	4,638	10,890	322,756
Consumer	other	1,260	952	1,493	3,705	90,939
Leases						3,834
Total loans		\$ 13,330	\$ 5,998	\$ 25,581	\$ 44,909	\$ 4,915,434

The Company sold \$107.8 million and \$103.0 million of residential real estate and student loans during the six month periods ended June 30, 2012 and June 30, 2011, respectively.

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The Company has ceased the recognition of interest on loans with a carrying value of \$30.6 million and \$25.6 million at June 30, 2012 and December 31, 2011, respectively. Restructured loans totaled \$8.3 million and \$6.0 million at June 30, 2012 and December 31, 2011, respectively. Loans 90 days past due and still accruing interest amounted to \$6.2 million and \$6.0 million at June 30, 2012 and December 31, 2011, respectively. There was an insignificant amount of interest recognized on impaired loans during 2012 and 2011.

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

Credit Quality Indicators

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grading of specified classes of loans, net charge-offs, non-performing loans, and general economic conditions.

The Company utilizes a risk grading matrix to assign a rating to each of its commercial, commercial real estate, and construction real estate loans. The loan rankings are summarized into the following categories: Non-watch list, Watch, Special Mention, and Substandard. Any loan not classified in one of the categories described below is considered to be a Non-watch list loan. A description of the general characteristics of the loan ranking categories is as follows:

Watch This rating represents credit exposure that presents higher than average risk and warrants greater than routine attention by Company personnel due to conditions affecting the borrower, the borrower's industry or the economic environment. These conditions have resulted in some degree of uncertainty that results in higher than average credit risk.

Special Mention This rating reflects a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the institution's credit position at some future date. The rating is not adversely classified and does not expose an institution to sufficient risk to warrant adverse classification.

Substandard This rating represents an asset inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans in this category are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. This category may include loans where the collection of full principal is doubtful or remote.

All other classes of loans are generally evaluated and monitored based on payment activity. Non-performing loans include restructured loans, which are on non-accrual, and all other non-accrual loans.

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

This table provides an analysis of the credit risk profile of each loan class at June 30, 2012 and December 31, 2011 (*in thousands*):

Credit Exposure

Credit Risk Profile by Risk Rating

	Commercial		Real estate- construction	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Non-watch list	\$ 2,473,132	\$ 2,064,658	\$ 78,964	\$ 83,100
Watch	85,969	100,499	362	355
Special Mention	20,839	16,688		
Substandard	56,001	52,972	2,363	1,135
Total	\$ 2,635,941	\$ 2,234,817	\$ 81,689	\$ 84,590

	Real estate - commercial	
	June 30, 2012	December 31, 2011
Non-watch list	\$ 1,227,429	\$ 1,275,280
Watch	49,825	27,777
Special Mention	9,739	35,019
Substandard	65,419	56,479
Total	\$ 1,352,412	\$ 1,394,555

Credit Exposure

Credit Risk Profile Based on Payment Activity

	Commercial	credit card	Real estate- residential	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Performing	\$ 104,471	\$ 95,339	\$ 192,708	\$ 184,226
Non-performing			1,819	1,660
Total	\$ 104,471	\$ 95,339	\$ 194,527	\$ 185,886

	Real estate - HELOC		Consumer	credit card
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011

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Performing	\$ 558,265	\$ 532,336	\$ 313,292	\$ 329,008
Non-performing	463	696	3,632	4,638
Total	\$ 558,728	\$ 533,032	\$ 316,924	\$ 333,646

	Consumer - other		Leases	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Performing	\$ 52,161	\$ 93,151	\$ 17,372	\$ 3,834
Non-performing	1,384	1,493		
Total	\$ 53,545	\$ 94,644	\$ 17,372	\$ 3,834

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's judgment of losses within the Company's loan portfolio as of the balance sheet date. The allowance is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. Accordingly, the methodology is based on historical loss trends. The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for possible loan losses reflects loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors.

The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific loans; however, the entire allowance is available for any loan that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for loan losses consists of specific valuation allowances and general valuation allowances based on historical loan loss experience for similar loans with similar characteristics and trends, general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal risk grading process that evaluates the obligor's ability to repay, the underlying collateral, if any, and the economic environment and industry in which the borrower operates. When a loan is considered impaired, the loan is analyzed to determine the need, if any, to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk ranking of the loan and economic conditions affecting the borrower's industry.

General valuation allowances are calculated based on the historical loss experience of specific types of loans including an evaluation of the time span and volume of the actual charge-off. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are updated based on actual charge-off experience. A valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio, time span to charge-off, and the total dollar amount of the loans in the pool. The Company's pools of similar loans include similarly risk-graded groups of commercial loans, commercial real estate loans, commercial credit card, home equity loans, consumer real estate loans and consumer and other loans. The Company also considers a loan migration analysis for criticized loans. This analysis includes an assessment of the probability that a loan will move to a loss position based on its criticized category. In addition, a portion of the allowance is determined by a review of qualitative factors by Management including external factors such as legal and regulatory requirements, competition, unemployment, and other economic and business conditions. The qualitative review also includes an assessment of internal factors such as changes in lending policies and procedures, quality of Company's loan review system, experience of management and staff, and credit concentrations.

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2012 (*in thousands*):

	Three Months Ended June 30, 2012				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 37,381	\$ 23,236	\$ 12,848	\$ 21	\$ 73,486
Charge-offs	(2,968)	(69)	(3,098)		(6,135)
Recoveries	12	3	786		801
Provision	3,517	(510)	1,465	28	4,500
Ending Balance	\$ 37,942	\$ 22,660	\$ 12,001	\$ 49	\$ 72,652
	Six Months Ended June 30, 2012				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 37,927	\$ 20,486	\$ 13,593	\$ 11	\$ 72,017
Charge-offs	(3,237)	(408)	(6,588)		(10,233)
Recoveries	250	9	1,609		1,868
Provision	3,002	2,573	3,387	38	9,000
Ending Balance	\$ 37,942	\$ 22,660	\$ 12,001	\$ 49	\$ 72,652
Ending Balance: individually evaluated for impairment	\$ 2,730	\$ 1,104	\$	\$	\$ 3,834
Ending Balance: collectively evaluated for impairment	35,212	21,556	12,001	49	68,818
Ending Balance: loans acquired with deteriorated credit quality					
Loans:					
Ending Balance: loans	\$ 2,740,412	\$ 2,187,356	\$ 370,469	\$ 17,372	\$ 5,315,609
Ending Balance: individually evaluated for impairment	15,208	13,754	71		29,033
Ending Balance: collectively evaluated for impairment	2,725,204	2,173,602	370,398	17,372	5,286,576
Ending Balance: loans acquired with deteriorated credit quality					

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2011 (*in thousands*):

	Three Months Ended June 30, 2011				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 36,171	\$ 22,363	\$ 14,173	\$ 11	\$ 72,718
Charge-offs	(2,884)	(391)	(3,913)		(7,188)
Recoveries	225	15	1,072		1,312
Provision	2,092	899	2,609		5,600
Ending Balance	\$ 35,604	\$ 22,886	\$ 13,941	\$ 11	\$ 72,442

	Six Months Ended June 30, 2011				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 39,138	\$ 18,557	\$ 16,243	\$ 14	\$ 73,952
Charge-offs	(8,084)	(458)	(8,312)		(16,854)
Recoveries	376	15	2,253		2,644
Provision	4,174	4,772	3,757	(3)	12,700
Ending Balance	\$ 35,604	\$ 22,886	\$ 13,941	\$ 11	\$ 72,442
Ending Balance: individually evaluated for impairment	\$ 1,861	\$ 1,115	\$	\$	\$ 2,976
Ending Balance: collectively evaluated for impairment	33,743	21,771	13,941	11	69,466
Ending Balance: loans acquired with deteriorated credit quality					
Loans:					
Ending Balance: loans	\$ 2,109,456	\$ 2,172,845	\$ 444,433	\$ 4,569	\$ 4,731,303
Ending Balance: individually evaluated for impairment	5,571	5,376	78		11,025
Ending Balance: collectively evaluated for impairment	2,103,885	2,167,469	444,355	4,569	4,720,278
Ending Balance: loans acquired with deteriorated credit quality					

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

Impaired Loans

This table provides an analysis of impaired loans by class at June 30, 2012 and December 31, 2011 (in thousands):

		June 30, 2012				
		Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
						Average Recorded Investment
Commercial:						
Commercial		\$ 18,115	\$ 5,567	\$ 9,641	\$ 15,208	\$ 2,730
Commercial	credit card					\$ 12,613
Real estate:						
Real estate	construction					17
Real estate	commercial	10,978	8,573	2,178	10,751	920
Real estate	residential	3,403	1,871	1,132	3,003	184
Real estate	HELOC					3,010
Consumer:						
Consumer	credit card					
Consumer	other	71	71		71	92
Leases						
Total						
		\$ 32,567	\$ 16,082	\$ 12,951	\$ 29,033	\$ 3,834
						\$ 25,412

		December 31, 2011				
		Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
						Average Recorded Investment
Commercial:						
Commercial		\$ 14,368	\$ 2,940	\$ 8,121	\$ 11,061	\$ 3,662
Commercial	credit card					\$ 8,308
Real estate:						
Real estate	construction	90	50		50	15
Real estate	commercial	9,323	7,983	1,247	9,230	226
Real estate	residential	3,568	2,329	859	3,188	42
Real estate	HELOC					2,312
Consumer:						
Consumer	credit card					
Consumer	other	23	23		23	28
Leases						
Total						
		\$ 27,372	\$ 13,325	\$ 10,227	\$ 23,552	\$ 3,930
						\$ 17,393

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

Troubled Debt Restructurings

The Company adopted ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring (TDR), as of July 1, 2011. This update provides additional guidance on evaluating whether a modification or restructuring of a receivable is a TDR. A loan modification is considered a TDR when a concession had been granted to a debtor experiencing financial difficulties. The Company assessed loan modifications made to borrowers experiencing financial distress occurring after January 1, 2011. The Company's modifications generally include interest rate adjustments, and amortization and maturity date extensions. These modifications allow the debtor short-term cash relief to allow them to improve their financial condition. The Company's restructured loans are individually evaluated for impairment and evaluated as part of the allowance for loan loss as described above in the Allowance for Loan Losses section of this note. There was no significant impact to the allowance for loan losses as a result of adopting the new guidance.

The Company had \$527.0 thousand in commitments to lend to borrowers with loan modifications classified as TDR's. The Company made no TDR's in the last 12 months that had payment defaults for the three or six month periods ended June 30, 2012.

This table provides a summary of loans restructured by class for the three and six months ended June 30, 2012 (*in thousands*):

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
Commercial:						
Commercial credit card	1	\$ 2,132	\$ 2,139	2	\$ 2,932	\$ 2,939
Real estate:						
Real estate construction						
Real estate commercial						
Real estate residential						
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	1	\$ 2,132	\$ 2,139	2	\$ 2,932	\$ 2,939

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

5. Securities

Securities Available for Sale

This table provides detailed information about securities available for sale at June 30, 2012 and December 31, 2011 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012				
U.S. Treasury	\$ 77,113	\$ 924	\$ (4)	\$ 78,033
U.S. Agencies	923,223	7,808	(1)	931,030
Mortgage-backed	3,270,595	70,958	(1,328)	3,340,225
State and political subdivisions	1,775,248	49,709	(1,278)	1,823,679
Corporates	155,177	1,593	(13)	156,757
Total	\$ 6,201,356	\$ 130,992	\$ (2,624)	\$ 6,329,724

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2011				
U.S. Treasury	\$ 184,523	\$ 4,802	\$	\$ 189,325
U.S. Agencies	1,615,637	16,434	(62)	1,632,009
Mortgage-backed	2,437,282	55,985	(919)	2,492,348
State and political subdivisions	1,642,844	51,336	(144)	1,694,036
Corporates	99,620	566	(22)	100,164
Total	\$ 5,979,906	\$ 129,123	\$ (1,147)	\$ 6,107,882

The following table presents contractual maturity information for securities available for sale at June 30, 2012 (*in thousands*):

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 595,965	\$ 599,241
Due after 1 year through 5 years	1,612,012	1,644,199
Due after 5 years through 10 years	607,199	628,664
Due after 10 years	115,585	117,395
Total	2,930,761	2,989,499
Mortgage-backed securities	3,270,595	3,340,225
Total securities available for sale	\$ 6,201,356	\$ 6,329,724

Securities may be disposed of before contractual maturities due to sales by the Company or because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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For the six months ended June 30, 2012, proceeds from the sales of securities available for sale were \$974.6 million compared to \$884.3 million for the same period in 2011. Securities transactions resulted in gross realized gains of \$20.1 million and \$13.6 million for the six months ended June 30, 2012 and 2011. The gross realized losses for the six months ended June 30, 2012 and 2011 were \$0.3 million and \$0.1 million, respectively.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

Trading Securities

The net unrealized gains on trading securities at June 30, 2012 and June 30, 2011 were \$495.0 thousand and \$746.9 thousand respectively, and were included in trading and investment banking income on the consolidated statements of income.

Securities Held to Maturity

The table below provides detailed information for securities held to maturity at June 30, 2012 and December 31, 2011 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012				
State and political subdivisions	\$ 96,250	\$ 13,944	\$	\$ 110,194
December 31, 2011				
State and political subdivisions	\$ 89,246	\$ 13,041	\$	\$ 102,287

The following table presents contractual maturity information for securities held to maturity at June 30, 2012 (*in thousands*):

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 66	\$ 76
Due after 1 year through 5 years	22,399	25,644
Due after 5 years through 10 years	27,541	31,531
Due after 10 years	46,244	52,943
Total securities held to maturity	\$ 96,250	\$ 110,194

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

There were no sales of securities held to maturity during the first six months of 2012 or 2011.

Securities available for sale and held to maturity with a market value of \$4.4 billion at June 30, 2012, and \$5.4 billion at December 31, 2011, were pledged to secure U.S. Government deposits, other public deposits, certain trust deposits as required by law, and other potential borrowings.

The following table shows the Company's available for sale investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2012 and December 31, 2011 (*in thousands*):

June 30, 2012	Less than 12 months	12 months or more	Total
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Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	\$ 5,041	\$ (4)	\$	\$	\$ 5,041	\$ (4)
U.S. Agencies	5,033	(1)			5,033	(1)
Mortgage-backed	192,684	(1,328)			192,684	(1,328)
State and political subdivisions	176,943	(1,277)	1,380	(1)	178,323	(1,278)
Corporates	11,217	(13)			11,217	(13)
Total temporarily- impaired debt securities available for sale	\$ 390,918	\$ (2,623)	\$ 1,380	\$ (1)	\$ 392,298	\$ (2,624)

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

December 31, 2011	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	\$	\$	\$	\$	\$	\$
U.S. Agencies	66,992	(62)			66,992	(62)
Mortgage-backed	226,081	(919)			226,081	(919)
State and political subdivisions	45,918	(139)	2,571	(5)	48,489	(144)
Corporates	12,471	(22)			12,471	(22)
Total temporarily- impaired debt securities available for sale	\$ 351,462	\$ (1,142)	\$ 2,571	\$ (5)	\$ 354,033	\$ (1,147)

The unrealized losses in the Company's investments in direct obligations of U.S. treasury obligations, U.S. government agencies, federal agency mortgage-backed securities, municipal securities, and corporates were caused by changes in interest rates. Because the Company does not have the intent to sell these securities, it is more likely than not that the Company will not be required to sell these securities before a recovery of fair value. The Company expects to recover its cost basis in the securities and does not consider these investments to be other-than-temporarily impaired at June 30, 2012.

6. Goodwill and Other Intangibles

Changes in the carrying amount of goodwill for the periods ended June 30, 2012 and December 31, 2011 by operating segment are as follows (*in thousands*):

	Bank	Institutional Investment Management	Asset Servicing	Total
Balances as of January 1, 2011	\$ 144,109	\$ 47,529	\$ 19,476	\$ 211,114
Balances as of December 31, 2011	\$ 144,109	\$ 47,529	\$ 19,476	\$ 211,114
Balances as of January 1, 2012	\$ 144,109	\$ 47,529	\$ 19,476	\$ 211,114
Balances as of June 30, 2012	\$ 144,109	\$ 47,529	\$ 19,476	\$ 211,114

Following are the intangible assets that continue to be subject to amortization as of June 30, 2012 and December 31, 2011 (*in thousands*):

	As of June 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible assets	\$ 36,497	\$ 29,535	\$ 6,962
Customer relationships	104,997	36,651	68,346
Other intangible assets	3,247	1,951	1,296
Total intangible assets	\$ 144,741	\$ 68,137	\$ 76,604

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	As of December 31, 2011		
Core deposit intangible assets	\$ 36,497	\$ 28,629	\$ 7,868
Customer relationships	105,544	30,645	74,899
Other intangible assets	3,247	1,683	1,564
Total intangible assets	\$ 145,288	\$ 60,957	\$ 84,331

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

Following is the aggregate amortization expense recognized in each period (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Aggregate amortization expense	\$ 3,733	\$ 4,159	\$ 7,585	\$ 8,165

Estimated amortization expense of intangible assets on future years (in thousands):

For the six months ending December 31, 2012	\$ 7,242
For the year ending December 31, 2012	13,374
For the year ending December 31, 2013	12,302
For the year ending December 31, 2014	9,706
For the year ending December 31, 2015	8,433

7. Commitments, Contingencies and Guarantees

In the normal course of business, the Company is party to financial instruments with off-balance-sheet risk in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, commercial letters of credit, standby letters of credit, futures contracts, forward foreign exchange contracts and spot foreign exchange contracts. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet. The contract or notional amount of those instruments reflects the extent of involvement the Company has in particular classes of financial instruments. Many of the commitments expire without being drawn upon, therefore, the total amount of these commitments does not necessarily represent the future cash requirements of the Company.

The Company's exposure to credit loss in the event of nonperformance by the counterparty to the financial instruments for commitments to extend credit, commercial letters of credit, and standby letters of credit is represented by the contract or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The following table summarizes the Company's off-balance sheet financial instruments.

Contract or Notional Amount (in thousands):

	June 30, 2012	December 31, 2011
Commitments to extend credit for loans (excluding credit card loans)	\$ 2,272,762	\$ 2,202,838
Commitments to extend credit under credit card loans	2,122,416	2,059,193
Commercial letters of credit	7,547	19,564
Standby letters of credit	315,679	320,119
Futures contracts	15,000	30,600
Forward foreign exchange contracts	59,950	119,200
Spot foreign exchange contracts	3,219	3,040

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

8. Business Segment Reporting

The Company has strategically aligned its operations into the following four reportable segments (collectively, Business Segments): Bank, Payment Solutions, Institutional Investment Management, and Asset Servicing. Business segment financial results produced by the Company's internal management accounting system are evaluated regularly by the Executive Committee in deciding how to allocate resources and assess performance for individual Business Segments. The Business Segments were redefined during the first quarter of 2012 to reflect changes in how executive management responsibilities were changed by the Executive Committee for each of the core businesses, the products and services provided and the types of customers served, and how financial information is currently evaluated by management. The management accounting system assigns balance sheet and income statement items to each business segment using methodologies that are refined on an ongoing basis. In 2011, the Business Segments were Commercial Financial Services, Institutional Financial Services, and Personal Financial Services. For comparability purposes, amounts in all periods presented are based on methodologies in effect at June 30, 2012. Previously reported results have been reclassified to conform to the current organizational structure.

The following summaries provide information about the activities of each segment:

The *Bank* provides a full range of banking services to commercial, retail, government and correspondent bank customers through the Company's branches, call center, internet banking, and ATM network. Services include traditional commercial and consumer banking, treasury management, leasing, foreign exchange, merchant bankcard, wealth management, brokerage, insurance, capital markets, investment banking, corporate trust, and correspondent banking.

Payment Solutions provides consumer and commercial credit and debit card, prepaid debit card solutions, healthcare services, and institutional cash management. Healthcare services include health savings account and flexible savings account products for healthcare providers, third-party administrators and large employers.

Institutional Investment Management provides equity and fixed income investment strategies in the intermediary and institutional markets via mutual funds, traditional separate accounts and sub-advisory relationships.

Asset Servicing provides services to the asset management industry, supporting a range of investment products, including mutual funds, alternative investments and managed accounts. Services include fund administration, fund accounting, investor services, transfer agency, distribution, marketing, custody, alternative investment services, managed account services, and collective and multiple-series trust services.

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

Business Segment Information

Segment financial results were as follows (in thousands):

	Three Months Ended June 30, 2012				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 69,447	\$ 10,558	\$ 1	\$ 367	\$ 80,373
Provision for loan losses	2,281	2,219			4,500
Noninterest income	50,574	17,172	23,671	18,809	110,226
Noninterest expense	94,626	16,513	16,271	17,276	144,686
Income before taxes	23,114	8,998	7,401	1,900	41,413
Income tax expense	6,411	2,817	2,167	853	12,248
Net income	\$ 16,703	\$ 6,181	\$ 5,234	\$ 1,047	\$ 29,165
Average assets	\$ 10,800,000	\$ 871,000	\$ 83,000	\$ 1,448,000	\$ 13,202,000

	Three Months Ended June 30, 2011				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 68,999	\$ 10,440	\$ 11	\$ 468	\$ 79,918
Provision for loan losses	2,868	2,732			5,600
Noninterest income	52,674	14,778	22,157	18,247	107,856
Noninterest expense	97,205	14,611	17,366	16,399	145,581
Income before taxes	21,600	7,875	4,802	2,316	36,593
Income tax expense	6,141	2,159	1,185	787	10,272
Net income	\$ 15,459	\$ 5,716	\$ 3,617	\$ 1,529	\$ 26,321
Average assets	\$ 10,044,000	\$ 683,000	\$ 89,000	\$ 1,547,000	\$ 12,363,000

	Six Months Ended June 30, 2012				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 137,499	\$ 21,282	\$ 3	\$ 678	\$ 159,462
Provision for loan losses	4,256	4,744			9,000
Noninterest income	121,029	32,743	49,798	38,957	242,527
Noninterest expense	188,117	31,339	33,192	33,942	286,590
Income before taxes	66,155	17,942	16,609	5,693	106,399

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Income tax expense	18,406	5,491	4,800	2,170	30,867
Net income	\$ 47,749	\$ 12,451	\$ 11,809	\$ 3,523	\$ 75,532
Average assets	\$ 10,935,000	\$ 857,000	\$ 83,000	\$ 1,375,000	\$ 13,250,000

Six Months Ended June 30, 2011					
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 136,560	\$ 20,869	\$ 14	\$ 923	\$ 158,366
Provision for loan losses	6,975	5,725			12,700
Noninterest income	109,663	27,753	42,563	35,627	215,606
Noninterest expense	188,876	27,935	32,546	31,740	281,097
Income before taxes	50,372	14,962	10,031	4,810	80,175
Income tax expense	14,284	4,490	2,515	1,695	22,984
Net income	\$ 36,088	\$ 10,472	\$ 7,516	\$ 3,115	\$ 57,191
Average assets	\$ 10,172,000	\$ 665,000	\$ 87,000	\$ 1,560,000	\$ 12,484,000

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

9. Fair Value Measurements

The following table presents information about the Company's assets measured at fair value on a recurring basis as of June 30, 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets and liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the hierarchy. In such cases, the fair value is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Assets measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011 (in thousands):

Description	Fair Value Measurement at June 30, 2012 Using Quoted Prices in Active Markets			
	June 30, 2012	for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
U.S. Treasury	\$ 400	\$ 400	\$	\$
U.S. Agencies	1,523	1,523		
Mortgage-backed	27,092		27,092	
State and political subdivisions	6,528		6,528	
Trading other	21,301	20,928	373	
Trading securities	56,844	22,851	33,993	
U.S. Treasury	78,033	78,033		
U.S. Agencies	931,030	931,030		
Mortgage-backed	3,340,225		3,340,225	
State and political subdivisions	1,823,679		1,823,679	
Corporates	156,757	156,757		
Available for sale securities	6,329,724	1,165,820	5,163,904	
Total	\$ 6,386,568	\$ 1,188,671	\$ 5,197,897	\$
Liabilities				
Contingent consideration liability	\$ 57,792	\$	\$	\$ 57,792

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

Description	Fair Value Measurement at December 31, 2011 Using			
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
U.S. Treasury	\$ 400	\$ 400	\$	\$
U.S. Agencies	1,517	1,517		
Mortgage-backed	29,641		29,641	
State and political subdivisions	7,252		7,252	
Trading other	19,332	19,317	15	
Trading securities	58,142	21,234	36,908	
U.S. Treasury	189,325	189,325		
U.S. Agencies	1,632,009	1,632,009		
Mortgage-backed	2,492,348		2,492,348	
State and political subdivisions	1,694,036		1,694,036	
Corporates	100,164	100,164		
Available for sale securities	6,107,882	1,921,498	4,186,384	
Total	\$ 6,166,024	\$ 1,942,732	\$ 4,223,292	\$
Liabilities				
Contingent consideration liability	\$ 72,046	\$	\$	\$ 72,046

The following table reconciles the beginning and ending balances of the contingent consideration liability:

	Six Months Ended June 30,	
	2012	2011
Beginning Balance	\$ 72,046	\$ 77,719
Payment of contingent considerations on acquisitions	(7,651)	(2,615)
Income from fair value adjustments	(6,603)	
Ending Balance	\$ 57,792	\$ 75,104

The following table presents certain quantitative information about the significant unobservable input used in the fair value measurement for the contingent consideration liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Description	Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Liabilities			

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Contingent consideration liability Present value techniques Revenue growth percentage 5% - 36%

An increase in the revenue growth percentage may result in a significantly higher estimated fair value of the contingent consideration liability. Alternatively, a decrease in the revenue growth percentage may result in a significantly lower estimated fair value of the contingent consideration liability.

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

Valuation methods for instruments measured at fair value on a recurring basis

The following methods and assumptions were used to estimate the fair value of each class of financial instruments measured on a recurring basis:

Securities Available for Sale and Investment Securities Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Trading Securities Fair values for trading securities (including financial futures), are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices for similar securities.

Contingent Consideration The fair value of contingent consideration liabilities are derived from a discounted cash flow model of future contingent payments. The valuation of these liabilities are estimated by a collaborative effort of the Company's mergers and acquisitions group, business unit management, and the corporate accounting group. These groups report primarily to the Company's Chief Financial Officer. These future contingent payments are calculated based on estimates of future income and expense from each acquisition. These estimated cash flows are projected by the business unit management and reviewed by the mergers and acquisitions group. To obtain a current valuation of these projected cash flows, an expected present value technique is utilized to calculate a discount rate. The cash flow projections and discount rates are reviewed quarterly and updated as market conditions necessitate. Potential valuation adjustments are made as future income and expense projections for each acquisition are made which affect the calculation of the related contingent consideration payment. These adjustments are recorded through noninterest income and expense.

Assets measured at fair value on a non-recurring basis as of June 30, 2012 and December 31, 2011 (*in thousands*):

Description	June 30, 2012	Fair Value Measurement at June 30, 2012 Using			Total Gains (Losses) Recognized During the Six Months Ended June 30
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 9,117	\$	\$	\$ 9,117	\$ 96
Other real estate owned	1,093			1,093	\$ (46)
Total	\$ 10,210	\$	\$	\$ 10,210	\$ 50

Description	December 31, 2011	Fair Value Measurement at December 31, 2011 Using			Total Gains (Losses) Recognized During the Twelve Months Ended December 31
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	

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						1)		
Impaired loans	\$	6,296	\$	\$	\$	6,296	\$	(1,370)
Other real estate owned		5,909				5,909	\$	(1,065)
Total	\$	12,505	\$	\$	\$	12,505	\$	(2,435)

Valuation methods for instruments measured at fair value on a nonrecurring basis

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments measured on a non-recurring basis:

Impaired loans While the overall loan portfolio is not carried at fair value, adjustments are recorded on certain loans to reflect partial write-downs that are based on the value of the underlying collateral. In determining the value of real estate collateral, the Director of Property Management, who reports to the Chief Risk Officer, obtains external appraisals. The external appraisals are generally based on recent sales of comparable properties which are then adjusted for the unique characteristics of the property being valued. Upon receiving the external appraisal, the Director of Property Management in collaboration with the Company's credit department led by the Chief Credit Officer review the appraisal to determine if the appraisal is a reasonable basis for the value of the property based upon historical experience and detailed knowledge of the specific property and location. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgments based on the experience and expertise of internal specialists within the Company's property management group and the Company's credit department. The valuation of the impaired loans is reviewed on a quarterly basis. Because many of these inputs are not observable, the measurements are classified as Level 3.

Other real estate owned Other real estate owned consists of loan collateral which has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other non-real estate property, including auto, recreational and marine vehicles. Other real estate owned is recorded as held for sale initially at the lower of the loan balance or fair value of the collateral. The initial valuation of the foreclosed property is obtained through an appraisal process similar to the process described in the impaired loans paragraph above. Subsequent to foreclosure, valuations are reviewed quarterly and updated periodically, and the assets may be marked down further, reflecting a new cost basis. Fair value measurements may be based upon appraisals or third-party price opinions and, accordingly, those measurements may be classified as Level 2. Other fair value measurements may be based on internally developed pricing methods, and those measurements may be classified as Level 3.

Fair value disclosures require 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 estimated fair value of the Company's financial instruments at June 30, 2012 and December 31, 2011 are as follows (*in millions*):

	Fair Value Measurement at June 30, 2012 Using				
	Quoted Prices in Active Markets for Identical Assets		Significant Other Observable	Significant Unobservable	Total
	Carrying Amount	(Level 1)	Inputs (Level 2)	Inputs (Level 3)	Estimated Fair Value
FINANCIAL ASSETS					
Securities held to maturity	\$ 96.3	\$	\$ 110.2	\$	\$ 110.2
Federal Reserve Bank and other stock	21.7		21.7		21.7
Loans (exclusive of allowance for loan loss)	5,326.6		5,413.2		5,413.2
FINANCIAL LIABILITIES					
Time deposits	1,191.4		1,199.0		1,199.0
Long-term debt	5.3		5.4		5.4
OFF-BALANCE SHEET ARRANGEMENTS					
Commitments to extend credit for loans					2.7
Commercial letters of credit					0.1
Standby letters of credit					1.1

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)

	Fair Value Measurement at December 31, 2011 Using				Total Estimated Fair Value
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable	Significant Unobservable	
		(Level 1)	Inputs (Level 2)	Inputs (Level 3)	
FINANCIAL ASSETS					
Securities held to maturity	\$ 89.2	\$	\$ 102.3	\$	\$ 102.3
Federal Reserve Bank and other stock	22.2		22.2		22.2
Loans (exclusive of allowance for loan loss)	4,898.5		5,042.0		5,042.0
FINANCIAL LIABILITIES					
Time deposits	1,548.4		1,557.8		1,557.8
Long-term debt	6.5		6.8		6.8
OFF-BALANCE SHEET ARRANGEMENTS					
Commitments to extend credit for loans					5.8
Commercial letters of credit					0.3
Standby letters of credit					2.2

The fair values of cash and short-term investments, demand and savings deposits, federal funds and repurchase agreements, and short-term debt approximate the carrying values.

Securities Held to Maturity Fair value of held-to-maturity securities are estimated by discounting the future cash flows using the current rates at which similar investments would be made to borrowers with similar credit ratings and for the same remaining maturities.

Federal Reserve Bank and Other Stock Amount consists of Federal Reserve Bank stock held by the Company's affiliate banks and other miscellaneous investments. The fair value is considered to be the carrying value because no readily determinable market exists for these investments.

Loans Fair values are estimated for portfolios with similar financial characteristics. Loans are segregated by type, such as commercial, real estate, consumer, and credit card. Each loan category is further segmented into fixed and variable interest rate categories. The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Time Deposits The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates that are currently offered for deposits of similar remaining maturities.

Long-Term Debt Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Other Off-Balance Sheet Instruments The fair value of loan commitments and letters of credit are determined based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the present creditworthiness of the counterparties. Neither the fees earned during the year on these instruments nor their fair value at year-end are significant to the Company's consolidated financial position.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2012 and December 31, 2011. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amount presented herein.

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In the previously filed Form 10-Q for the period ended June 30, 2011, the Company inadvertently excluded certain disclosures regarding the fair value of the contingent consideration liability from this footnote as required by ASC 820, *Fair Value Measurements and Disclosures*. As a result, the accompanying 2011 fair value footnote has been amended to include the appropriate disclosures. There is no quantitative impact on the financial statements of the Company as a result of this additional disclosure.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This review highlights the material changes in the results of operations and changes in financial condition for the three-month and six-month periods ended June 30, 2012. It should be read in conjunction with the accompanying condensed consolidated financial statements, notes to condensed consolidated financial statements and other financial statistics appearing elsewhere in this report. Results of operations for the periods included in this review are not necessarily indicative of results to be attained during any future period.

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

The information included or incorporated by reference in this report contains forward-looking statements of expected future developments within the meaning of and pursuant to the safe harbor provisions established by Section 21E of the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. These forward-looking statements may refer to financial condition, results of operations, plans, objectives, future financial performance and business of the Company, including, without limitation:

Statements that are not historical in nature; and

Statements preceded by, followed by or that include the words believes, expects, may, should, could, anticipates, estimates, intends, or similar words or expressions.

Forward-looking statements are not guarantees of future performance or results. You are cautioned not to put undue reliance on any forward-looking statement which speaks only as of the date it was made. Forward-looking statements reflect management's expectations and are based on currently available data; however, they involve risks, uncertainties and assumptions. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

General economic and political conditions, either nationally, internationally or in the Company's footprint, may be less favorable than expected;

Legislative or regulatory changes;

Changes in the interest rate environment;

Changes in the securities markets impacting mutual fund performance and flows;

Changes in operations;

The ability to successfully and timely integrate acquisitions;

Competitive pressures among financial services companies may increase significantly;

Changes in technology may be more difficult or expensive than anticipated;

Changes in the ability of customers to repay loans;

Changes in loan demand may adversely affect liquidity needs; and

Changes in employee costs.

Any forward-looking statements should be read in conjunction with information about risks and uncertainties set forth in this report and in documents incorporated herein by reference. Forward-looking statements speak only as of the date they are made, and the Company does not intend to review or revise any particular forward-looking statement in light of events that occur thereafter or to reflect the occurrence of unanticipated events.

Overview

The Company focuses on the following four core strategies. Management believes these strategies will guide our efforts to achieving our vision, to deliver *the* Unparalleled Customer Experience, all while maintaining a focus to improve net income and strengthen the balance sheet.

The first strategy is to maintain high quality through a strong balance sheet, solid credit quality, a low cost of funding, and effective risk management. The strength in the balance sheet can be seen in the solid credit quality of the earning assets and the Company's continued growth in low cost funding. At June 30, 2012, the Company's nonperforming assets as a percentage of total assets was 0.28 percent. As a percentage of loans, nonperforming loans increased to 0.58 percent as compared to 0.33 percent on June 30, 2011. While the Company experienced a slight increase, these ratios are amongst the best in the industry. These credit quality ratios were achieved while maintaining positive directional growth in average earning assets, which increased 6.6% from June 30, 2011, driven by a 29.2 percent increase in average noninterest-bearing demand deposits compared to June 30, 2011.

The second strategy is to deliver profitable and sustainable growth by accelerating fee businesses, growing quality earning assets, maximizing efficiencies, and maintaining sales leverage. The Company's acceleration of fee businesses is apparent with the increase in trust and securities processing. Trust and securities processing income increased \$2.1 million, or 4.0 percent, for the three months ended June 30, 2012 compared to the same period in 2011. The increase in trust and securities processing income was primarily due to a \$0.5 million, or 2.9 percent, increase in fund administration and custody services and a \$0.6 million, or 3.5 percent, increase in fees related to institutional and personal investment management services. Also notable and continuing to push industry trends, the Company produced double digit loan growth. While maintaining the aforementioned credit ratios, the Company's June 30, 2012 average loans increased \$492.8 million, or 10.4 percent, as compared to the same three month period one year ago.

The third strategy is to maintain diversified revenue streams. The emphasis on fee-based operations helps reduce the Company's exposure to changes in interest rates. During the second quarter of 2012, noninterest income increased \$2.4 million, or 2.2 percent, compared to the same period of 2011. The Company continues to emphasize its asset management, brokerage, bankcard services, health care services, and treasury management businesses. In particular, during the second quarter of 2012, this favorable change is primarily attributable to increased trust and securities processing income. At June 30, 2012, noninterest income represented 57.8 percent of total revenues, as compared to 57.4 percent at June 30, 2011.

The fourth strategy is a focus on capital management. The Company places a significant emphasis on the maintenance of a strong capital position, which management believes promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company's ability to capitalize on business growth and acquisition opportunities. The Company continues to maximize shareholder value through a mix of reinvesting in organic growth, investing in acquisitions, evaluating increased dividends over time and utilizing a share buy-back strategy when appropriate. At June 30, 2012, the Company had \$1.3 billion in total shareholders' equity. This is an increase of \$119.0 million, or 10.5 percent, compared to total shareholders' equity at June 30, 2011. At June 30, 2012, the Company had a total risk-based capital ratio of 12.59 percent, which is higher than the 10 percent regulatory minimum to be considered well-capitalized. The Company repurchased 56,489 shares at an average price of \$46.35 per share during the second quarter of 2012.

Earnings Summary

The Company recorded consolidated net income of \$29.2 million for the three-month period ended June 30, 2012, compared to \$26.3 million for the same period a year earlier. This represents a 10.8 percent increase over the three-month period ended June 30, 2011. Basic earnings per share for the second quarter of 2012 were \$0.73 per share (\$0.72 per share fully-diluted) compared to \$0.66 per share (\$0.65 per share fully-diluted) for the second quarter of 2011. Return on average assets and return on average common shareholders' equity for the three-month period ended June 30, 2012 were 0.89 and 9.42 percent, respectively, compared to 0.85 and 9.37 percent for the three-month period ended June 30, 2011.

The Company recorded consolidated net income of \$75.5 million for the six-month period ended June 30, 2012, compared to \$57.2 million for the same period a year earlier. This represents a 32.1 percent increase over the six-month period ended June 30, 2011. Basic earnings per share for the six-month period ended June 30, 2012 were \$1.89 per share (\$1.87 per share fully-diluted) compared to \$1.43 per share (\$1.42 per share fully-diluted) for the period in 2011. Return on average assets and return on average common shareholders' equity for the six-month period ended June 30, 2012 were 1.15 and 12.36 percent, respectively, compared to 0.92 and 10.47 percent for the same period in 2011.

Net interest income for the three and six-month periods ended June 30, 2012 increased \$0.5 million, or 0.6 percent, and \$1.1 million, or 0.7 percent, respectively, compared to the same period in 2011. For the three-month period ended June 30, 2012, average earning assets increased by \$839.3 million, or 7.4 percent, and for the six-month period ended June 30, 2012, they increased by \$755.9 million, or 6.6 percent, compared to the same periods in 2011. Net interest margin, on a tax-equivalent basis, decreased to 2.82 percent and 2.79 percent for the three and six-months periods ended June 30, 2012, compared to 2.98 percent and 2.94 percent for the same periods in 2011. These changes are discussed in greater detail below under Net Interest Income.

The provision for loan losses decreased by \$1.1 million and \$3.7 million for the three and six-month periods ended June 30, 2012, compared to the same periods in 2011. These changes are a direct result of applying the Company's methodology for computing the allowance for loan losses. With the decreased provision, the allowance for loan losses as a percentage of total loans decreased by 16 basis points to 1.37 percent as of June 30, 2012, compared to June 30, 2011. For a description of the Company's methodology for computing the allowance for loan losses, please see the summary discussion of the Allowance for Loan Losses within the Critical Accounting Policies and Estimates subsection of the Management's Discussion and Analysis of Financial Condition and Results of Operations section in the Company's 2011 Annual Report on Form 10-K.

Noninterest income increased by \$2.4 million, or 2.2 percent, for the three-month period ended June 30, 2012 and increased by \$26.9 million, or 12.5 percent, for the six-month period ended June 30, 2012, compared to the same periods one year ago. These increases are discussed in greater detail below under Noninterest Income.

Noninterest expense decreased by \$0.9 million, or 0.6 percent, for the three-month period ended June 30, 2012, and increased by \$5.5 million, or 2.0 percent, for the six-month period ended June 30, 2012, compared to the same periods in 2011. These increases are discussed in greater detail below under Noninterest Expense.

Net Interest Income

Net interest income is a significant source of the Company's earnings and represents the amount by which interest income on earning assets exceeds the interest expense paid on liabilities. The volume of interest-earning assets and the related funding sources, the overall mix of these assets and liabilities, and the rates paid on each affect net interest income. For the three-month period ended June 30, 2012, average earning assets increased by \$839.3 million, or 7.4 percent, and for the six-month period ended June 30, 2012, they increased by \$755.9 million, or 6.6 percent, compared to the same periods in 2011. Net interest margin, on a tax-equivalent basis, decreased to 2.82 percent and 2.79 percent for the three and six-months periods ended June 30, 2012, compared to 2.98 percent and 2.94 percent for the same periods in 2011.

Table 1 shows the impact of earning asset rate changes compared to changes in the cost of interest-bearing liabilities. The Company continues to experience a repricing of these earning assets and interest-bearing liabilities during the recent interest rate cycle. While the Company continues to see declining rates, it has been able to improve net interest income through volume. As illustrated in this table, net interest spread for the three months ended June 30, 2012 decreased by 15 basis points and net interest margin decreased by 16 basis points compared to the same period in 2011. Net interest spread for the six months ended June 30, 2012 decreased by 15 basis points and net interest margin decreased by 15 basis points compared to the same period in 2011. These results are primarily due to an unfavorable rate variance, offset by a favorable volume variance on loans and securities. The combined impact of these variances has led to a decrease in interest expense and flat interest income, or an increase in the Company's net interest income as compare to results one year ago.

The favorable rate variance on deposits is bolstered by the contribution from free funds. For the impact of the contribution from free funds, see the Analysis of Net Interest Margin within Table 2 below. Table 2 also illustrates how the changes in volume and rates have resulted in an increase in net interest income.

Table 1

AVERAGE BALANCES/YIELDS AND RATES (tax-equivalent basis) (unaudited, dollars in thousands)

The following table presents, for the periods indicated, the average earning assets and resulting yields, as well as the average interest-bearing liabilities and resulting yields, expressed in both dollars and rates. All average balances are daily average balances. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.82 percent for the three-month period ended June 30, 2012 and 3.06 percent for the same period in 2011. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.80 percent for the six-month period ended June 30, 2012 and 3.03 percent for the same period in 2011.

	Three Months Ended June 30,			
	2012		2011	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Assets				
Loans, net of unearned interest	\$ 5,216,477	4.17%	\$ 4,723,668	4.68%
Securities:				
Taxable	4,616,169	1.85	4,281,896	2.07
Tax-exempt	1,830,468	3.16	1,386,995	3.65
Total securities	6,446,637	2.22	5,668,891	2.46
Federal funds and resell agreements	24,908	0.40	16,392	0.32
Interest-bearing due from banks	432,693	0.34	872,967	0.39
Trading	49,789	2.80	49,313	1.98
Total earning assets	12,170,504	2.99	11,331,231	3.22
Allowance for loan losses	(74,437)		(72,759)	
Other assets	1,105,978		1,104,871	
Total assets	\$ 13,202,045		\$ 12,363,343	
Liabilities and Shareholders' Equity				
Interest-bearing deposits	\$ 6,194,126	0.28%	\$ 6,307,790	0.39%
Federal funds and repurchase agreements	1,450,375	0.14	1,513,263	0.11
Borrowed funds	15,317	2.44	37,638	0.75
Total interest-bearing liabilities	7,659,818	0.26	7,858,691	0.34
Noninterest-bearing demand deposits	4,126,141		3,211,035	
Other liabilities	170,920		167,196	
Shareholders' equity	1,245,166		1,126,421	
Total liabilities and shareholders' equity	\$ 13,202,045		\$ 12,363,343	
Net interest spread		2.73%		2.88%
Net interest margin		2.82		2.98

	Six Months Ended June 30,			
	2012		2011	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Assets				
Loans, net of unearned interest	\$ 5,134,570	4.24%	\$ 4,678,376	4.71%
Securities:				
Taxable	4,479,160	1.85	4,285,300	2.09
Tax-exempt	1,797,713	3.21	1,356,326	3.74
Total securities	6,276,873	2.24	5,641,626	2.49
Federal funds and resell agreements	22,220	0.37	21,128	0.27
Interest-bearing due from banks	737,853	0.33	1,073,415	0.38
Trading	50,991	2.71	52,055	2.06
Total earning assets	12,222,507	2.96	11,466,600	3.19
Allowance for loan losses	(73,416)		(73,921)	
Other assets	1,100,889		1,091,142	
Total assets	\$ 13,249,980		\$ 12,483,821	
Liabilities and Shareholders' Equity				
Interest-bearing deposits	\$ 6,255,636	0.30%	\$ 6,371,292	0.41%
Federal funds and repurchase agreements	1,511,401	0.13	1,667,817	0.13
Borrowed funds	16,125	3.85	36,830	1.43
Total interest-bearing liabilities	7,783,162	0.27	8,075,939	0.35
Noninterest-bearing demand deposits	4,055,613		3,139,381	
Other liabilities	181,845		167,101	
Shareholders' equity	1,229,360		1,101,400	
Total liabilities and shareholders' equity	\$ 13,249,980		\$ 12,483,821	
Net interest spread		2.69%		2.84%
Net interest margin		2.79		2.94

Table 2 presents the dollar amount of change in net interest income and margin due to volume and rate. Table 2 also reflects the effect that interest-free funds have on net interest margin. Although interest-free funds (total earning assets less interest-bearing liabilities) increased \$1.0 billion for the three and six-month periods ended June 30, 2012 compared to the same periods in 2011, the benefit from interest free funds decreased by 1 basis point in the three month period and remained flat in the six month period, due to decreases in interest rates.

Table 2

ANALYSIS OF CHANGES IN NET INTEREST INCOME AND MARGIN (unaudited, dollars in thousands)**ANALYSIS OF CHANGES IN NET INTEREST INCOME**

	Three Months Ended June 30, 2012 vs 2011			Six Months Ended June 30, 2012 vs 2011		
	Volume	Rate	Total	Volume	Rate	Total
Change in interest earned on:						
Loans	\$ 5,009	\$ (6,115)	\$ (1,106)	\$ 9,771	\$ (10,811)	\$ (1,040)
Securities:						
Taxable	1,510	(2,409)	(899)	1,820	(4,898)	(3,078)
Tax-exempt	3,067	(1,881)	1,186	6,324	(4,001)	2,323
Federal funds sold and resell agreements	9	3	12	2	11	13
Interest-bearing due from banks	(368)	(110)	(478)	(541)	(267)	(808)
Trading	3	84	87	(7)	156	149
Interest income	9,230	(10,428)	(1,198)	17,369	(19,810)	(2,441)
Change in interest incurred on:						
Interest-bearing deposits	(81)	(1,706)	(1,787)	(171)	(3,294)	(3,465)
Federal funds purchased and repurchase agreements	(22)	132	110	(96)	(22)	(118)
Borrowed funds	(136)	159	23	(397)	444	47
Interest expense	(239)	(1,415)	(1,654)	(664)	(2,872)	(3,536)
Net interest income	\$ 9,469	\$ (9,013)	\$ 456	\$ 18,033	\$ (16,938)	\$ 1,095

ANALYSIS OF NET INTEREST MARGIN

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
Average earning assets	\$ 12,170,504	\$ 11,331,231	\$ 839,273	\$ 12,222,507	\$ 11,466,600	\$ 755,907
Average interest-bearing liabilities	7,659,818	7,858,691	(198,873)	7,783,162	8,075,939	(292,777)
Average interest free funds	\$ 4,510,686	\$ 3,472,540	\$ 1,038,146	\$ 4,439,345	\$ 3,390,661	\$ 1,048,684
Free funds ratio (free funds to earning assets)	37.06%	30.65%	6.42%	36.32%	29.57%	6.75%
Tax-equivalent yield on earning assets	2.99	3.22	(0.23)%	2.96%	3.19%	(0.23)%
Cost of interest-bearing liabilities	0.26	0.34	(0.08)	0.27	0.35	(0.08)
Net interest spread	2.73%	2.88%	(0.15)%	2.69%	2.84%	(0.15)%
Benefit of interest-free funds	0.09	0.10	(0.01)	0.10	0.10	0.00
Net interest margin	2.82%	2.98%	(0.16)%	2.79%	2.94%	(0.15)%

Provision and Allowance for Loan Losses

The allowance for loan losses (ALL) represents management's judgment of the losses inherent in the Company's loan portfolio as of the balance sheet date. An analysis is performed quarterly to determine the appropriate balance of the ALL. This analysis considers items such as historical loss trends, a review of individual loans, migration analysis, current economic conditions, loan growth and characteristics, industry or segment concentration and other factors. This analysis is performed separately for each bank as regulatory agencies require that the adequacy of the ALL be maintained on a bank-by-bank basis. After the balance sheet analysis is performed for the ALL, the provision for loan losses is computed as the amount required to adjust the ALL to the appropriate level.

Based on the factors above, management of the Company expensed \$4.5 million and \$9.0 million related to the provision for loan losses for the three and six-month periods ended June 30, 2012, compared to \$5.6 million and \$12.7 million for the same periods in 2011. As illustrated in Table 3 below, the ALL decreased to 1.37 percent of total loans as of June 30, 2012, compared to 1.53 percent of total loans as of the same period in 2011.

Table 3 presents a summary of the Company's ALL for the six months ended June 30, 2012 and 2011 and for the year ended December 31, 2011. Net charge-offs were \$8.4 million for the first six months of 2012, compared to \$14.2 million for the same period in 2011. See Credit Risk Management under Item 3. Quantitative and Qualitative Disclosures About Market Risk in this report for information relating to nonaccrual loans, past due loans, restructured loans and other credit risk matters.

Table 3

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES (unaudited, dollars in thousands)

	Six Months Ended June 30,		Year Ended December 31,
	2012	2011	2011
Allowance-January 1	\$ 72,017	\$ 73,952	\$ 73,952
Provision for loan losses	9,000	12,700	22,200
Charge-offs:			
Commercial	(3,237)	(8,084)	(12,693)
Consumer:			
Credit card	(5,787)	(7,146)	(13,493)
Other	(801)	(1,166)	(1,945)
Real estate	(408)	(458)	(532)
Total charge-offs	(10,233)	(16,854)	(28,663)
Recoveries:			
Commercial	250	376	813
Consumer:			
Credit card	1,045	1,433	2,366
Other	564	820	1,317
Real estate	9	15	32
Total recoveries	1,868	2,644	4,528
Net charge-offs	(8,365)	(14,210)	(24,135)
Allowance-end of period	72,652	72,442	72,017
Average loans, net of unearned interest	\$ 5,127,382	\$ 4,664,252	\$ 4,748,909
Loans at end of period, net of unearned interest	5,315,609	4,731,303	4,960,343
Allowance to loans at end of period	1.37%	1.53%	1.45%
Allowance as a multiple of net charge-offs	4.32x	2.53x	2.98x

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Net charge-offs to:			
Provision for loan losses	92.94%	111.89%	108.71%
Average loans	0.33	0.61	0.51

Noninterest Income

A key objective of the Company is the growth of noninterest income to enhance profitability and provide steady income. Fee-based businesses are typically non-credit related and not generally affected by fluctuations in interest rates.

The Company's fee-based businesses provide the opportunity to offer multiple products and services, which management believes will more closely align the customer with the Company. The Company is currently emphasizing fee-based businesses including trust and securities processing, bankcard, brokerage, health care services, and treasury management. Management believes it can offer these products and services both efficiently and profitably, as most share common platforms and support structures.

Table 4

SUMMARY OF NONINTEREST INCOME (unaudited, dollars in thousands)

	Three Months Ended June 30,			
	2012	2011	Dollar Change 12-11	Percent Change 12-11
Trust and securities processing	\$ 55,755	\$ 53,635	\$ 2,120	3.95%
Trading and investment banking	7,140	6,478	662	10.22
Service charges on deposit accounts	19,009	18,181	828	4.55
Insurance fees and commissions	913	1,165	(252)	(21.63)
Brokerage fees	2,705	2,573	132	5.13
Bankcard fees	16,830	16,545	285	1.72
Gains on sales of securities available for sale, net	3,222	6,023	(2,801)	(46.51)
Other	4,652	3,256	1,396	42.87
Total noninterest income	\$ 110,226	\$ 107,856	\$ 2,370	2.20%

	Six Months Ended June 30,			
	2012	2011	Dollar Change 12-11	Percent Change 12-11
Trust and securities processing	\$ 110,465	\$ 105,363	\$ 5,102	4.84%
Trading and investment banking	16,818	15,497	1,321	8.52
Service charges on deposits	39,020	36,789	2,231	6.06
Insurance fees and commissions	1,922	2,368	(446)	(18.83)
Brokerage fees	5,219	4,914	305	6.21
Bankcard fees	31,565	30,987	578	1.87
Gains on sales of securities available for sale, net	19,763	13,480	6,283	46.61
Other	17,755	6,208	11,547	>100.00
Total noninterest income	\$ 242,527	\$ 215,606	\$ 26,921	12.49%

Fee-based, or noninterest income (summarized in Table 4), increased by \$2.4 million, or 2.2 percent, during the three months ended June 30, 2012, and increased by \$26.9 million, or 12.5 percent, during the six months ended June 30, 2012, compared to the same periods in 2011.

Trust and securities processing consists of fees earned on personal and corporate trust accounts, custody of securities services, trust investments and money management services, and servicing of mutual fund assets. The increase in these fees for the three and six-month periods compared to the same periods last year was primarily due to changes in the following three categories of income. Advisory fee income from the Scout

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Funds for the three and six-month periods ended June 30, 2012, increased by \$1.2 million, or 7.1 percent, and by \$2.0 million, or 6.3 percent, respectively. Fund administration and custody services fees for the three and six-month periods ended June 30, 2012, increased by \$0.5 million, or 2.9 percent, and \$1.9 million, or 5.5 percent, respectively. Institutional and

personal investment management services fees for the three and six-month periods ended June 30, 2012, increased by \$0.6 million, or 3.5 percent, and \$1.5 million, or 4.5 percent, respectively. Trust and securities processing fees are primarily asset-based. As such, they are highly correlated to the change in market value of the assets. Thus, the related income for the remainder of the year will be affected by changes in the securities markets. Management continues to emphasize sales of services to both new and existing clients as well as increasing and improving the distribution channels.

During the three and six-month periods ended June 30, 2012, \$3.2 million and \$19.8 million in pre-tax gains were recognized on the sales of securities available for sale.

Noninterest Expense

The components of noninterest expense are shown below on Table 5.

Table 5

SUMMARY OF NONINTEREST EXPENSE (unaudited in thousands)

	Three Months Ended June 30,			
	2012	2011	Dollar Change 12-11	Percent Change 12-11
Salaries and employee benefits	\$ 78,001	\$ 72,922	\$ 5,079	6.96%
Occupancy, net	9,211	9,579	(368)	(3.84)
Equipment	11,004	10,774	230	2.13
Supplies and services	5,218	5,577	(359)	(6.44)
Marketing and business development	5,986	5,158	828	16.05
Processing fees	12,593	13,319	(726)	(5.45)
Legal and consulting	4,012	4,075	(63)	(1.55)
Bankcard	4,630	4,219	411	9.74
Amortization of other intangible assets	3,733	4,159	(426)	(10.24)
Regulatory fees	2,314	2,394	(80)	(3.34)
Class action litigation settlement		7,800	(7,800)	(100.00)
Other	7,984	5,605	2,379	42.44
Total noninterest expense	\$ 144,686	\$ 145,581	\$ (895)	(0.61)%

	Six Months Ended June 30,			
	2012	2011	Dollar Change 12-11	Percent Change 12-11
Salaries and employee benefits	\$ 157,915	\$ 145,821	\$ 12,094	8.29%
Occupancy, net	18,489	19,184	(695)	(3.62)
Equipment	21,669	21,710	(41)	(0.19)
Supplies and services	10,261	11,157	(896)	(8.03)
Marketing and business development	10,246	9,280	966	10.41
Processing fees	25,409	25,492	(83)	(0.33)
Legal and consulting	7,527	6,692	835	12.48
Bankcard	8,872	8,072	800	9.91
Amortization of other intangible assets	7,585	8,165	(580)	(7.10)
Regulatory fees	4,733	6,111	(1,378)	(22.55)
Class action litigation settlement		7,800	(7,800)	(100.00)
Other	13,884	11,613	2,271	19.56

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Total noninterest expense	\$	286,590	\$	281,097	\$	5,493	1.95%
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Noninterest expense decreased by \$0.9 million, or 0.6 percent, for the three months ended June 30, 2012, and increased by \$5.5 million, or 2.0 percent, for the six months ended June 30, 2012, compared to the same period in 2011. Table 5 above summarizes the components of noninterest expense and the respective year-over-year comparison for each category.

Salaries and employee benefits increased by \$5.1 million, or 7.0 percent, for the three months ended June 30, 2012, and by \$12.1 million, or 8.3 percent, for the six months ended June 30, 2012, compared to the same period in 2011. These increases are primarily due to higher base salary and benefits expense. Salaries increased by \$3.6 million, or 7.8 percent, and \$7.6 million, or 8.5 percent, for the three and six months ended June 30, 2012, compared to the same periods in 2011. Employee benefits expense increased by \$1.4 million, or 13.4 percent, and \$2.7 million, or 10.8 percent, for the three and six months ended June 30, 2012, compared to the same periods in 2011.

During the second quarter of 2011, the Company and its subsidiaries, UMB Bank, n.a., UMB Bank Colorado, n.a., UMB Bank Arizona, n.a., and UMB National Bank of America entered into an agreement to settle a class action lawsuit, filed in Missouri, in November 2010 and amended in May 2011, arising from the Company's consumer personal deposit account posting practices, which allegedly resulted in excessive overdraft fees in violation of Missouri's consumer protection statute and the account agreement. While admitting no wrongdoing, in order to fully and finally resolve the litigation and avoid any further expense and distraction caused by the litigation, the Company established a \$7.8 million escrow fund in accordance with this agreement.

Income Tax Expense

The effective tax rate is 29.0 percent for the six months ended June 30, 2012, compared to 28.7 percent for the same period in 2011. The slight increase in the effective rate for 2012 is primarily attributable to an increase in the state marginal tax rate.

Strategic Lines of Business

Table 6

Bank Operating Results (unaudited, dollars in thousands)

	Three Months Ended June 30,			
	2012	2011	Dollar Change 12-11	Percent Change 12-11
Net interest income	\$ 69,447	\$ 68,999	\$ 448	0.65%
Provision for loan losses	2,281	2,868	(587)	(20.47)
Noninterest income	50,574	52,674	(2,100)	(3.99)
Noninterest expense	94,626	97,205	(2,579)	(2.65)
Income before taxes	23,114	21,600	1,514	7.01
Income tax expense	6,411	6,141	270	4.40
Net income	\$ 16,703	\$ 15,459	\$ 1,244	8.05%

	Six Months Ended June 30,			
	2012	2011	Dollar Change 12-11	Percent Change 12-11
Net interest income	\$ 137,499	\$ 136,560	\$ 939	0.69%
Provision for loan losses	4,256	6,975	(2,719)	(38.98)
Noninterest income	121,029	109,663	11,366	10.36
Noninterest expense	188,117	188,876	(759)	(0.40)
Income before taxes	66,155	50,372	15,783	31.33
Income tax expense	18,406	14,284	4,122	28.86

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Net income	\$ 47,749	\$ 36,088	\$ 11,661	32.31%
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Bank's net income increased by \$11.7 million, or 32.3 percent, to \$47.7 million compared to the prior year. This increase was driven by increased noninterest income, a decrease in provision for loan losses, and a slight decrease in noninterest expense. Noninterest income increased \$11.4 million, or 10.4 percent, over the same period in 2011. A gain of \$19.8 million was recognized in 2012 compared to \$13.5 million in 2011. Miscellaneous income increased \$5.7 million due to a \$2.5 million adjustment in contingent consideration liabilities on acquisitions due to new accounting guidance and a \$0.6 million gain on the sale of a corporate trust portfolio. An increase of \$1.1 million in deposit service charges and an increase of \$1.3 million within bond trading contributed to the increase in noninterest income. These increases were offset by a decrease in consumer card services income of \$3.2 million driven by the impact of the Durbin amendment on interchange income. Provision decreased by \$2.7 million, or 39.0 percent, due to a reduction in the inherent risk in the loan portfolio in this segment. Net interest income increased 0.7 percent to \$137.5 million from the same period in 2011. Average loans increased \$484.7 million, or 11.7 percent, from 2011. Average investment security balances increased by \$641.4 million and average deposits increased by \$814.6 million compared to 2011. These balance increases offset the effect of a declining net interest margin driven by a reduction in yields within the loan and investment portfolio, resulting in the slight increase in net interest income. Noninterest expense decreased 0.4 percent to \$188.1 million from the first half of 2011. Noninterest expense decrease is attributable to the \$7.8 million overdraft class action lawsuit settlement recorded in 2011, offset by increased salaries and benefits expenses of \$0.6 million.

Table 7

Payment Solutions Operating Results (unaudited, dollars in thousands)

	Three Months Ended June 30,			
	2012	2011	Dollar Change 12-11	Percent Change 12-11
Net interest income	\$ 10,558	\$ 10,440	\$ 118	1.13%
Provision for loan losses	2,219	2,732	(513)	(18.78)
Noninterest income	17,172	14,778	2,394	16.20
Noninterest expense	16,513	14,611	1,902	13.02
Income before taxes	8,998	7,875	1,123	14.26
Income tax expense	2,817	2,159	658	30.48
Net income	\$ 6,181	\$ 5,716	\$ 465	8.14%

	Six Months Ended June 30,			
	2012	2011	Dollar Change 12-11	Percent Change 12-11
Net interest income	\$ 21,282	\$ 20,869	\$ 413	1.98%
Provision for loan losses	4,744	5,725	(981)	(17.14)
Noninterest income	32,743	27,753	4,990	17.98
Noninterest expense	31,339	27,935	3,404	12.19
Income before taxes	17,942	14,962	2,980	19.92
Income tax expense	5,491	4,490	1,001	22.29
Net income	\$ 12,451	\$ 10,472	\$ 1,979	18.90%

Payments Solutions net income after taxes increased \$2.0 million, or 18.9 percent, to \$12.5 million from the prior year. Noninterest income increased \$5.0 million, or 18.0 percent, driven by a \$3.8 million increase in cards services income due to increased sales volume for commercial card, retail credit card, and healthcare services. There was also an additional \$1.1 million increase in deposit service charge income from institutional cash management and healthcare services customers driven from new business growth. Noninterest expense increased by \$3.4 million, primarily from increased staffing, consulting and legal fees, and in bankcard processing fees associated with the increase in sales volume. Provision expense decreased by \$1.0 million, or 17.1 percent. Net interest margin increased by \$0.4 million, or 2.0 percent, due to growth in earning assets, which was offset by a reduction in funds transfer pricing credit on deposits.

Table 8

Institutional Investment Management Operating Results (unaudited, dollars in thousands)

	Three Months Ended June 30,			
	2012	2011	Dollar Change 12-11	Percent Change 12-11
Net interest income	\$ 1	\$ 11	\$ (10)	(90.91)%
Provision for loan losses				
Noninterest income	23,671	22,157	1,514	6.83
Noninterest expense	16,271	17,366	(1,095)	(6.31)
Income before taxes	7,401	4,802	2,599	54.12
Income tax expense	2,167	1,185	982	82.87
Net income	\$ 5,234	\$ 3,617	\$ 1,617	44.71%

	Six Months Ended June 30,			
	2012	2011	Dollar Change 12-11	Percent Change 12-11
Net interest income	\$ 3	\$ 14	\$ (11)	(78.57)%
Provision for loan losses				
Noninterest income	49,798	42,563	7,235	17.00
Noninterest expense	33,192	32,546	646	1.98
Income before taxes	16,609	10,031	6,578	65.58
Income tax expense	4,800	2,515	2,285	90.85
Net income	\$ 11,809	\$ 7,516	\$ 4,293	57.12%

Institutional Investment Management net income increased \$4.3 million, or 57.1 percent, to \$11.8 million compared to the prior year. This increase is due to increased noninterest income offset by increased noninterest expense. Noninterest income increased \$7.2 million, or 17.0 percent, to \$49.8 million primarily related to a \$4.3 million adjustment in contingent consideration liabilities on acquisitions due to new accounting guidance and a \$2.9 million increase in advisory fees. Advisory fee income increased due to increased asset values during the six month period ended June 30, 2012. Noninterest expense increased \$0.6 million, or 2.0 percent, to \$33.2 million compared to the prior year due to a \$1.0 million increase from a contingent consideration liability adjustment related to cash flow estimate changes on acquisitions. There was also a \$0.3 million increase in amortization expense related to the acquisition during the second quarter of 2011 of the Frontegra Funds. These amounts were offset by a decrease of \$0.7 million in salaries and benefits expenses.

Table 9

Asset Servicing Operating Results (unaudited, dollars in thousands)

	Three Months Ended June 30,			
	2012	2011	Dollar Change 12-11	Percent Change 12-11
Net interest income	\$ 367	\$ 468	\$ (101)	(21.58)%
Provision for loan losses				
Noninterest income	18,809	18,247	562	3.08

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Noninterest expense	17,276	16,399	877	5.35
Income before taxes	1,900	2,316	(416)	(17.96)
Income tax expense	853	787	66	8.39
Net income	\$ 1,047			