UMB FINANCIAL CORP
Form 10-Q
November 01, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 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)

Missouri	**43-0903811**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**
1010 Grand Boulevard, Kansas City, Missouri	**64106**
(Address of principal executive offices)	**(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 x 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 x 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 x	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 x

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

As of October 25, 2012, UMB Financial Corporation had 40,601,432 shares of common stock outstanding.

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UMB FINANCIAL CORPORATION

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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)

	September 30, 2012	December 31, 2011
ASSETS		
Loans:	$ 5,389,763	$ 4,960,343
Allowance for loan losses	(71,368)	(72,017)
Net loans	5,318,395	4,888,326
Loans held for sale	13,899	10,215
Investment Securities:		
Available for sale	6,487,124	6,107,882
Held to maturity (market value of $113,221 and $102,287, respectively)	98,479	89,246
Trading	39,919	58,142
Federal Reserve Bank stock and other	25,526	22,212
Total investment securities	6,651,048	6,277,482
Federal funds sold and securities purchased under agreements to resell	41,172	66,078
Interest-bearing due from banks	174,012	1,164,007
Cash and due from banks	397,339	446,580
Bank premises and equipment, net	239,234	227,936
Accrued income	70,099	75,997
Goodwill	209,758	211,114
Other intangibles	72,351	84,331
Other assets	98,538	89,332
Total assets	$ 13,285,845	$ 13,541,398
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 4,415,669	$ 3,941,372
Interest-bearing demand and savings	5,070,680	4,680,125
Time deposits under $100,000	562,357	615,475
Time deposits of $100,000 or more	564,074	932,939
Total deposits	10,612,780	10,169,911
Federal funds purchased and repurchase agreements	1,164,199	1,950,827
Short-term debt		12,000
Long-term debt	5,632	6,529
Accrued expenses and taxes	191,926	186,380
Other liabilities	17,133	24,619
Total liabilities	11,991,670	12,350,266
SHAREHOLDERS EQUITY		

Common stock, $1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 40,596,751 and 40,426,342 shares outstanding, respectively	55,057	55,057
Capital surplus	730,274	723,299
Retained earnings	774,641	697,923
Accumulated other comprehensive income	101,413	81,099
Treasury stock, 14,459,979 and 14,630,388 shares, at cost, respectively	(367,210)	(366,246)
Total shareholders equity	1,294,175	1,191,132
Total liabilities and shareholders equity	$ 13,285,845	$ 13,541,398

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
INTEREST INCOME				
Loans	$ 54,558	$ 55,424	$ 162,613	$ 164,519
Securities:				
Taxable interest	20,345	20,511	61,652	64,896
Tax-exempt interest	9,602	8,825	28,445	25,345
Total securities income	29,947	29,336	90,097	90,241
Federal funds and resell agreements	48	45	88	73
Interest-bearing due from banks	225	628	1,422	2,633
Trading securities	201	191	842	682
Total interest income	84,979	85,624	255,062	258,148
INTEREST EXPENSE				
Deposits	4,079	6,139	13,443	18,968
Federal funds and repurchase agreements	454	339	1,402	1,405
Other	81	72	390	335
Total interest expense	4,614	6,550	15,235	20,708
Net interest income	80,365	79,074	239,827	237,440
Provision for loan losses	4,500	4,500	13,500	17,200
Net interest income after provision for loan losses	75,865	74,574	226,327	220,240
NONINTEREST INCOME				
Trust and securities processing	56,291	51,928	166,756	157,291
Trading and investment banking	7,120	4,952	23,938	20,449
Service charges on deposits	19,171	18,880	58,191	55,669
Insurance fees and commissions	1,028	1,038	2,949	3,407
Brokerage fees	3,104	2,627	8,324	7,540
Bankcard fees	14,466	15,882	46,031	46,869
Gain on sales of available for sale securities, net	259	2,411	20,022	15,891
Other	4,882	3,239	22,637	9,447
Total noninterest income	106,321	100,957	348,848	316,563
NONINTEREST EXPENSE				
Salaries and employee benefits	78,813	74,905	236,728	220,726
Occupancy, net	9,870	9,398	28,359	28,582
Equipment	10,330	10,424	31,999	32,135
Supplies and services	4,995	5,513	15,256	16,670
Marketing and business development	7,368	4,912	17,615	14,192
Processing fees	12,964	12,704	38,372	38,197
Legal and consulting	4,311	3,272	11,838	9,965

Bankcard	4,700	4,001	13,572	12,072
Amortization of intangible assets	3,643	4,022	11,228	12,187
Regulatory fees	2,363	2,130	7,096	8,241
Class action litigation settlement				7,800
Other	6,548	8,147	20,432	19,758
Total noninterest expense	145,905	139,428	432,495	420,525
Income before income taxes	36,281	36,103	142,680	116,278
Income tax provision	10,156	10,088	41,023	33,072
NET INCOME	$ 26,125	$ 26,015	$ 101,657	$ 83,206
PER SHARE DATA				
Net income basic	$ 0.65	$ 0.65	$ 2.54	$ 2.08
Net income diluted	0.64	0.64	2.51	2.06
Dividends	0.205	0.195	0.615	0.585
Weighted average shares outstanding	40,081,304	40,020,772	40,047,261	40,057,009

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(unaudited, dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Income	$ 26,125	$ 26,015	$ 101,657	$ 83,206
Other comprehensive income, net of tax:				
Unrealized gains on securities:				
Change in unrealized holding gains, net	32,256	37,526	52,410	98,039
Less: Reclassifications adjustment for gains included in net income	(259)	(2,411)	(20,022)	(15,891)
Change in unrealized gains on securities during the period	31,997	35,115	32,388	82,148
Income tax expense	(11,827)	(12,940)	(12,074)	(30,327)
Other comprehensive income	20,170	22,175	20,314	51,821
Comprehensive income	$ 46,295	48,190	$ 121,971	135,027

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other 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			83,206	51,821		135,027
Cash dividends ($0.585 per share)			(23,679)			(23,679)
Purchase of treasury stock					(8,435)	(8,435)
Issuance of equity awards		(2,244)			2,484	240
Recognition of equity based compensation		4,964				4,964
Net tax benefit related to equity compensation plans		96				96
Sale of treasury stock		213			205	418
Exercise of stock options		176			632	808
Balance September 30, 2011	$ 55,057	$ 721,511	$ 682,942	$ 77,286	$ (366,497)	$ 1,170,299
Balance January 1, 2012	$ 55,057	$ 723,299	$ 697,923	$ 81,099	$ (366,246)	$ 1,191,132
Total comprehensive income			101,657	20,314		121,971
Cash dividends ($0.615 per share)			(24,939)			(24,939)
Purchase of treasury stock					(6,062)	(6,062)
Issuance of equity awards		(1,612)			1,856	244
Recognition of equity based compensation		5,425				5,425
Net tax benefit related to equity compensation plans		333				333
Sale of treasury stock		354			256	610
Exercise of stock options		2,475			2,986	5,461
Balance September 30, 2012	$ 55,057	$ 730,274	$ 774,641	$ 101,413	$ (367,210)	$ 1,294,175

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	Nine Months Ended September 30, 2012	2011
Operating Activities		
Net Income	$ 101,657	$ 83,206
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	13,500	17,200
Depreciation and amortization	30,576	32,720
Deferred income tax expense (benefit)	1,409	(3,740)
Net decrease (increase) in trading securities	18,223	(28,597)
Gains on sales of securities available for sale, net	(20,022)	(15,891)
(Gains) losses on sales of assets	(503)	61
Amortization of securities premiums, net of discount accretion	37,277	32,092
Originations of loans held for sale	(179,493)	(146,125)
Net gains on sales of loans held for sale	(1,526)	(1,139)
Proceeds from sales of loans held for sale	177,335	150,116
Issuance of equity awards	244	240
Equity based compensation	5,425	4,964
Changes in:		
Accrued income	5,898	1,464
Accrued expenses and taxes	5,364	17,481
Other assets and liabilities, net	(18,305)	(11,170)
Net cash provided by operating activities	177,059	132,882
Investing Activities		
Proceeds from maturities of securities held to maturity	6,327	7,153
Proceeds from sales of securities available for sale	991,842	991,014
Proceeds from maturities of securities available for sale	1,172,929	1,222,172
Purchases of securities held to maturity	(19,504)	(32,299)
Purchases of securities available for sale	(2,528,213)	(2,294,900)
Net increase in loans	(442,109)	(215,792)
Net decrease in fed funds sold and resell agreements	24,906	148,481
Net decrease in interest-bearing balances due from other financial institutions	121,079	35,523
Purchases of bank premises and equipment	(31,516)	(26,780)
Net cash received (paid) for acquisitions	1,529	(8,133)
Proceeds from sales of bank premises and equipment	1,034	160
Net cash used in investing activities	(701,696)	(173,401)
Financing Activities		
Net increase in demand and savings deposits	864,852	716,953
Net decrease in time deposits	(421,983)	(350,671)
Net decrease in fed funds purchased and repurchase agreements	(786,628)	(743,649)
Net decrease in short-term debt	(12,000)	(3,331)
Proceeds from long-term debt	529	500
Repayment of long-term debt	(1,426)	(2,743)
Payment of contingent consideration on acquisitions	(12,260)	(8,316)

Cash dividends paid	(24,946)	(23,528)
Net tax benefit related to equity compensation plans	333	96
Proceeds from exercise of stock options and sales of treasury shares	6,071	1,226
Purchases of treasury stock	(6,062)	(8,435)
Net cash used in financing activities	(393,520)	(421,898)
Decrease in cash and due from banks	(918,157)	(462,417)
Cash and due from banks at beginning of period	1,459,631	1,033,617
Cash and due from banks at end of period	$ 541,474	$ 571,200
Supplemental Disclosures:		
Income taxes paid	$ 31,718	$ 28,110
Total interest paid	$ 16,423	$ 21,781

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 $144.1 million and $187.4 million at September 30, 2012 and September 30, 2011, respectively, and is considered cash and cash equivalents. The amounts due from certificates of deposit totaled $29.9 million and $135.6 million at September 30, 2012 and September 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 September 30, 2012 and September 30, 2011 (in thousands):

	September 30,	
	2012	**2011**
Due from the Federal Reserve	$ 144,135	$ 187,443
Cash and due from banks	397,339	383,757
Cash and due from banks at end of period	$ 541,474	$ 571,200

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 517,430 and 299,465 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2012 and 2011, respectively. Diluted year-to-date income per share includes the dilutive effect of 431,418 and 307,866 shares issuable upon the exercise of stock options granted by the Company and outstanding at September 30, 2012 and 2011, respectively.

Options issued under employee benefit plans to purchase 510,850 shares of common stock were outstanding at September 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 883,294 shares of common stock were outstanding at September 30, 2011, but were not included in the computation of quarterly and year-to-date diluted EPS because the options were anti-dilutive.

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UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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.

Disclosures about Offsetting Assets and Liabilities In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities (ASU 2011-11), regarding the offset of certain assets & liabilities within the balance sheet. This ASU created new disclosure requirements about the nature of an entity s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. The adoption of this accounting pronouncement will have no impact on the Company s financial statement disclosures.

Testing Indefinite-Lived Intangible Assets for Impairment In July 2012, the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment (ASU 2012-02), which amends the guidance in ASC 350-30 on testing indefinite-lived assets, other than goodwill, for impairment. An entity testing an indefinite-lived intangible asset for impairment has the option of performing a qualitative assessment before calculating the fair value of the asset. If the entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, the two-step impairment test would not be required. The amendments are effective for interim and annual impairment tests performed for fiscal years beginning after September 15, 2012 with early adoption permitted. The adoption of this accounting pronouncement will have no impact on the Company s financial statements.

Subsequent Accounting for an Indemnification Asset In October 2012, the FASB issued ASU No. 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (ASU 2012-06), which addresses diversity in practice regarding the subsequent measurement of an indemnification asset in a government-assisted acquisition of a financial institution that includes a loss-sharing agreement. The amendments are effective for interim and annual reporting periods beginning on or after December 15, 2012 with early adoption permitted. The adoption of this accounting pronouncement will have no impact on the Company s financial statements.

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UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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.

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UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)

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

	September 30, 2012					
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Commercial:						
Commercial	$ 11,353	$ 646	$ 11,587	$ 23,586	$ 2,667,654	$ 2,691,240
Commercial credit card	805	238		1,043	108,246	109,289
Real estate:						
Real estate construction	732	206	1,034	1,972	71,419	73,391
Real estate commercial	6,528	344	8,906	15,778	1,326,358	1,342,136
Real estate residential	1,533	40	1,183	2,756	201,197	203,953
Real estate HELOC	1,410	47	284	1,741	562,739	564,480
Consumer:						
Consumer credit card	3,214	2,437	2,999	8,650	314,599	323,249
Consumer other	1,733	202	1,396	3,331	59,910	63,241
Leases					18,784	18,784
Total loans	$ 27,308	$ 4,160	$ 27,389	$ 58,857	$ 5,330,906	$ 5,389,763

	December 31, 2011					
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Commercial:						
Commercial	$ 2,986	$ 767	$ 9,234	$ 12,987	$ 2,221,830	$ 2,234,817
Commercial credit card	896	284		1,180	94,159	95,339
Real estate:						
Real estate construction	430		642	1,072	83,518	84,590
Real estate commercial	2,368	313	7,218	9,899	1,384,656	1,394,555
Real estate residential	1,713	247	1,660	3,620	182,266	185,886
Real estate HELOC	819	41	696	1,556	531,476	533,032
Consumer:						
Consumer credit card	2,858	3,394	4,638	10,890	322,756	333,646
Consumer other	1,260	952	1,493	3,705	90,939	94,644
Leases					3,834	3,834
Total loans	$ 13,330	$ 5,998	$ 25,581	$ 44,909	$ 4,915,434	$ 4,960,343

The Company sold $177.3 million and $150.1 million of residential real estate and student loans during the nine month periods ended September 30, 2012 and September 30, 2011, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of $27.4 million and $25.6 million at September 30, 2012 and December 31, 2011, respectively. Restructured loans totaled $8.4 million and $6.0 million at September 30, 2012 and December 31, 2011, respectively. Loans 90 days past due and still accruing interest amounted to $4.2 million and $6.0 million at September 30, 2012 and December 31, 2011, respectively. There was an insignificant amount of interest recognized on impaired loans during 2012 and 2011.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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.

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

Credit Exposure

Credit Risk Profile by Risk Rating

	Commercial		Real estate - construction	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Non-watch list	$ 2,471,369	$ 2,064,658	$ 70,349	$ 83,100
Watch	104,327	100,499	416	355
Special Mention	38,369	16,688		
Substandard	77,175	52,972	2,626	1,135
Total	$ 2,691,240	$ 2,234,817	$ 73,391	$ 84,590

	Real estate - commercial	
	September 30, 2012	December 31, 2011
Non-watch list	$ 1,233,619	$ 1,275,280
Watch	54,106	27,777
Special Mention	9,378	35,019
Substandard	45,033	56,479
Total	$ 1,342,136	$ 1,394,555

Credit Exposure

Credit Risk Profile Based on Payment Activity

	Commercial - credit card		Real estate - residential	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Performing	$ 109,289	$ 95,339	$ 202,770	$ 184,226
Non-performing			1,183	1,660
Total	$ 109,289	$ 95,339	$ 203,953	$ 185,886

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

Performing	$ 564,196	$ 532,336	$ 320,250	$ 329,008
Non-performing	284	696	2,999	4,638
Total	$ 564,480	$ 533,032	$ 323,249	$ 333,646

	Consumer - other		**Leases**	
	September 30, 2012	**December 31, 2011**	**September 30,2012**	**December 31, 2011**
Performing	$ 61,845	$ 93,151	$ 18,784	$ 3,834
Non-performing	1,396	1,493		
Total	$ 63,241	$ 94,644	$ 18,784	$ 3,834

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FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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.

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FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)

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

	Three Months Ended September 30, 2012				
	Commercial	**Real estate**	**Consumer**	**Leases**	**Total**
Allowance for loan losses:					
Beginning balance	$ 37,942	$ 22,660	$ 12,001	$ 49	$ 72,652
Charge-offs	(3,147)	(316)	(3,087)		(6,550)
Recoveries	151	16	599		766
Provision	8,167	(5,591)	1,916	8	4,500
Ending Balance	$ 43,113	$ 16,769	$ 11,429	$ 57	$ 71,368

	Nine Months Ended September 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	(6,385)	(724)	(9,674)		(16,783)
Recoveries	401	25	2,208		2,634
Provision	11,170	(3,018)	5,302	46	13,500
Ending Balance	$ 43,113	$ 16,769	$ 11,429	$ 57	$ 71,368
Ending Balance: individually evaluated for impairment	$ 1,591	$ 1,067	$	$	$ 2,658
Ending Balance: collectively evaluated for impairment	41,522	15,702	11,429	57	68,710
Ending Balance: loans acquired with deteriorated credit quality					
Loans:					
Ending Balance: loans	$ 2,800,529	$ 2,183,960	$ 386,490	$ 18,784	$ 5,389,763
Ending Balance: individually evaluated for impairment	18,380	14,396	45		32,821
Ending Balance: collectively evaluated for impairment	2,782,149	2,169,564	386,445	18,784	5,356,942
Ending Balance: loans acquired with deteriorated credit quality					

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FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)

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

	Three Months Ended September 30, 2011				
	Commercial	**Real estate**	**Consumer**	**Leases**	**Total**
Allowance for loan losses:					
Beginning balance	$ 35,604	$ 22,886	$ 13,941	$ 11	$ 72,442
Charge-offs	(1,372)	(48)	(3,575)		(4,995)
Recoveries	108	9	812		929
Provision	3,226	(1,033)	2,307		4,500
Ending Balance	$ 37,566	$ 21,814	$ 13,485	$ 11	$ 72,876

	Nine Months Ended September 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	(9,456)	(505)	(11,888)		(21,849)
Recoveries	484	24	3,065		3,573
Provision	7,400	3,738	6,065	(3)	17,200
Ending Balance	$ 37,566	$ 21,814	$ 13,485	$ 11	$ 72,876
Ending Balance: individually evaluated for impairment	$ 1,597	$ 616	$	$	$ 2,213
Ending Balance: collectively evaluated for impairment	35,969	21,198	13,485	11	70,663
Ending Balance: loans acquired with deteriorated credit quality					
Loans:					
Ending Balance: loans	$ 2,202,500	$ 2,169,750	$ 399,526	$ 4,295	$ 4,776,071
Ending Balance: individually evaluated for impairment	5,115	10,729	23		15,867
Ending Balance: collectively evaluated for impairment	2,197,385	2,159,021	399,503		