

UMB FINANCIAL CORP
Form 10-Q
October 31, 2013
Table of Contents

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 September 30, 2013

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
incorporation or organization)

43-0903811
(I.R.S. Employer
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 October 28, 2013, UMB Financial Corporation had 45,154,747 shares of common stock outstanding.

Table of Contents

UMB FINANCIAL CORPORATION

FORM 10-Q

INDEX

PART I FINANCIAL INFORMATION	3
ITEM 1. <u>FINANCIAL STATEMENTS (UNAUDITED)</u>	3
<u>CONDENSED CONSOLIDATED BALANCE SHEETS</u>	3
<u>CONDENSED CONSOLIDATED STATEMENTS OF INCOME</u>	4
<u>CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME</u>	5
<u>STATEMENTS OF CHANGES IN CONDENSED CONSOLIDATED SHAREHOLDERS' EQUITY</u>	6
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	7
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	8
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	35
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	53
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	56
PART II OTHER INFORMATION	58
ITEM 1. <u>LEGAL PROCEEDINGS</u>	58
ITEM 1A. <u>RISK FACTORS</u>	58
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	58
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	58
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	58
ITEM 5. <u>OTHER INFORMATION</u>	58
ITEM 6. <u>EXHIBITS</u>	59
<u>SIGNATURES</u>	60
<u>CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT</u>	61
<u>CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT</u>	62
<u>CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002</u>	63
<u>CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002</u>	64

Table of Contents**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, 2013	December 31, 2012
<u>ASSETS</u>		
Loans:	\$ 6,506,902	\$ 5,686,749
Allowance for loan losses	(74,938)	(71,426)
Net loans	6,431,964	5,615,323
Loans held for sale	3,033	3,877
Investment Securities:		
Available for sale	6,697,997	6,937,463
Held to maturity (market value of \$189,316 and \$129,495, respectively)	175,993	114,756
Trading	54,994	55,764
Federal Reserve Bank stock and other	31,478	26,333
Total investment securities	6,960,462	7,134,316
Federal funds sold and securities purchased under agreements to resell	54,434	89,868
Interest-bearing due from banks	1,357,881	720,500
Cash and due from banks	604,592	667,774
Bank premises and equipment, net	247,827	244,600
Accrued income	72,030	69,749
Goodwill	209,758	209,758
Other intangibles	58,749	68,803
Other assets	183,503	102,628
Total assets	\$ 16,184,233	\$ 14,927,196
<u>LIABILITIES</u>		
Deposits:		
Noninterest-bearing demand	\$ 5,628,258	\$ 4,920,581
Interest-bearing demand and savings	6,248,189	5,450,450
Time deposits under \$100,000	593,275	540,269
Time deposits of \$100,000 or more	571,322	742,065
Total deposits	13,041,044	11,653,365
Federal funds purchased and repurchase agreements	1,527,964	1,787,270
Short-term debt	211	
Long-term debt	5,130	5,879
Accrued expenses and taxes	130,398	182,468
Other liabilities	15,831	18,869
Total liabilities	14,720,578	13,647,851

SHAREHOLDERS' EQUITY

Common stock, \$1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 44,554,834 and 40,340,878 shares outstanding, respectively	55,057	55,057
Capital surplus	862,153	732,069
Retained earnings	860,138	787,015
Accumulated other comprehensive income	(15,678)	85,588
Treasury stock, 10,501,896 and 14,715,852 shares, at cost, respectively	(298,015)	(380,384)
Total shareholders' equity	1,463,655	1,279,345
Total liabilities and shareholders' equity	\$ 16,184,233	\$ 14,927,196

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**UMB FINANCIAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME***(unaudited, dollars in thousands, except share and per share data)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<u>INTEREST INCOME</u>				
Loans	\$ 59,125	\$ 54,558	\$ 170,459	\$ 162,613
Securities:				
Taxable interest	19,017	20,345	56,325	61,652
Tax-exempt interest	10,338	9,602	30,216	28,445
Total securities income	29,355	29,947	86,541	90,097
Federal funds and resell agreements	62	48	126	88
Interest-bearing due from banks	276	225	1,276	1,422
Trading securities	278	201	808	842
Total interest income	89,096	84,979	259,210	255,062
<u>INTEREST EXPENSE</u>				
Deposits	3,097	4,079	10,222	13,443
Federal funds and repurchase agreements	385	454	1,443	1,402
Other	69	81	190	390
Total interest expense	3,551	4,614	11,855	15,235
Net interest income	85,545	80,365	247,355	239,827
Provision for loan losses	6,500	4,500	13,500	13,500
Net interest income after provision for loan losses	79,045	75,865	233,855	226,327
<u>NONINTEREST INCOME</u>				
Trust and securities processing	68,465	56,291	194,263	166,756
Trading and investment banking	3,792	7,120	16,324	23,938
Service charges on deposits	21,036	19,171	63,441	58,191
Insurance fees and commissions	869	1,028	3,066	2,949
Brokerage fees	2,895	3,104	8,727	8,324
Bankcard fees	15,196	14,466	47,666	46,031
Gain on sales of available for sale securities, net	1,140	259	8,552	20,022
Other	8,232	4,882	14,187	22,637
Total noninterest income	121,625	106,321	356,226	348,848
<u>NONINTEREST EXPENSE</u>				
Salaries and employee benefits	83,733	78,813	251,000	236,728
Occupancy, net	10,016	9,870	29,175	28,359
Equipment	12,205	10,330	36,012	31,999
Supplies and services	4,761	4,995	14,611	15,256
Marketing and business development	5,536	7,368	15,514	17,615
Processing fees	14,471	12,964	42,854	38,372
Legal and consulting	4,433	4,311	12,877	11,838

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Bankcard	4,561	4,700	13,817	13,572
Amortization of intangible assets	3,245	3,643	10,054	11,228
Regulatory fees	2,670	2,363	7,066	7,096
Other	7,432	6,548	20,772	20,432
Total noninterest expense	153,063	145,905	453,752	432,495
Income before income taxes	47,607	36,281	136,329	142,680
Income tax provision	13,175	10,156	37,027	41,023
NET INCOME	\$ 34,432	\$ 26,125	\$ 99,302	\$ 101,657

PER SHARE DATA

Net income basic	\$ 0.85	\$ 0.65	\$ 2.47	\$ 2.54
Net income diluted	0.83	0.64	2.44	2.51
Dividends	0.215	0.205	0.645	0.615
Weighted average shares outstanding	40,698,700	40,081,304	40,185,351	40,047,261

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**UMB FINANCIAL CORPORATION****CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)***(unaudited, dollars in thousands)*

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income	\$ 34,432	\$ 26,125	\$ 99,302	\$ 101,657
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities:				
Change in unrealized holding gains (losses), net	11,694	32,256	(151,721)	52,410
Less: Reclassifications adjustment for gains included in net income	(1,140)	(259)	(8,552)	(20,022)
Change in unrealized gains (losses) on securities during the period	10,554	31,997	(160,273)	32,388
Income tax (expense) benefit	(4,005)	(11,827)	59,007	(12,074)
Other comprehensive income (loss)	6,549	20,170	(101,266)	20,314
Comprehensive income (loss)	\$ 40,981	\$ 46,295	\$ (1,964)	\$ 121,971

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**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 (Loss)	Treasury Stock	Total
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
Balance January 1, 2013	\$ 55,057	\$ 732,069	\$ 787,015	\$ 85,588	\$ (380,384)	\$ 1,279,345
Total comprehensive income			99,302	(101,266)		(1,964)
Cash dividends						
(\$0.645 per share)			(26,179)			(26,179)
Purchase of treasury stock					(2,551)	(2,551)
Issuance of equity awards		(2,189)			2,638	449
Recognition of equity based compensation		6,319				6,319
Net tax benefit related to equity compensation plans		963				963
Sale of treasury stock		367			172	539
Exercise of stock options		2,916			2,641	5,557
Common stock issuance		121,708			79,469	201,177
Balance September 30, 2013	\$ 55,057	\$ 862,153	\$ 860,138	\$ (15,678)	\$ (298,015)	\$ 1,463,655

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**UMB FINANCIAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(unaudited, dollars in thousands)*

	Nine Months Ended September 30,	
	2013	2012
Operating Activities		
Net Income	\$ 99,302	\$ 101,657
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	13,500	13,500
Depreciation and amortization	32,998	30,576
Deferred income tax (benefit) expense	(5,292)	1,409
Net decrease in trading securities	770	18,223
Gains on sales of securities available for sale, net	(8,552)	(20,022)
Gains on sales of assets	(674)	(503)
Amortization of securities premiums, net of discount accretion	40,339	37,277
Originations of loans held for sale	(101,935)	(179,493)
Net gains on sales of loans held for sale	(609)	(1,526)
Proceeds from sales of loans held for sale	103,388	177,335
Issuance of equity awards	449	244
Equity based compensation	6,319	5,425
Changes in:		
Accrued income	(2,281)	5,898
Accrued expenses and taxes	28,401	5,364
Other assets and liabilities, net	(13,009)	(18,305)
Net cash provided by operating activities	193,114	177,059
Investing Activities		
Proceeds from maturities of securities held to maturity	27,209	6,327
Proceeds from sales of securities available for sale	678,522	991,842
Proceeds from maturities of securities available for sale	1,193,130	1,172,929
Purchases of securities held to maturity	(94,481)	(19,504)
Purchases of securities available for sale	(1,894,722)	(2,528,213)
Net increase in loans	(829,856)	(442,109)
Net decrease in fed funds sold and resell agreements	35,434	24,906
Net (increase) decrease in interest-bearing balances due from other financial institutions	(411)	121,079
Purchases of bank premises and equipment	(26,997)	(31,516)
Net cash received for acquisitions	692	1,529
Proceeds from sales of bank premises and equipment	808	1,034
Net cash used in investing activities	(910,672)	(701,696)
Financing Activities		
Net increase in demand and savings deposits	1,505,416	864,852
Net decrease in time deposits	(117,737)	(421,983)
Net decrease in fed funds purchased and repurchase agreements	(259,306)	(786,628)
Net decrease in short-term debt	(303)	(12,000)
Proceeds from long-term debt	1,000	529
Repayment of long-term debt	(1,235)	(1,426)
Payment of contingent consideration on acquisitions	(16,172)	(12,260)

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Cash dividends paid	(26,002)	(24,946)
Net tax benefit related to equity compensation plans	963	333
Common stock issuance	201,177	
Proceeds from exercise of stock options and sales of treasury shares	6,096	6,071
Purchases of treasury stock	(2,551)	(6,062)
Net cash used in financing activities	1,291,346	(393,520)
Increase (decrease) in cash and due from banks	573,788	(918,157)
Cash and due from banks at beginning of period	1,366,394	1,459,631
Cash and due from banks at end of period	\$ 1,940,182	\$ 541,474
Supplemental Disclosures:		
Income taxes paid	\$ 34,351	\$ 31,718
Total interest paid	\$ 12,560	\$ 16,423
See Notes to Condensed Consolidated Financial Statements.		

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (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 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 within this Form 10-Q filing and in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

2. Summary of Accounting Policies

The Company is a 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, Texas, Arizona, Nebraska, Pennsylvania, South Dakota, Indiana, Utah, and Wisconsin. 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, 2012.

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 issued by other financial institutions are included in interest-bearing due from banks. The amounts due from certificates of deposit totaled \$22.3 million and \$29.9 million at September 30, 2013 and September 30, 2012, 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, 2013 and September 30, 2012 (in thousands):

	September 30,	
	2013	2012
Due from the Federal Reserve	\$ 1,335,590	\$ 144,135
Cash and due from banks	604,592	397,339
Cash and due from banks at end of period	\$ 1,940,182	\$ 541,474

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 650,028 and 517,430 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2013 and 2012, respectively. Diluted year-to-date income per share includes the dilutive effect of 544,930 and 431,418 shares issuable upon the exercise of stock options granted by the Company and outstanding at September 30, 2013 and 2012, respectively.

Options issued under employee benefit plans to purchase 270,839 and 510,850 shares of common stock were outstanding at September 30, 2013 and 2012, respectively, but were not included in the computation of year-to-date diluted EPS because the options were anti-dilutive.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)

Common Stock Issuance

On September 16, 2013, the Company completed the issuance of 3.9 million shares of common stock with net proceeds of \$201.2 million to be used for strategic growth purposes. In addition, UMB granted the underwriters a 30-day option to purchase up to an additional 585,000 shares of common stock. On October 17, 2013, the underwriters exercised the option of 585,000 shares, which generated additional net proceeds of 30.2 million.

3. New Accounting Pronouncements

Presentation of Comprehensive Income In June 2011, the FASB issued Accounting Standards Update (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. In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income: Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*, which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The new disclosure requirements were effective for interim periods beginning after December 15, 2012 and were adopted by the Company for the quarter-ended March 31, 2013. The adoption of this accounting pronouncement did not impact the Company's financial statements except for additional financial statement disclosures.

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 and were adopted by the Company for the quarter-ended March 31, 2013. The adoption of this accounting pronouncement did not impact the Company's financial statements.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (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 risk assessment 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.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

This table provides a summary of loan classes and an aging of past due loans at September 30, 2013 and December 31, 2012 (*in thousands*):

		September 30, 2013						
		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		\$ 3,204	\$ 388	\$ 8,053	\$ 11,645	\$ 3,364,750	\$ 3,376,395	
Commercial	credit card	589	242	190	1,021	117,187	118,208	
Real estate:								
Real estate	construction		128	1,151	1,279	121,324	122,603	
Real estate	commercial	4,342	200	18,950	23,492	1,611,745	1,635,237	
Real estate	residential	2,385	133	602	3,120	270,624	273,744	
Real estate	HELOC	678		404	1,082	572,290	573,372	
Consumer:								
Consumer	credit card	2,748	2,245	1,273	6,266	303,731	309,997	
Consumer	other	4,870	444	637	5,951	65,756	71,707	
Leases						25,639	25,639	
Total loans		\$ 18,816	\$ 3,780	\$ 31,260	\$ 53,856	\$ 6,453,046	\$ 6,506,902	

		December 31, 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		\$ 5,170	\$ 93	\$ 14,122	\$ 19,385	\$ 2,854,309	\$ 2,873,694	
Commercial	credit card	561	43	61	665	103,655	104,320	
Real estate:								
Real estate	construction	3,750		1,263	5,013	73,473	78,486	
Real estate	commercial	3,590	113	8,170	11,873	1,423,938	1,435,811	
Real estate	residential	1,371	49	666	2,086	210,277	212,363	
Real estate	HELOC	1,324	50	225	1,599	572,324	573,923	
Consumer:								
Consumer	credit card	2,989	2,955	2,285	8,229	326,289	334,518	
Consumer	other	1,116	251	1,311	2,678	51,872	54,550	
Leases						19,084	19,084	
Total loans		\$ 19,871	\$ 3,554	\$ 28,103	\$ 51,528	\$ 5,635,221	\$ 5,686,749	

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The Company sold \$103.4 million and \$177.3 million of residential real estate and student loans in the secondary market during the nine month periods ended September 30, 2013 and September 30, 2012, respectively.

The Company has ceased the recognition of interest on non-accrual loans with a carrying value of \$31.3 million and \$28.1 million at September 30, 2013 and December 31, 2012, respectively. Restructured loans totaled \$13.5 million and \$12.5 million at September 30, 2013 and December 31, 2012, respectively. Loans 90 days past due and still accruing interest amounted to \$3.8 million and \$3.6 million at September 30, 2013 and December 31, 2012, respectively. There was an insignificant amount of interest recognized on impaired loans during 2013 and 2012.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (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. The loans in any of the three categories below are considered to be a criticized 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 financial 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 and interest is doubtful or remote.

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

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

This table provides an analysis of the credit risk profile of each loan class at September 30, 2013 and December 31, 2012 (*in thousands*):

Credit Exposure**Credit Risk Profile by Risk Rating**

	Commercial		Real estate - construction	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Non-watch list	\$ 3,158,126	\$ 2,670,925	\$ 120,585	\$ 75,631
Watch	87,015	98,636		518
Special Mention	67,586	29,462		14
Substandard	63,668	74,671	2,018	2,323
Total	\$ 3,376,395	\$ 2,873,694	\$ 122,603	\$ 78,486

	Real estate - commercial	
	September 30, 2013	December 31, 2012
Non-watch list	\$ 1,499,023	\$ 1,325,460
Watch	80,490	63,278
Special Mention	15,912	11,613
Substandard	39,812	35,460
Total	\$ 1,635,237	\$ 1,435,811

Credit Exposure**Credit Risk Profile Based on Payment Activity**

	Commercial - credit card		Real estate - residential	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Performing	\$ 118,018	\$ 104,259	\$ 273,142	\$ 211,697
Non-performing	190	61	602	666
Total	\$ 118,208	\$ 104,320	\$ 273,744	\$ 212,363

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	Real estate - HELOC		Consumer - credit card	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Performing	\$ 572,968	\$ 573,698	\$ 308,724	\$ 332,233
Non-performing	404	225	1,273	2,285
Total	\$ 573,372	\$ 573,923	\$ 309,997	\$ 334,518

	Consumer - other		Leases	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Performing	\$ 71,070	\$ 53,239	\$ 25,639	\$ 19,084
Non-performing	637	1,311		
Total	\$ 71,707	\$ 54,550	\$ 25,639	\$ 19,084

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (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 inherent probable 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 probable 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 estimated 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 changes in the regulatory environment.

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 risk rating. The consumer credit card pool is evaluated based on delinquencies and credit scores. In addition, a portion of the allowance is determined by a review of qualitative factors by management.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (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 nine months ended September 30, 2013 (in thousands):

	Three Months Ended September 30, 2013				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 45,108	\$ 16,296	\$ 10,168	\$ 75	\$ 71,647
Charge-offs	(592)	(162)	(3,126)		(3,880)
Recoveries	246	21	404		671
Provision	3,491	2	2,996	11	6,500
Ending Balance	\$ 48,253	\$ 16,157	\$ 10,442	\$ 86	\$ 74,938
	Nine Months Ended September 30, 2013				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 43,390	\$ 15,506	\$ 12,470	\$ 60	\$ 71,426
Charge-offs	(3,015)	(533)	(9,265)		(12,813)
Recoveries	761	37	2,027		2,825
Provision	7,117	1,147	5,210	26	13,500
Ending Balance	\$ 48,253	\$ 16,157	\$ 10,442	\$ 86	\$ 74,938
Ending Balance: individually evaluated for impairment	\$ 3,301	\$ 1,412	\$	\$	\$ 4,713
Ending Balance: collectively evaluated for impairment	44,952	14,745	10,442	86	70,225
Loans:					
Ending Balance: loans	\$ 3,494,603	\$ 2,604,956	\$ 381,704	\$ 25,639	\$ 6,506,902
Ending Balance: individually evaluated for impairment	14,835	15,852	30		30,717
Ending Balance: collectively evaluated for impairment	3,479,768	2,589,104	381,674	25,639	6,476,185

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2012 (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
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

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)****Impaired Loans**

This table provides an analysis of impaired loans by class at September 30, 2013 and December 31, 2012 (*in thousands*):

		September 30, 2013					
		Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:							
Commercial		\$ 29,380	\$ 2,556	\$ 12,279	\$ 14,835	\$ 3,301	\$ 14,831
Commercial credit card							
Real estate:							
Real estate	construction	1,409	731	416	1,147	222	1,249
Real estate	commercial	13,845	5,339	8,081	13,420	1,190	9,752
Real estate	residential	1,519	1,285		1,285		1,131
Real estate	HELOC						
Consumer:							
Consumer	credit card						
Consumer	other	34	30		30		39
Leases							
Total		\$ 46,187	\$ 9,941	\$ 20,776	\$ 30,717	\$ 4,713	\$ 27,002

		December 31, 2012					
		Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:							
Commercial		\$ 22,453	\$ 12,119	\$ 2,938	\$ 15,057	\$ 1,393	\$ 13,287
Commercial credit card							
Real estate:							
Real estate	construction	276	276		276		118
Real estate	commercial	9,334	6,777	2,213	8,990	733	9,925
Real estate	residential	2,357	1,714	223	1,937	48	2,622
Real estate	HELOC						
Consumer:							
Consumer	credit card						
Consumer	other	51	49		49		43
Leases							
Total		\$ 34,471	\$ 20,935	\$ 5,374	\$ 26,309	\$ 2,174	\$ 25,995

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)****Troubled Debt Restructurings**

A loan modification is considered a troubled debt restructuring (TDR) when a concession is granted to a debtor experiencing financial difficulties. The Company's modifications generally include interest rate adjustments, amortization and maturity date extensions, and principal reductions. 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.

The Company had \$0.1 million and \$1.2 million in commitments to lend to borrowers with loan modifications classified as TDRs as of September 30, 2013 and September 30, 2012, respectively. The Company made no TDRs in the last 12 months that had payment defaults for the three or nine month periods ended September 30, 2013 or September 30, 2012.

This table provides a summary of loans restructured by class for the three and nine months ended September 30, 2013 (*in thousands*):

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	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	\$ 182	\$ 182	3	\$ 1,311	\$ 1,249
Real estate:						
Real estate construction						
Real estate commercial				1	937	937
Real estate residential				1	425	425
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	1	\$ 182	\$ 182	5	\$ 2,673	\$ 2,611

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

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

	Three Months Ended September 30, 2012			Nine Months Ended September 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	4	\$ 853	\$ 821	6	\$ 3,785	\$ 3,760
Real estate:						
Real estate construction						
Real estate commercial						
Real estate residential						
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	4	\$ 853	\$ 821	6	\$ 3,785	\$ 3,760

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)****5. Securities****Securities Available for Sale**

This table provides detailed information about securities available for sale at September 30, 2013 and December 31, 2012 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013				
U.S. Treasury	\$ 102,030	\$ 404	\$ (648)	\$ 101,786
U.S. Agencies	1,025,397	3,540	(2,960)	1,025,977
Mortgage-backed	3,079,675	26,889	(45,645)	3,060,919
State and political subdivisions	2,070,846	24,436	(29,187)	2,066,095
Corporates	445,562	973	(3,315)	443,220
Commercial Paper				
Total	\$ 6,723,510	\$ 56,242	\$ (81,755)	\$ 6,697,997

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
U.S. Treasury	\$ 116,856	\$ 1,166	\$ (171)	\$ 117,851
U.S. Agencies	1,019,640	6,597	(122)	1,026,115
Mortgage-backed	3,480,006	78,600	(2,413)	3,556,193
State and political subdivisions	1,842,715	51,341	(1,372)	1,892,684
Corporates	337,706	1,945	(764)	338,887
Commercial Paper	5,733			5,733
Total	\$ 6,802,656	\$ 139,649	\$ (4,842)	\$ 6,937,463

The following table presents contractual maturity information for securities available for sale at September 30, 2013 (*in thousands*):

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 576,035	\$ 578,483
Due after 1 year through 5 years	2,090,432	2,101,158
Due after 5 years through 10 years	795,518	788,065
Due after 10 years	181,850	169,372
Total	3,643,835	3,637,078
Mortgage-backed securities	3,079,675	3,060,919

Total securities available for sale	\$ 6,723,510	\$ 6,697,997
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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.

For the nine months ended September 30, 2013, proceeds from the sales of securities available for sale were \$678.5 million compared to \$991.8 million for the same period in 2012. Securities transactions resulted in gross realized gains of \$8.8 million and \$20.3 million for the nine months ended September 30, 2013 and 2012. The gross realized losses for the nine months ended September 30, 2013 and 2012 were \$220.0 thousand and \$342.0 thousand, respectively.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)****Trading Securities**

The net unrealized gains on trading securities at September 30, 2013 and September 30, 2012 were \$14.0 thousand and \$416.7 thousand, respectively, and were included in trading and investment banking income in the consolidated statements of income.

Securities Held to Maturity

The table below provides detailed information for securities held to maturity at September 30, 2013 and December 31, 2012 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013				
State and political subdivisions	\$ 175,993	\$ 13,323	\$	\$ 189,316
December 31, 2012				
State and political subdivisions	\$ 114,756	\$ 14,739	\$	\$ 129,495

The following table presents contractual maturity information for securities held to maturity at September 30, 2013 (*in thousands*):

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 49	\$ 53
Due after 1 year through 5 years	35,536	38,226
Due after 5 years through 10 years	58,105	62,504
Due after 10 years	82,303	88,533
Total securities held to maturity	\$ 175,993	\$ 189,316

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 nine months of 2013 or 2012.

Securities available for sale and held to maturity with a market value of \$5.0 billion at September 30, 2013, and \$5.9 billion at December 31, 2012, were pledged to secure U.S. Government deposits, other public deposits and certain trust deposits as required by law. Of this amount, securities with a market value of \$1.8 billion at September 30, 2013 and December 31, 2012 were pledged at the Federal Reserve Discount Window but were unencumbered as of those dates.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

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

September 30, 2013	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Treasury	\$ 29,291	\$ (648)	\$	\$	\$ 29,291	\$ (648)
U.S. Agencies	462,594	(2,960)			462,594	(2,960)
Mortgage-backed	1,853,108	(45,645)			1,853,108	(45,645)
State and political subdivisions	794,610	(28,969)	11,320	(218)	805,930	(29,187)
Corporates	319,347	(3,315)			319,347	(3,315)
Commercial Paper						
Total temporarily - impaired debt securities available for sale	\$ 3,458,950	\$ (81,537)	\$ 11,320	\$ (218)	\$ 3,470,270	\$ (81,755)

December 31, 2012	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Treasury	\$ 29,747	\$ (171)	\$	\$	\$ 29,747	\$ (171)
U.S. Agencies	295,747	(122)			295,747	(122)
Mortgage-backed	398,384	(2,413)			398,384	(2,413)
State and political subdivisions	132,951	(1,358)	2,604	(14)	135,555	(1,372)
Corporates	178,564	(764)			178,564	(764)
Commercial Paper	5,733				5,733	
Total temporarily - impaired debt securities available for sale	\$ 1,041,126	\$ (4,828)	\$ 2,604	\$ (14)	\$ 1,043,730	\$ (4,842)

The unrealized losses in the Company's investments in U.S. treasury obligations, U.S. government agencies, federal agency mortgage-backed securities, and municipal securities 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 September 30, 2013.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)****6. Goodwill and Other Intangibles**

Changes in the carrying amount of goodwill for the periods ended September 30, 2013 and December 31, 2012 by reportable segment are as follows (*in thousands*):

	Bank	Institutional Investment Management	Asset Servicing	Total
Balances as of January 1, 2012	\$ 144,109	\$ 47,529	\$ 19,476	\$ 211,114
Goodwill disposals during period	(1,356)			(1,356)
Balances as of December 31, 2012	\$ 142,753	\$ 47,529	\$ 19,476	\$ 209,758
Balances as of January 1, 2013	\$ 142,753	\$ 47,529	\$ 19,476	\$ 209,758
Balances as of September 30, 2013	\$ 142,753	\$ 47,529	\$ 19,476	\$ 209,758

Following are the intangible assets that continue to be subject to amortization as of September 30, 2013 and December 31, 2012 (*in thousands*):

	As of September 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible assets	\$ 36,497	\$ 31,399	\$ 5,098
Customer relationships	103,960	51,236	52,724
Other intangible assets	3,247	2,320	927
Total intangible assets	\$ 143,704	\$ 84,955	\$ 58,749
	As of December 31, 2012		
Core deposit intangible assets	\$ 36,497	\$ 30,403	\$ 6,094
Customer relationships	103,960	42,399	61,561
Other intangible assets	3,247	2,099	1,148
Total intangible assets	\$ 143,704	\$ 74,901	\$ 68,803

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Aggregate amortization expense	\$ 3,245	\$ 3,643	\$ 10,054	\$ 11,228

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

For the three months ending December 31, 2013	\$ 3,164
For the year ending December 31, 2014	12,146
For the year ending December 31, 2015	9,550
For the year ending December 31, 2016	8,342
For the year ending December 31, 2017	7,098

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)****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):

	September 30, 2013	December 31, 2012
Commitments to extend credit for loans (excluding credit card loans)	\$ 2,615,370	\$ 2,458,444
Commitments to extend credit under credit card loans	2,170,484	2,184,415
Commercial letters of credit	15,786	1,041
Standby letters of credit	357,790	343,503
Futures contracts	19,500	7,500
Forward foreign exchange contracts	12,849	2,005
Spot foreign exchange contracts	594	2,910

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 reporting system are evaluated regularly by senior executive officers 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 how executive management responsibilities were changed for each of the core businesses, the products and services provided and the types of customers served, and how financial information is evaluated by management. The management reporting system assigns balance sheet and income statement items to each business segment using methodologies that are refined on an ongoing basis. For comparability purposes, amounts in all periods presented are based on methodologies in effect at September 30, 2013. 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.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

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, and collective and multiple-series trust services.

Business Segment Information

Segment financial results were as follows (in thousands):

	Three Months Ended September 30, 2013				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income (loss)	\$ 73,419	\$ 11,587	\$ (11)	\$ 550	\$ 85,545
Provision for loan losses	1,833	4,667			6,500
Noninterest income	48,951	18,409	33,836	20,429	121,625
Noninterest expense	93,199	21,566	21,097	17,201	153,063
Income before income taxes	27,338	3,763	12,728	3,778	47,607
Income tax expense	6,895	1,311	3,501	1,468	13,175
Net income	\$ 20,443	\$ 2,452	\$ 9,227	\$ 2,310	\$ 34,432
Average assets	\$ 11,129,000	\$ 1,726,000	\$ 76,000	\$ 1,993,000	\$ 14,924,000

	Three Months Ended September 30, 2012				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income (loss)	\$ 69,051	\$ 10,843	\$ (1)	\$ 472	\$ 80,365
Provision for loan losses	2,930	1,570			4,500
Noninterest income	47,151	16,081	24,789	18,300	106,321
Noninterest expense	93,683	17,764	17,316	17,142	145,905
Income before income taxes	19,589	7,590	7,472	1,630	36,281
Income tax expense	5,426	2,024	2,098	608	10,156
Net income	\$ 14,163	\$ 5,566	\$ 5,374	\$ 1,022	\$ 26,125

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Average assets	\$ 10,681,000	\$ 849,000	\$ 80,000	\$ 1,562,000	\$ 13,172,000
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Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

	Nine Months Ended September 30, 2013					Total
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing		
Net interest income (loss)	\$ 211,238	\$ 34,327	\$ (22)	\$ 1,812	\$ 247,355	
Provision for loan losses	3,772	9,728			13,500	
Noninterest income	148,136	56,486	91,543	60,061	356,226	
Noninterest expense	277,253	63,502	58,850	54,147	453,752	
Income before income taxes	78,349	17,583	32,671	7,726	136,329	
Income tax expense	19,608	5,496	8,864	3,059	37,027	
Net income	\$ 58,741	\$ 12,087	\$ 23,807	\$ 4,667	\$ 99,302	
Average assets	\$ 11,146,000	\$ 1,769,000	\$ 79,000	\$ 1,867,000	\$ 14,861,000	

	Nine Months Ended September 30, 2012					Total
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing		
Net interest income (loss)	\$ 206,374	\$ 32,124	\$ 2	\$ 1,327	\$ 239,827	
Provision for loan losses	6,987	6,513			13,500	
Noninterest income	166,795	50,285	74,540	57,228	348,848	
Noninterest expense	281,091	49,192	50,983	51,229	432,495	
Income before income taxes	85,091	26,704	23,559	7,326	142,680	
Income tax expense	23,441	7,733	6,874	2,975	41,023	
Net income	\$ 61,650	\$ 18,971	\$ 16,685	\$ 4,351	\$ 101,657	
Average assets	\$ 10,850,000	\$ 855,000	\$ 82,000	\$ 1,437,000	\$ 13,224,000	

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)****9. Derivatives and Hedging Activities****Risk Management Objective of Using Derivatives**

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities. The Company's existing interest rate derivatives result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk of the Company's assets or liabilities. The Company has entered into an offsetting position for each of these derivative instruments with a matching instrument from another financial institution in order to minimize its net risk exposure resulting from such transactions.

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments as of September 30, 2013 and December 31, 2012. The Company's derivative asset and derivative liability are located within Other assets and Other liabilities, respectively, on the Company's Consolidated Balance Sheet.

This table provides a summary of the fair value of the Company's derivative assets and liabilities as of September 30, 2013 and December 31, 2012 (in thousands):

Fair value	Asset Derivatives		Liability Derivatives	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Derivatives not designated as hedging instruments				
Interest rate products	\$ 2,075	\$ 3,503	\$ 2,083	\$ 3,625
Total	\$ 2,075	\$ 3,503	\$ 2,083	\$ 3,625

Non-designated Hedges

None of the Company's derivatives are designated in qualifying hedging relationships. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously offset by interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of September 30, 2013, the Company had twenty interest rate swaps with an aggregate notional amount of \$189.3 million related to this program. During the three and nine months ended September 30, 2013, the Company recognized net losses of \$40 thousand and net gains of \$114 thousand, respectively, related to changes in fair value of these swaps. During the three and nine months ended September 30, 2012, the Company recognized net losses of \$36 thousand and \$118 thousand, respectively, related to changes in the fair value of these swaps.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)****Effect of Derivative Instruments on the Income Statement**

This table provides a summary of the amount of gain (loss) recognized in other non-interest income (expense) in the Consolidated Statements of Income related to the Company's derivative asset and liability for the three and nine months ended as of September 30, 2013 and September 30, 2012 (in thousands):

	Amount of Gain (Loss) Recognized			
	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Derivatives not designated as hedging instruments				
Interest rate products	\$ (40)	\$ (36)	\$ 114	\$ (118)
Total	\$ (40)	\$ (36)	\$ 114	\$ (118)

Credit-risk-related Contingent Features

The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

As of September 30, 2013 the termination value of derivatives in a net liability position, which includes accrued interest, related to these agreements was \$0.5 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has not yet reached its minimum collateral posting threshold under these agreements. If the Company had breached any of these provisions at September 30, 2013, it could have been required to settle its obligations under the agreements at the termination value.

10. Fair Value Measurements

The following table presents information about the Company's assets measured at fair value on a recurring basis as of September 30, 2013, 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.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**Assets measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012 (*in thousands*):

Description	September 30, 2013	Fair Value Measurement at September 30, 2013		
		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				
Mortgage-backed	28,205		28,205	
State and political subdivisions	5,568		5,568	
Trading other	20,821	20,821		
Trading securities	54,994	21,221	33,773	
U.S. Treasury	101,786	101,786		
U.S. Agencies	1,025,977		1,025,977	
Mortgage-backed	3,060,919		3,060,919	
State and political subdivisions	2,066,095		2,066,095	
Corporates	443,220	443,220		
Commercial paper				
Available for sale securities	6,697,997	545,006	6,152,991	
Company-owned life insurance	18,711		18,711	
Derivatives	2,075		2,075	
Total	\$ 6,773,777	\$ 566,227	\$ 6,207,550	\$
Liabilities				
Deferred compensation	\$ 18,578	\$ 18,578	\$	\$
Contingent consideration liability	39,315			39,315
Derivatives	2,083		2,083	
Total	\$ 59,976	\$ 18,578	\$ 2,083	\$ 39,315

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

Description	Fair Value Measurement at December 31, 2012			
	December 31, 2012	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	506		506	
Mortgage-backed	11,288		11,288	
State and political subdivisions	12,913		12,913	
Trading other	30,657	30,657		
Trading securities	55,764	31,057	24,707	
U.S. Treasury	117,851	117,851		
U.S. Agencies	1,026,115		1,026,115	
Mortgage-backed	3,556,193		3,556,193	
State and political subdivisions	1,892,684		1,892,684	
Corporates	338,887	338,887		
Commercial paper	5,733		5,733	
Available for sale securities	6,937,463	456,738	6,480,725	
Company-owned life insurance	10,539		10,539	
Derivatives	3,503		3,503	
Total	\$ 7,007,269	\$ 487,795	\$ 6,519,474	\$
Liabilities				
Deferred compensation	\$ 13,705	\$ 13,705	\$	\$
Contingent consideration liability	51,163			51,163
Derivatives	3,625		3,625	
Total	\$ 68,493	\$ 13,705	\$ 3,625	\$ 51,163

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

	Nine Months Ended September 30,	
	2013	2012
Beginning Balance	\$ 51,163	\$ 72,046
Payment of contingent considerations on acquisitions	(16,172)	(12,260)
Income from fair value adjustments	(138)	(9,656)
Expense from fair value adjustments	4,462	1,957

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Ending Balance	\$ 39,315	\$ 52,087
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The Company adopted ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04) for the quarter ended March 31, 2012. The amendments set forth by the ASU require the Company's contingent consideration liability to be measured from the perspective of a market participant that holds an identical asset as of the measurement date. Due to this methodology change, the Company began calculating the discount rates using a weighted average cost of capital approach, which caused an increase in the discount rates utilized. This 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 which is included in the Income from fair value adjustments line in the table above for the nine month period ended September 30, 2012.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

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			
Contingent consideration liability	Discounted cash flows	Revenue and expense growth percentage	6% - 31%
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.			

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.

Company-owned Life Insurance Fair values are based on quoted market prices or dealer quotes with adjustments for dividends, capital gains, and administrative charges.

Derivatives Fair values are determined using valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Deferred Compensation Fair values are based on quoted market prices or dealer quotes.

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.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

Assets measured at fair value on a non-recurring basis as of September 30, 2013 and December 31, 2012 (*in thousands*):

Description	Fair Value Measurement at September 30, 2013				Total Losses Recognized During the Nine Months Ended September 30
	September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 16,063	\$	\$	\$ 16,063	\$ (2,957)
Other real estate owned	285			285	\$ (72)
Total	\$ 16,348	\$	\$	\$ 16,348	\$ (3,029)

Description	Fair Value Measurement at December 31, 2012				Total Gains (Losses) Recognized During the Twelve Months Ended December 31
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 5,178	\$	\$	\$ 5,178	\$ 1,756
Other real estate owned	924			924	\$ (455)
Total	\$ 6,102	\$	\$	\$ 6,102	\$ 1,301

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

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 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.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

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 September 30, 2013 and December 31, 2012 are as follows (*in millions*):

	Fair Value Measurement at September 30, 2013				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
FINANCIAL ASSETS					
Securities held to maturity	\$ 176.0	\$	\$ 189.3	\$	\$ 189.3
Federal Reserve Bank and other stock	31.5		31.5		31.5
Loans (exclusive of allowance for loan loss)	6,509.9		6,559.9		6,559.9
FINANCIAL LIABILITIES					
Time deposits	1,164.6		1,166.0		1,166.0
Long-term debt	5.1		4.4		4.4
OFF-BALANCE SHEET ARRANGEMENTS					
Commitments to extend credit for loans					4.7
Commercial letters of credit					0.1
Standby letters of credit					1.5

	Fair Value Measurement at December 31, 2012				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
FINANCIAL ASSETS					
Securities held to maturity	\$ 114.8	\$	\$ 129.5	\$	\$ 129.5
Federal Reserve Bank and other stock	26.3		26.3		26.3
Loans (exclusive of allowance for loan loss)	5,690.6		5,754.1		5,754.1
FINANCIAL LIABILITIES					
Time deposits	1,282.3		1,287.9		1,287.9
Long-term debt	5.9		6.1		6.1
OFF-BALANCE SHEET ARRANGEMENTS					
Commitments to extend credit for loans					5.6
Commercial letters of credit					0.2
Standby letters of credit					2.1

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.

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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 Bank and other miscellaneous investments. The fair value is considered to be the carrying value as no readily determinable market exists for these investments because they can only be redeemed with the Federal Reserve Bank.

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.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)

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 September 30, 2013 and December 31, 2012. 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.

Table of Contents

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 nine-month periods ended September 30, 2013. 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.

CAUTIONARY NOTICE ABOUT FORWARD-LOOKING STATEMENTS

From time to time the Company has made, and in the future will make, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as believe, expect, anticipate, intend, estimate, project, outlook, forecast, target, goal, or other words of comparable meaning or future-tense or conditional verbs such as may, will, should, would, or could. Forward-looking statements convey the Company's expectations, intentions, or forecasts about future events, circumstances, results, or aspirations.

This report, including any information incorporated by reference in this report, contains forward-looking statements. The Company also may make forward-looking statements in other documents that are filed or furnished with the SEC. In addition, the Company may make forward-looking statements orally to investors, analysts, members of the media, or others.

All forward-looking statements, by their nature, are subject to assumptions, risks, and uncertainties, which may change over time and many of which are beyond its control. You should not rely on any forward-looking statement as a prediction or guarantee about the future. The actual future objectives, strategies, plans, prospects, performance, condition, or results may differ materially from those set forth in any forward-looking statement. While no list of assumptions, risks, or uncertainties could be complete, some of the factors that may cause actual results or other future events, circumstances, or aspirations to differ from those in forward-looking statements include:

local, regional, national, or international business, economic, or political conditions or events;

changes in laws or the regulatory environment, including as a result of recent financial-services legislation or regulation;

changes in monetary, fiscal, or trade laws or policies, including as a result of actions by central banks or supranational authorities;

changes in accounting standards or policies;

shifts in investor sentiment or behavior in the securities, capital, or other financial markets, including changes in market liquidity or volatility or changes in interest or currency rates;

changes in spending, borrowing, or saving by businesses or households;

the Company's ability to effectively manage capital or liquidity or to effectively attract or deploy deposits;

changes in any credit rating assigned to the Company or its affiliates;

adverse publicity or other reputational harm;

changes in the Companys corporate strategies, the composition of its assets, or the way in which it funds those assets;

Table of Contents

the Company's ability to innovate, develop, maintain, or market products or services or to absorb unanticipated costs or liabilities associated with those products or services;

the Company's ability to anticipate the needs of current or future customers, to successfully compete in its chosen business lines, to increase or hold market share in changing competitive environments, or to deal with pricing or other competitive pressures;

changes in the credit, liquidity, or other condition of its customers, counterparties, or competitors;

the Company's ability to effectively deal with economic, business, or market slowdowns or disruptions;

judicial, regulatory, or administrative investigations, proceedings, disputes, or rulings that create uncertainty for or are adverse to the Company or its industry;

the Company's ability to address stricter or heightened regulatory or other governmental supervision or requirements;

the Company's ability to maintain secure and functional financial, accounting, technology, data processing, or other operating systems or facilities, including its capacity to withstand cyber-attacks;

the adequacy of the Company's corporate governance, risk-management framework, compliance programs, or internal controls, including its ability to control lapses or deficiencies in financial reporting or to effectively mitigate or manage operational risk;

the efficacy of its methods or models in assessing business strategies or opportunities or in valuing, measuring, monitoring, or managing positions or risk;

the Company's ability to keep pace with changes in technology that affect the Company or its customers, counterparties, or competitors;

mergers or acquisitions, including its ability to integrate acquisitions;

the Company's ability to grow revenue, to control expenses, or to attract or retain qualified employees;

natural or man-made disasters, calamities, or conflicts, including terrorist events; or

other assumptions, risks, or uncertainties described in the management discussions and analyses or the risk factors in any of the Company's annual, quarterly, or current reports.

Any forward-looking statement made by the Company or on its behalf speaks only as of the date that it was made. The Company does not undertake to update any forward-looking statement to reflect the impact of events, circumstances, or results that arise after the date that the statement was made. You, however, should consult further disclosures (including disclosures of a forward-looking nature) that the Company may make in any subsequent Quarterly Report on Form 10-Q or Current Report on Form 8-K.

Overview

The Company focuses on the following four core strategies. Management believes these strategies will guide its efforts to achieving its vision, to deliver *the* Unparalleled Customer Experience, all the 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 September 30, 2013, the Company's nonperforming assets as a percentage of total assets was 0.20 percent. As a percentage of loans, nonperforming loans decreased to 0.48 percent compared to 0.51 percent on September 30, 2012. These credit quality ratios were achieved while maintaining positive directional growth in average earning assets, which increased 14.1 percent from September 30, 2012, driven by a 13.5 percent increase in average total deposits compared to September 30, 2012.

Table of Contents

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 \$12.2 million, or 21.6 percent, for the three months ended September 30, 2013 compared to the same period in 2012. The increase in trust and securities processing income was primarily due to a \$6.3 million, or 34.1 percent increase, in advisory fee income from the Scout Funds, a \$3.6 million, or 20.9 percent, increase in fees related to institutional and personal investment management services and a \$2.0 million, or 11.2 percent, increase in fee income from fund administration and custody 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 September 30, 2013 average loans increased \$1.1 billion, or 21.3 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 third quarter of 2013, noninterest income increased \$15.3 million, or 14.4 percent, compared to the same period of 2012. The Company continues to emphasize its asset management, bankcard services, health care services, and treasury management businesses. In particular, during the third quarter of 2013, this favorable change in noninterest income is primarily attributable to increased trust and securities processing income. At September 30, 2013, noninterest income represented 58.7 percent of total revenues, compared to 57.0 percent at September 30, 2012.

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 September 30, 2013, the Company had \$1.5 billion in total shareholders' equity. This is an increase of \$169.5 million, or 13.1 percent, compared to total shareholders' equity at September 30, 2012. On September 16, 2013, the Company completed the issuance of 3.9 million shares of common stock with net proceeds of \$201.2 million to be used for strategic growth purposes. At September 30, 2013, the Company had a total risk-based capital ratio of 13.74 percent, which is greater than the 10 percent regulatory minimum to be considered well-capitalized. The Company repurchased 13,409 shares at an average price of \$59.75 per share during the third quarter of 2013.

Earnings Summary

The Company recorded consolidated net income of \$34.4 million for the three-month period ended September 30, 2013, compared to \$26.1 million for the same period a year earlier. This represents a 31.8 percent increase over the three-month period ended September 30, 2012. Basic earnings per share for the third quarter of 2013 were \$0.85 per share (\$0.83 per share fully-diluted) compared to \$0.65 per share (\$0.64 per share fully-diluted) for the third quarter of 2012. Return on average assets and return on average common shareholders' equity for the three-month period ended September 30, 2013 were 0.92 and 10.84 percent, respectively, compared to 0.79 and 8.12 percent for the three-month period ended September 30, 2012.

The Company recorded consolidated net income of \$99.3 million for the nine-month period ended September 30, 2013, compared to \$101.7 million for the same period a year earlier. This represents a 2.3 percent decrease over the nine-month period ended September 30, 2012. Basic earnings per share for the nine-month period ended September 30, 2013 were \$2.47 per share (\$2.44 per share fully-diluted) compared to \$2.54 per share (\$2.51 per share fully-diluted) for the period in 2012. Return on average assets and return on average common shareholders' equity for the nine-month period ended September 30, 2013 were 0.89 and 10.39 percent, respectively, compared to 1.03 and 10.90 percent for the same period in 2012.

Table of Contents

Net interest income for the three and nine-month periods ended September 30, 2013 increased \$5.2 million, or 6.4 percent, and \$7.5 million, or 3.1 percent, respectively, compared to the same period in 2012. These increases are primarily due to the reduced level of interest expense on deposits, coupled with an increased level of interest income. For the three-month period ended September 30, 2013, average earning assets increased by \$1.7 billion, or 14.1 percent, and for the nine-month period ended September 30, 2013, they increased by \$1.6 billion, or 13.0 percent, compared to the same periods in 2012. Net interest margin, on a tax-equivalent basis, decreased to 2.61 percent and 2.56 percent for the three and nine-months periods ended September 30, 2013, compared to 2.80 percent and 2.79 percent for the same periods in 2012. These changes are discussed in greater detail below under Net Interest Income.

The provision for loan losses increased by \$2.0 million for three-month period and remained flat for the nine-month period ended September 30, 2013 compared to the same periods in 2012. These changes are a direct result of applying the Company's methodology for computing the allowance for loan losses. The allowance for loan losses as a percentage of total loans decreased by 17 basis points to 1.15 percent as of September 30, 2013, compared to September 30, 2012 and decreased 11 basis points compared to December 31, 2012. 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 2012 Annual Report on Form 10-K.

Noninterest income increased by \$15.3 million, or 14.4 percent, for the three-month period ended September 30, 2013 and increased by \$7.4 million, or 2.1 percent, for the nine-month period ended September 30, 2013, compared to the same periods one year ago. These increases are discussed in greater detail below under Noninterest Income.

Noninterest expense increased by \$7.2 million, or 4.9 percent, for the three-month period ended September 30, 2013, and increased by \$21.3 million, or 4.9 percent, for the nine-month period ended September 30, 2013, compared to the same periods in 2012. 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 September 30, 2013, net interest income increased \$5.2 million, or 6.4 percent, compared to the same period in 2012. For the nine-month period ended September 30, 2013, net interest income increased \$7.5 million, or 3.1 percent, compared to the same period in 2012.

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. As illustrated in this table, net interest spread for the three months ended September 30, 2013 decreased by 15 basis points and net interest margin decreased by 19 basis points compared to the same period in 2012. Net interest spread for the nine months ended September 30, 2013 decreased by 20 basis points and net interest margin decreased by 23 basis points compared to the same period in 2012. These results are primarily due to a favorable volume variance, offset by an unfavorable rate variance on earning assets. The combined impact of these variances coupled with a favorable rate variance on interest-bearing liabilities has led to decreases in interest expense and increases in interest income, or an increase in the Company's net interest income compared 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 of this section. Table 2 also illustrates how the changes in volume and rates have resulted in an increase in net interest income.

Table of Contents

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 2.55 percent for the three-month period ended September 30, 2013 and 2.78 percent for the same period in 2012. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.51 percent for the nine-month period ended September 30, 2013 and 2.79 percent for the same period in 2012.

	Three Months Ended September 30,			
	2013	Average Yield/Rate	2012	Average Yield/Rate
	Average Balance		Average Balance	
Assets				
Loans, net of unearned interest	\$ 6,418,368	3.65%	\$ 5,292,970	4.10%
Securities:				
Taxable	4,835,235	1.56	4,617,059	1.75
Tax-exempt	2,150,108	2.95	1,903,490	3.05
Total securities	6,985,343	1.99	6,520,549	2.13
Federal funds and resell agreements	46,593	0.53	38,498	0.50
Interest-bearing due from banks	342,307	0.32	248,290	0.36
Trading	63,302	1.85	47,269	1.86
Total earning assets	13,855,913	2.71	12,147,576	2.94
Allowance for loan losses	(72,792)		(72,909)	
Other assets	1,140,648		1,097,489	
Total assets	\$ 14,923,769		\$ 13,172,156	
Liabilities and Shareholders Equity				
Interest-bearing deposits	\$ 7,117,927	0.17%	\$ 6,183,598	0.26%
Federal funds and repurchase agreements	1,764,082	0.09	1,315,729	0.14
Borrowed funds	4,688	5.84	7,962	4.05
Total interest-bearing liabilities	8,886,697	0.16	7,507,289	0.24
Noninterest-bearing demand deposits	4,669,742		4,199,085	
Other liabilities	107,000		186,612	
Shareholders equity	1,260,330		1,279,170	
Total liabilities and shareholders equity	\$ 14,923,769		\$ 13,172,156	
Net interest spread		2.55%		2.70%
Net interest margin		2.61		2.80

Table of Contents