

UMB FINANCIAL CORP
Form 10-Q
November 06, 2014
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, 2014

OR

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

For the transition period from _____ to _____

Commission file number 0-4887

UMB FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Missouri
(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 30, 2014, UMB Financial Corporation had 45,493,346 shares of common stock outstanding.

Table of Contents

UMB FINANCIAL CORPORATION

FORM 10-Q

INDEX

<u>PART I FINANCIAL INFORMATION</u>	3
ITEM 1. <u>FINANCIAL STATEMENTS (UNAUDITED)</u>	3
<u>CONSOLIDATED BALANCE SHEETS</u>	3
<u>CONSOLIDATED STATEMENTS OF INCOME</u>	4
<u>STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME</u>	5
<u>STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDER S EQUITY</u>	6
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	7
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	8
ITEM 2. <u>MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	36
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	55
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	59
<u>PART II OTHER INFORMATION</u>	60
ITEM 1. <u>LEGAL PROCEEDINGS</u>	60
ITEM 1A. <u>RISK FACTORS</u>	60
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	60
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	60
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	60
ITEM 5. <u>OTHER INFORMATION</u>	60
ITEM 6. <u>EXHIBITS</u>	61
<u>SIGNATURES</u>	62
CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT	
CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT	
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002	
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002	

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

	September 30, 2014	December 31, 2013
<u>ASSETS</u>		
Loans:	\$ 7,103,163	\$ 6,520,512
Allowance for loan losses	(77,316)	(74,751)
Net loans	7,025,847	6,445,761
Loans held for sale	1,718	1,357
Securities:		
Available for sale	6,759,803	6,762,411
Held to maturity (fair market value of \$270,290 and \$231,510, respectively)	237,961	209,770
Trading	31,790	28,464
Federal Reserve Bank stock and other	71,192	50,482
Total investment securities	7,100,746	7,051,127
Federal funds sold and securities purchased under agreements to resell	65,255	87,018
Interest-bearing due from banks	986,428	2,093,467
Cash and due from banks	395,956	521,001
Bank premises and equipment, net	257,341	249,689
Accrued income	77,263	78,216
Goodwill	209,758	209,758
Other intangibles	46,966	55,585
Other assets	116,750	118,873
Total assets	\$ 16,284,028	\$ 16,911,852
<u>LIABILITIES</u>		
Deposits:		
Noninterest-bearing demand	\$ 5,467,810	\$ 5,189,998
Interest-bearing demand and savings	6,324,535	7,001,126
Time deposits under \$100,000	434,863	491,792
Time deposits of \$100,000 or more	526,229	957,850
Total deposits	12,753,437	13,640,766

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Federal funds purchased and repurchase agreements	1,711,809	1,583,218
Short-term debt		107
Long-term debt	7,067	5,055
Accrued expenses and taxes	161,194	153,450
Other liabilities	35,172	23,191
Total liabilities	14,668,679	15,405,787

SHAREHOLDERS EQUITY

Common stock, \$1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 45,485,313 and 45,221,237 shares outstanding, respectively	55,057	55,057
Capital surplus	891,353	882,407
Retained earnings	947,664	884,630
Accumulated other comprehensive income (loss)	1,827	(32,640)
Treasury stock, 9,571,417 and 9,835,493 shares, at cost, respectively	(280,552)	(283,389)
Total shareholders equity	1,615,349	1,506,065
Total liabilities and shareholders equity	\$ 16,284,028	\$ 16,911,852

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
<u>INTEREST INCOME</u>				
Loans	\$ 61,636	\$ 59,125	\$ 180,845	\$ 170,459
Securities:				
Taxable interest	18,884	19,017	56,866	56,325
Tax-exempt interest	9,745	10,338	29,450	30,216
Total securities income	28,629	29,355	86,316	86,541
Federal funds and resell agreements	87	62	166	126
Interest-bearing due from banks	426	276	2,015	1,276
Trading securities	39	278	311	808
Total interest income	90,817	89,096	269,653	259,210
<u>INTEREST EXPENSE</u>				
Deposits	3,015	3,097	9,166	10,222
Federal funds and repurchase agreements	358	385	1,293	1,443
Other	(82)	69	53	190
Total interest expense	3,291	3,551	10,512	11,855
Net interest income	87,526	85,545	259,141	247,355
Provision for loan losses	4,500	6,500	14,000	13,500
Net interest income after provision for loan losses	83,026	79,045	245,141	233,855
<u>NONINTEREST INCOME</u>				
Trust and securities processing	74,062	68,465	218,982	194,263
Trading and investment banking	3,826	3,792	14,558	16,324
Service charges on deposits	21,634	21,036	63,819	63,441
Insurance fees and commissions	911	869	2,246	3,066
Brokerage fees	3,276	2,895	8,166	8,727
Bankcard fees	17,121	15,196	49,929	47,666
Gain on sales of securities available for sale, net	26	1,140	4,065	8,552
Equity earnings on alternative investments	2,470	4,241	8,462	4,241

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Other	3,149	3,991	13,213	9,946
Total noninterest income	126,475	121,625	383,440	356,226
<u>NONINTEREST EXPENSE</u>				
Salaries and employee benefits	90,041	83,733	268,454	251,000
Occupancy, net	10,475	10,016	29,885	29,175
Equipment	13,408	12,205	38,991	36,012
Supplies and services	4,817	4,761	15,008	14,611
Marketing and business development	6,057	5,536	16,966	15,514
Processing fees	14,085	14,471	42,553	42,854
Legal and consulting	4,496	4,433	12,500	12,877
Bankcard	4,097	4,561	12,782	13,817
Amortization of intangible assets	3,043	3,245	9,219	10,054
Regulatory fees	2,577	2,670	7,802	7,066
Contingency reserve			20,272	
Other	8,365	7,432	25,781	20,772
Total noninterest expense	161,461	153,063	500,213	453,752
Income before income taxes	48,040	47,607	128,368	136,329
Income tax provision	12,410	13,175	34,653	37,027
NET INCOME	\$ 35,630	\$ 34,432	\$ 93,715	\$ 99,302
<u>PER SHARE DATA</u>				
Net income basic	\$ 0.79	\$ 0.85	\$ 2.09	\$ 2.47
Net income diluted	0.78	0.83	2.06	2.44
Dividends	0.225	0.215	0.675	0.645
Weight average shares outstanding	44,890,309	40,698,700	44,819,125	40,185,351

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

(unaudited, dollars in thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net Income	\$ 35,630	\$ 34,432	\$ 93,715	\$ 99,302
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on securities:				
Change in unrealized holding (losses) gains, net	(24,213)	11,694	59,156	(151,721)
Less: Reclassifications adjustment for gains included in net income	(26)	(1,140)	(4,065)	(8,552)
Change in unrealized (losses) gains on securities during the period	(24,239)	10,554	55,091	(160,273)
Income tax benefit (expense)	9,165	(4,005)	(20,624)	59,007
Other comprehensive (loss) income	(15,074)	6,549	34,467	(101,266)
Comprehensive income (loss)	\$ 20,556	\$ 40,981	\$ 128,182	\$ (1,964)

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance January 1, 2013	\$ 55,057	\$ 732,069	\$ 787,015	\$ 85,588	\$(380,384)	\$ 1,279,345
Total comprehensive loss			99,302	(101,266)		(1,964)
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
Balance January 1, 2014	\$ 55,057	\$ 882,407	\$ 884,630	\$ (32,640)	\$(283,389)	\$ 1,506,065
Total comprehensive income			93,715	34,467		128,182
Dividends (\$0.675 per share)			(30,681)			(30,681)
Purchase of treasury stock					(3,858)	(3,858)
Issuance of equity awards		(2,624)			3,114	490
Recognition of equity based compensation		7,224				7,224
Net tax benefit related to equity compensation plans		1,507				1,507
Sale of treasury stock		455			244	699
Exercise of stock options		2,384			3,337	5,721
Balance September 30, 2014	\$ 55,057	\$ 891,353	\$ 947,664	\$ 1,827	\$(280,552)	\$ 1,615,349

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	Nine Months Ended September 30,	
	2014	2013
Operating Activities		
Net Income	\$ 93,715	\$ 99,302
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	14,000	13,500
Depreciation and amortization	34,415	32,998
Deferred income tax benefit	(5,909)	(5,292)
Net (increase) decrease in trading securities	(11,787)	770
Gains on sales of securities available for sale, net	(4,065)	(8,552)
Gains on sales of assets	(2,948)	(674)
Amortization of securities premiums, net of discount accretion	38,599	40,339
Originations of loans held for sale	(51,427)	(101,935)
Net gains on sales of loans held for sale	(814)	(609)
Proceeds from sales of loans held for sale	51,880	103,388
Equity based compensation	7,714	6,768
Changes in:		
Accrued income	953	(2,281)
Accrued expenses and taxes	21,465	28,401
Other assets and liabilities, net	(4,168)	(13,009)
Net cash provided by operating activities	181,623	193,114
Investing Activities		
Proceeds from maturities of securities held to maturity	16,804	27,209
Proceeds from sales of securities available for sale	410,580	678,522
Proceeds from maturities of securities available for sale	1,034,231	1,193,130
Purchases of securities held to maturity	(58,573)	(94,481)
Purchases of securities available for sale	(1,411,017)	(1,894,722)
Net increase in loans	(596,221)	(829,856)
Net decrease in fed funds sold and resell agreements	21,763	35,434
Net increase in interest bearing balances due from other financial institutions	(130,125)	(411)
Purchases of bank premises and equipment	(35,219)	(26,997)
Net cash activity from acquisitions and branch sales	(18,231)	692
Proceeds from sales of bank premises and equipment	5,014	808
Purchases of company-owned life insurance	(6,000)	
Net cash used in investing activities	(766,994)	(910,672)

Financing Activities

Net (decrease) increase in demand and savings deposits	(386,207)	1,505,416
Net decrease in time deposits	(480,791)	(117,737)
Net increase (decrease) in fed funds purchased and repurchase agreements	128,591	(259,306)
Net decrease in short-term debt	(107)	(303)
Proceeds from long-term debt	3,320	1,000
Repayment of long-term debt	(1,308)	(1,235)
Payment of contingent consideration on acquisitions	(13,725)	(16,172)
Cash dividends paid	(30,679)	(26,002)
Net tax benefit related to equity compensation plans	1,507	963
Common stock issuance		201,177
Proceeds from exercise of stock options and sales of treasury shares	6,420	6,096
Purchases of treasury stock	(3,858)	(2,551)
Net cash (used in) provided by financing activities	(776,837)	1,291,346
(Decrease) increase in cash and cash equivalents	(1,362,208)	573,788
Cash and cash equivalents at beginning of period	2,582,428	1,366,394
Cash and cash equivalents at end of period	\$ 1,220,220	\$ 1,940,182
Supplemental Disclosures:		
Income taxes paid	\$ 40,789	\$ 34,351
Total interest paid	10,720	12,560
See Notes to Consolidated Financial Statements.		

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)****1. Financial Statement Presentation**

The 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, 2013.

2. Summary of Significant 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, 2013.

Cash and cash equivalents

Cash and cash equivalents include Cash and due from banks and amounts due from the Federal Reserve Bank. Amounts due from the Federal Reserve Bank are interest-bearing for all periods presented and are included in the Interest-bearing due from banks line on the Company's Consolidated Balance Sheets.

This table provides a summary of cash and cash equivalents as presented on the Consolidated Statement of Cash Flows as of September 30, 2014 and September 30, 2013 (*in thousands*):

	September 30,	
	2014	2013
Due from the Federal Reserve	\$ 824,264	\$ 1,335,590
Cash and due from banks	395,956	604,592
Cash and cash equivalents at end of period	\$ 1,220,220	\$ 1,940,182

Also included in the Interest-bearing due from banks line, but not considered cash and cash equivalents are amounts due from certificates of deposits held at other financial institutions. The amounts due from certificates of deposit totaled \$157.3 million and \$22.3 million at September 30, 2014 and September 30, 2013, respectively.

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 551,674 and 650,028 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2014 and 2013, respectively. Diluted year-to-date income per share includes the dilutive effect of 601,260 and 544,930 shares issuable upon the exercise of stock options granted by the Company and outstanding at September 30, 2014 and 2013, respectively.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

Options issued under employee benefits plans to purchase 250,911 shares of common stock were outstanding at September 30, 2014, but were not included in the computation of quarter-to-date diluted EPS because the options were anti-dilutive. Options issued under employee benefit plans to purchase 250,911 and 270,839 shares of common stock were outstanding at September 30, 2014 and 2013, respectively, but were not included in the computation of year-to-date diluted EPS because the options were anti-dilutive.

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

Investment Companies In June 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-08, Amendments to the Scope, Measurement, and Disclosure Requirements for investment companies. The amendments changed the assessment of whether an entity is an investment company by requiring an entity to possess certain fundamental characteristics, while allowing judgment in assessing other typical characteristics. The ASU was effective January 1, 2014, and the Company did not change the status of any subsidiary, or the accounting applied to a subsidiary, under the new guidelines.

Accounting for Investments in Qualified Affordable Housing Projects In January 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Regardless of whether the reporting entity chooses to elect the proportional amortization method, this ASU introduces new recurring disclosures about all investments in qualified affordable housing projects. The ASU is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of this accounting pronouncement will not have a significant impact on the Company's financial statements or financial statement disclosures.

Reclassification of Residential Real Estate Loans In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendment is intended to reduce diversity in practice by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loans such that the loan receivable should be derecognized and the real stated property recognized. The amendments in this update are effective for interim and annual periods beginning after December 15, 2014. The adoption of this accounting pronouncement will not have a significant impact on the Company's consolidated financial statements.

Revenue Recognition In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The issuance is part of a joint effort by the FASB and the International Accounting Standards Board (IASB) to enhance financial reporting by creating common revenue recognition guidance for U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) and, thereby, improving the consistency of requirements, comparability of practices and usefulness of disclosures. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The amendments in this update are effective for interim and annual periods beginning after December 15, 2016. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Repurchase-to-Maturity Transactions In June 2014, the FASB issued ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchased Financings, and Disclosures. The amendment changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with accounting for other repurchase agreements. Additionally, the amendment requires new disclosures on transfers accounted for as sales in transactions that are economically similar to repurchase agreements and

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)**

requires increased transparency on collateral pledged in secured borrowings. The amendments in this update are effective for interim and annual periods beginning after December 15, 2014. Early application is not permitted. The Company is currently evaluating the effect that ASU 2014-11 will have on its consolidated financial statements and related financial statement disclosures.

Stock Compensation In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target could be Achieved after the Requisite Service Period. The amendment is intended to reduce diversity in practice by clarifying that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this update are effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. The adoption of this accounting pronouncement will not have a significant impact on the Company's consolidated financial statements.

Troubled Debt Restructurings by Creditors In August 2014, the FASB issued ASU No. 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The amendment is intended to reduce diversity in practice in the classification of mortgage loans extended under certain government-sponsored loan guarantee programs, such as those offered by the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA), that entitle the creditor to recover all or a portion of the unpaid principal balance from the government if a borrower defaults. This update requires government-guaranteed mortgage loans that meet certain criteria to be derecognized and a separate receivable be recognized upon foreclosure. The amendments in this update are effective for interim and annual periods beginning after December 15, 2014. The adoption of this accounting pronouncement will not have a significant impact on the Company's consolidated financial statements.

Going Concern In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendment addresses management's responsibility in regularly evaluating whether there is substantial doubt about a company's ability to continue as a going concern. The amendments in this update are effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter, although early adoption is permitted. The adoption of this accounting pronouncement will not have a significant impact on the Company's consolidated financial statements.

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 and 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.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

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, 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, ability to repay, 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

This table provides a summary of loan classes and an aging of past due loans at September 30, 2014 and December 31, 2013 (*in thousands*):

		September 30, 2014					Total
		30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non- Accrual Loans	Total Past Due	Current	Loans
Commercial:							
Commercial		\$ 1,376	\$ 199	\$ 15,075	\$ 16,650	\$ 3,522,624	\$ 3,539,274
Commercial	credit card	293	75	44	412	129,612	130,024
Real estate:							
Real estate	construction	2,380		948	3,328	242,477	245,805
Real estate	commercial	3,050	2,038	15,267	20,355	1,786,570	1,806,925
Real estate	residential	869	207	567	1,643	315,183	316,826
Real estate	HELOC	157		115	272	629,224	629,496
Consumer:							
Consumer	credit card	2,348	1,962	550	4,860	298,833	303,693
Consumer	other	3,723	197	96	4,016	87,904	91,920
Leases						39,200	39,200
Total loans		\$ 14,196	\$ 4,678	\$ 32,662	\$ 51,536	\$ 7,051,627	\$ 7,103,163

		December 31, 2013					Total
		30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non- Accrual Loans	Total Past Due	Current	Loans
Commercial:							
Commercial		\$ 2,107	\$ 135	\$ 8,042	\$ 10,284	\$ 3,291,219	\$ 3,301,503
Commercial	credit card	362	82	38	482	102,788	103,270
Real estate:							
Real estate	construction	186		934	1,120	151,755	152,875
Real estate	commercial	3,611	344	19,213	23,168	1,678,983	1,702,151

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Real estate	residential	1,257	13	868	2,138	287,218	289,356
Real estate	HELOC	880	6	210	1,096	565,032	566,128
Consumer:							
Consumer	credit card	3,230	2,448	1,031	6,709	311,627	318,336
Consumer	other	1,727	190	370	2,287	60,625	62,912
Leases						23,981	23,981
Total loans		\$ 13,360	\$ 3,218	\$ 30,706	\$ 47,284	\$ 6,473,228	\$ 6,520,512

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

The Company sold \$51.9 million and \$103.4 million of residential real estate and student loans in the secondary market without recourse during the nine-month periods ended September 30, 2014 and September 30, 2013, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of \$32.7 million and \$30.7 million at September 30, 2014 and December 31, 2013, respectively. Restructured loans totaled \$10.2 million and \$12.1 million at September 30, 2014 and December 31, 2013, respectively. Loans 90 days past due and still accruing interest amounted to \$4.7 million and \$3.2 million at September 30, 2014 and December 31, 2013, respectively. There was an insignificant amount of interest recognized on impaired loans during 2014 and 2013.

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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)**

This table provides an analysis of the credit risk profile of each loan class at September 30, 2014 and December 31, 2013 (*in thousands*):

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

	Commercial		Real estate-construction	
	September 30,	December 31,	September 30,	December 31,
	2014	2013	2014	2013
Non-watch list	\$ 3,263,847	\$ 3,041,224	\$ 243,513	\$ 151,359
Watch	61,424	110,932	186	210
Special Mention	87,947	78,064	758	
Substandard	126,056	71,283	1,348	1,306
Total	\$ 3,539,274	\$ 3,301,503	\$ 245,805	\$ 152,875

	Real estate-commercial	
	September 30,	December 31,
	2014	2013
Non-watch list	\$ 1,689,958	\$ 1,565,894
Watch	46,509	76,647
Special Mention	24,677	19,876
Substandard	45,781	39,734
Total	\$ 1,806,925	\$ 1,702,151

Credit Exposure**Credit Risk Profile Based on Payment Activity****Commercial-credit card****Real estate-residential**

	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Performing	\$ 129,980	\$ 103,232	\$ 316,259	\$ 288,488
Non-performing	44	38	567	868
Total	\$ 130,024	\$ 103,270	\$ 316,826	\$ 289,356

	Real estate-HELOC		Consumer-credit card	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Performing	\$ 629,381	\$ 565,918	\$ 303,143	\$ 317,305
Non-performing	115	210	550	1,031
Total	\$ 629,496	\$ 566,128	\$ 303,693	\$ 318,336

	Consumer-other		Leases	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Performing	\$ 91,824	\$ 62,542	\$ 39,200	\$ 23,981
Non-performing	96	370		
Total	\$ 91,920	\$ 62,912	\$ 39,200	\$ 23,981

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (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 impaired 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (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, 2014 (*in thousands*):

	Three Months Ended September 30, 2014				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 52,433	\$ 14,217	\$ 10,074	\$ 78	\$ 76,802
Charge-offs	(2,033)	(57)	(2,745)		(4,835)
Recoveries	396	8	445		849
Provision	3,983	(1,515)	1,964	68	4,500
Ending Balance	\$ 54,779	\$ 12,653	\$ 9,738	\$ 146	\$ 77,316
	Nine Months Ended September 30, 2014				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 48,886	\$ 15,342	\$ 10,447	\$ 76	\$ 74,751
Charge-offs	(4,980)	(238)	(8,881)		(14,099)
Recoveries	664	25	1,975		2,664
Provision	10,209	(2,476)	6,197	70	14,000
Ending Balance	\$ 54,779	\$ 12,653	\$ 9,738	\$ 146	\$ 77,316
Ending Balance: individually evaluated for impairment	\$ 2,252	\$ 1,368	\$	\$	\$ 3,620
Ending Balance: collectively evaluated for impairment	52,527	11,285	9,738	146	73,696
Loans:					
Ending Balance: loans	\$ 3,669,298	\$ 2,999,052	\$ 395,613	\$ 39,200	\$ 7,103,163
Ending Balance: individually evaluated for impairment	19,176	13,467	17		32,660
Ending Balance: collectively evaluated for impairment	3,650,122	2,985,585	395,596	39,200	7,070,503

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

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
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
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
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

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

Impaired Loans

This table provides an analysis of impaired loans by class at September 30, 2014 and December 31, 2013 (*in thousands*):

		September 30, 2014					
		Unpaid	Recorded	Recorded	Total	Related	Average
		Principal	Investment	Investment	Recorded	Allowance	Recorded
		Balance	with No	with	Investment		Investment
			Allowance	Allowance			
Commercial:							
Commercial		\$ 23,599	\$ 8,710	\$ 10,466	\$ 19,176	\$ 2,252	\$ 15,762
Commercial	credit card						
Real estate:							
Real estate	construction	1,499	825	123	948	123	928
Real estate	commercial	13,758	4,816	6,652	11,468	1,245	12,035
Real estate	residential	1,224	1,051		1,051		1,030
Real estate	HELOC						
Consumer:							
Consumer	credit card						
Consumer	other	17	17		17		15
Leases							
Total		\$ 40,097	\$ 15,419	\$ 17,241	\$ 32,660	\$ 3,620	\$ 29,770

		December 31, 2013					
		Unpaid	Recorded	Recorded	Total	Related	Average
		Principal	Investment	Investment	Recorded	Allowance	Recorded
		Balance	with No	with	Investment		Investment
			Allowance	Allowance			
Commercial:							
Commercial		\$ 17,227	\$ 3,228	\$ 11,407	\$ 14,635	\$ 2,882	\$ 14,791
Commercial	credit card						
Real estate:							
Real estate	construction	1,408	810	123	933		1,186
Real estate	commercial	14,686	5,305	8,218	13,523	94	10,506

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Real estate residential	1,317	1,087	1,087	1,276	1,122	
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other	12	11	11		34	
Leases						
Total	\$ 34,650	\$ 10,441	\$ 19,748	\$ 30,189	\$ 4,252	\$ 27,639

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)****Troubled Debt Restructurings**

A loan modification is considered a troubled debt restructuring (TDR) when a concession had been granted to a debtor experiencing financial difficulties. The Company's modifications generally include interest rate adjustments, principal reductions, and amortization and maturity date extensions. These modifications allow the debtor short-term cash relief to allow them to improve their financial condition. The Company's restructured loans are individually evaluated for impairment and evaluated as part of the allowance for loan losses as described above in the Allowance for Loan Losses section of this note.

The Company had \$428 thousand in commitments to lend to borrowers with loan modifications classified as TDR's as of September 30, 2014. The Company made no TDR's in the last 12 months that had payment defaults for the three or nine-month periods ended September 30, 2014.

This table provides a summary of loans restructured by class during the three and nine months ended September 30, 2014 (*in thousands*):

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Pre-Modification Number of Contracts	Post- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Pre-Modification Number of Contracts	Post- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
Commercial:						
Commercial		\$	\$	1	\$ 469	\$ 469
Commercial credit card						
Real estate:						
Real estate construction						
Real estate commercial	1	178	178	1	178	178
Real estate residential	1	67	67	4	277	301
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	2	\$ 245	\$ 245	6	\$ 924	\$ 948

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

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		
	Pre-Modification Number of Contracts	Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Pre-Modification Number of Contracts	Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
Commercial:						
Commercial	1	\$ 182	\$ 182	3	\$ 1,311	\$ 1,249
Commercial credit card						
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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)****5. Securities****Securities Available for Sale**

This table provides detailed information about securities available for sale at September 30, 2014 and December 31, 2013 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014				
U.S. Treasury	\$ 510,650	\$ 472	\$ (905)	\$ 510,217
U.S. Agencies	986,247	1,029	(1,853)	985,423
Mortgage-backed	3,182,642	23,396	(39,665)	3,166,373
State and political subdivisions	1,944,165	27,390	(5,874)	1,965,681
Corporates	133,312	5	(1,208)	132,109
Total	\$ 6,757,016	\$ 52,292	\$ (49,505)	\$ 6,759,803

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
U.S. Treasury	\$ 110,789	\$ 284	\$ (873)	\$ 110,200
U.S. Agencies	1,258,176	2,793	(3,306)	1,257,663
Mortgage-backed	2,984,963	23,942	(64,339)	2,944,566
State and political subdivisions	2,003,509	23,493	(31,756)	1,995,246
Corporates	457,275	902	(3,441)	454,736
Total	\$ 6,814,712	\$ 51,414	\$ (103,715)	\$ 6,762,411

The following table presents contractual maturity information for securities available for sale at September 30, 2014 (*in thousands*):

Amortized Fair

	Cost	Value
Due in 1 year or less	\$ 466,001	\$ 467,789
Due after 1 year through 5 years	2,299,824	2,311,028
Due after 5 years through 10 years	687,956	696,024
Due after 10 years	120,593	118,589
Total	3,574,374	3,593,430
Mortgage-backed securities	3,182,642	3,166,373
Total securities available for sale	\$ 6,757,016	\$ 6,759,803

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, 2014, proceeds from the sales of securities available for sale were \$410.6 million compared to \$678.5 million for the same period in 2013. Securities transactions resulted in gross realized gains of \$4.1 million and \$8.8 million for the nine months ended September 30, 2014 and 2013. The gross realized losses for the nine months ended September 30, 2014 and 2013 were \$11 thousand and \$220 thousand, respectively.

Securities available for sale with a market value of \$5.1 billion at September 30, 2014, and \$5.9 billion at December 31, 2013, were pledged to secure U.S. Government deposits, other public deposits, certain trust deposits as required by law, and other potential borrowings. Of this amount, securities with a market value of \$1.4 billion at September 30, 2014 and \$1.7 billion at December 31, 2013 were pledged at the Federal Reserve Discount Window but were unencumbered as of those dates.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (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, 2014 and December 31, 2013 (*in thousands*):

Description of Securities	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2014						
U.S. Treasury	\$ 215,360	\$ (404)	\$ 29,471	\$ (501)	\$ 244,831	\$ (905)
U.S. Agencies	407,420	(604)	117,295	(1,249)	524,715	(1,853)
Mortgage-backed	1,474,931	(23,122)	533,596	(16,543)	2,008,527	(39,665)
State and political subdivisions	177,480	(410)	294,762	(5,464)	472,242	(5,874)
Corporates	42,072	(246)	86,349	(962)	128,421	(1,208)
Total temporarily-impaired debt securities available for sale	\$ 2,317,263	\$ (24,786)	\$ 1,061,473	\$ (24,719)	\$ 3,378,736	\$ (49,505)

Description of Securities	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013						
U.S. Treasury	\$ 39,822	\$ (873)	\$	\$	\$ 39,822	\$ (873)
U.S. Agencies	675,509	(3,130)	9,824	(176)	685,333	(3,306)
Mortgage-backed	1,945,964	(60,719)	89,147	(3,620)	2,035,111	(64,339)
State and political subdivisions	662,225	(25,064)	87,061	(6,692)	749,286	(31,756)
Corporates	271,834	(2,458)	41,522	(983)	313,356	(3,441)
Total temporarily-impaired debt securities available for sale	\$ 3,595,354	\$ (92,244)	\$ 227,554	\$ (11,471)	\$ 3,822,908	\$ (103,715)

The unrealized losses in the Company's investments in U.S. treasury obligations, U.S. agencies, federal agency mortgage-backed securities, municipal securities, and corporates were caused by changes in interest rates. The Company does not have the intent to sell these securities and does not believe it is more likely than not that the Company will be required to sell these securities before a recovery of amortized cost. 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, 2014.

Securities Held to Maturity

The table below provides detailed information for securities held to maturity at September 30, 2014 and December 31, 2013 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>September 30, 2014</u>				
State and political subdivisions	\$ 237,961	\$ 32,329	\$	\$ 270,290
<u>December 31, 2013</u>				
State and political subdivisions	\$ 209,770	\$ 21,740	\$	\$ 231,510

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

The following table presents contractual maturity information for securities held to maturity at September 30, 2014 (*in thousands*):

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 46	\$ 52
Due after 1 year through 5 years	26,650	30,271
Due after 5 years through 10 years	132,268	150,238
Due after 10 years	78,997	89,729
Total securities held to maturity	\$ 237,961	\$ 270,290

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 2014 or 2013.

Trading Securities

The net unrealized gains on trading securities at September 30, 2014 and September 30, 2013 were \$38.9 thousand and \$14.0 thousand, respectively, and were included in trading and investment banking income on the consolidated statements of income.

Federal Reserve Bank Stock and Other Securities

The table below provides detailed information for Federal Reserve Bank stock and other securities at September 30, 2014 and December 31, 2013 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014				
Federal Reserve Bank stock	\$ 16,279	\$	\$	\$ 16,279
Other securities marketable		19,472		19,472
Other securities non-marketable	29,839	5,602		35,441
Total Federal Reserve Bank stock and other	\$ 46,118	\$ 25,074	\$	\$ 71,192

December 31, 2013

Federal Reserve Bank stock	\$ 16,279	\$	\$	\$ 16,279
Other securities marketable	20	16,612		16,632
Other securities non-marketable	17,139	432		17,571
Total Federal Reserve Bank stock and other	\$ 33,438	\$ 17,044	\$	\$ 50,482

Federal Reserve Bank stock is based on the capital structure of the investing bank and is carried at cost. Other marketable and non-marketable securities include Prairie Capital Management alternative investments in hedge funds and private equity funds, which are accounted for as equity-method investments. The fair value of other marketable securities includes alternative investment securities of \$19.5 million at September 30, 2014 and \$16.6 million at December 31, 2013. The fair value of other non-marketable securities includes alternative investment securities of \$10.2 million at September 30, 2014 and \$4.7 million at December 31, 2013. Unrealized gains or losses on alternative investments are recognized in the Equity Earnings on Alternative Investments line of the Company's Consolidated Statements of Income.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

6. Goodwill and Other Intangibles

Changes in the carrying amount of goodwill for the periods ended September 30, 2014 and December 31, 2013 by reportable segment are as follows (*in thousands*):

	Bank	Institutional Investment Management	Asset Servicing	Total
Balances as of January 1, 2013	\$ 142,753	\$47,529	\$ 19,476	\$ 209,758
Balances as of December 31, 2013	\$ 142,753	\$47,529	\$ 19,476	\$ 209,758
Balances as of January 1, 2014	\$ 142,753	\$47,529	\$ 19,476	\$ 209,758
Balances as of September 30, 2014	\$ 142,753	\$47,529	\$ 19,476	\$ 209,758

Following are the finite-lived intangible assets that continue to be subject to amortization as of September 30, 2014 and December 31, 2013 (*in thousands*):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
September 30, 2014			
Core deposit intangible assets	\$ 36,497	\$ 32,484	\$ 4,013
Customer relationships	104,560	62,299	42,261
Other intangible assets	3,247	2,555	692
Total intangible assets	\$ 144,304	\$ 97,338	\$ 46,966
December 31, 2013			
Core deposit intangible assets	\$ 36,497	\$ 31,674	\$ 4,823
Customer relationships	103,960	54,062	49,898
Other intangible assets	3,247	2,383	864
Total intangible assets	\$ 143,704	\$ 88,119	\$ 55,585

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Aggregate amortization expense	\$3,043	\$3,245	\$ 9,219	\$ 10,054

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

For the three months ending December 31, 2014	\$ 2,974
For the year ending December 31, 2015	9,636
For the year ending December 31, 2016	8,428
For the year ending December 31, 2017	7,185
For the year ending December 31, 2018	4,994
For the year ending December 31, 2019	4,204

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (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, 2014	December 31, 2013
Commitments to extend credit for loans (excluding credit card loans)	\$ 3,167,398	\$ 2,690,268
Commitments to extend credit under credit card loans	2,384,213	2,215,278
Commercial letters of credit	1,415	5,949
Standby letters of credit	374,109	356,054
Forward foreign exchange contracts	66,939	21,525
Spot foreign exchange contracts	1,425	8,001

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)****8. Business Segment Reporting**

The Company has strategically aligned its operations into the following four reportable segments (collectively, Business Segments): Bank, Payment Solutions, Institutional Investment Management, and Asset Servicing. Business segment financial results produced by the Company's internal management reporting system are evaluated regularly by senior executive officers in deciding how to allocate resources and assess performance for individual Business Segments. 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, 2014. Previously reported results have been reclassified to conform to the current organizational structure.

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

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

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

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

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

Business Segment Information

Segment financial results were as follows (in thousands):

	Three Months Ended September 30, 2014			
Bank	Payment Solutions	Institutional Investment	Asset Servicing	Total

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Management

Net interest income	\$ 72,906	\$ 13,442	\$ 1,178	\$ 87,526
Provision for loan losses	2,446	2,054		4,500
Noninterest income	48,385	21,579	33,919	126,475
Noninterest expense	99,307	22,056	20,910	161,461
Income before taxes	19,538	10,911	13,009	48,040
Income tax expense	5,081	2,795	3,350	12,410
Net income	\$ 14,457	\$ 8,116	\$ 9,659	\$ 35,630
Average assets	\$ 11,639,000	\$ 2,823,000	\$ 74,000	\$ 15,638,000

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

Three Months Ended September 30, 2013

	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 73,419	\$ 11,587	\$ (11)	\$ 550	\$ 85,545
Provision for loan losses	1,833	4,667			6,500
Noninterest income	48,945	18,409	33,842	20,429	121,625
Noninterest expense	93,150	21,658	21,054	17,201	153,063
Income before taxes	27,381	3,671	12,777	3,778	47,607
Income tax expense	6,922	1,283	3,506	1,464	13,175
Net income	\$ 20,459	\$ 2,388	\$ 9,271	\$ 2,314	\$ 34,432
Average assets	\$ 11,128,000	\$ 1,727,000	\$ 76,000	\$ 1,993,000	\$ 14,924,000

Nine Months Ended September 30, 2014

	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 216,508	\$ 38,220	\$ (3)	\$ 4,416	\$ 259,141
Provision for loan losses	7,558	6,442			14,000
Noninterest income	151,843	62,998	102,014	66,585	383,440
Noninterest expense	308,013	67,680	68,848	55,672	500,213
Income before taxes	52,780	27,096	33,163	15,329	128,368
Income tax expense	14,326	7,272	8,887	4,168	34,653
Net income	\$ 38,454	\$ 19,824	\$ 24,276	\$ 11,161	\$ 93,715
Average assets	\$ 11,914,000	\$ 2,350,000	\$ 74,000	\$ 1,583,000	\$ 15,921,000

Nine Months Ended September 30, 2013

	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 211,238	\$ 34,327	\$ (22)	\$ 1,812	\$ 247,355
Provision for loan losses	3,770	9,730			13,500
Noninterest income	148,129	56,486	91,550	60,061	356,226

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Noninterest expense	277,226	63,626	58,754	54,146	453,752
Income before taxes	78,371	17,457	32,774	7,727	136,329
Income tax expense	19,629	5,464	8,880	3,054	37,027
Net income	\$ 58,742	\$ 11,993	\$ 23,894	\$ 4,673	\$ 99,302
Average assets	\$ 11,145,000	\$ 1,770,000	\$ 79,000	\$ 1,867,000	\$ 14,861,000

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (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. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to certain fixed rate assets. The Company also has interest rate derivatives that 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, 2014 and December 31, 2013. The Company's derivative asset and derivative liability are located within Other assets and Other liabilities, respectively, on the Company's Consolidated Balance Sheets.

This table provides a summary of the fair value of the Company's derivative assets and liabilities as of September 30, 2014 and December 31, 2013 (*in thousands*):

	Asset Derivatives		Liability Derivatives	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Fair value				
Interest Rate Products:				
Derivatives not designated as hedging instruments	\$ 4,548	\$ 2,442	\$ 4,637	\$ 2,346
Derivatives designated as hedging instruments		76	141	
Total	\$ 4,548	\$ 2,518	\$ 4,778	\$ 2,346

Fair Value Hedges of Interest Rate Risk

The Company is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in the benchmark interest rate, London Interbank Offered Rate (LIBOR). Interest rate swaps designated as fair value hedges involve making fixed-rate payments to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of September 30, 2014, the Company had one interest rate swap with a notional amount of \$6.7 million that was designated as a fair value hedge of interest rate risk associated with the Company's fixed rate loan assets.

Designated Hedges

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and nine months ended September 30, 2014, the Company recognized net losses of \$1 thousand and \$19 thousand, respectively, in Other noninterest expense related to hedge ineffectiveness.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

Non-designated Hedges

The remainder of the Company's derivatives are not 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, 2014, the Company had 28 interest rate swaps with an aggregate notional amount of \$343.3 million related to this program. During the three and nine months ended September 30, 2014, the Company recognized \$133 thousand and \$185 thousand of net losses, respectively, related to changes in fair value of these swaps. During the three and nine months ended September 30, 2013, the Company recognized \$40 thousand of net losses and \$114 thousand of net gains, respectively, related to changes in the fair value of these swaps in Other noninterest expense.

Effect of Derivative Instruments on the Income Statement

This table provides a summary of the amount of gain (loss) recognized in Other non-interest expense in the Consolidated Statements of Income related to the Company's derivative asset and liability for the three and nine months ended September 30, 2014 and September 30, 2013 (*in thousands*):

	Amount of Gain (Loss) Recognized			
	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Interest Rate Products				
Derivatives not designated as hedging instruments	\$ (133)	\$ (40)	\$ (185)	\$ 114
Total	\$ (133)	\$ (40)	\$ (185)	\$ 114
Interest Rate Products				
Derivatives designated as hedging instruments				
Fair value adjustments on derivatives	\$ 19	\$	\$ (216)	\$
Fair value adjustments on hedged items	(20)		197	

Total	\$	(1)	\$	\$	(19)	\$
-------	----	-----	----	----	------	----

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, 2014 the termination value of derivatives in a net liability position, which includes accrued interest, related to these agreements was \$24 thousand. 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, 2014, it could have been required to settle its obligations under the agreements at the termination value.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)****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, 2014, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

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

Assets measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 (*in thousands*):

Description	Fair Value Measurement at September 30, 2014			
	September 30, 2014	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	\$ 500	\$ 500	\$	\$
U.S. Agencies				
Mortgage-backed	3,922		3,922	
State and political subdivisions	8,988		8,988	
Trading - other	18,380	18,380		
Trading securities	31,790	18,880	12,910	
U.S. Treasury	510,217	510,217		
U.S. Agencies	985,423		985,423	
Mortgage-backed	3,166,373		3,166,373	

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

State and political subdivisions	1,965,681		1,965,681	
Corporates	132,109	132,109		
Available for sale securities	6,759,803	642,326	6,117,477	
Company-owned life insurance	26,748		26,748	
Derivatives	4,548		4,548	
Total	\$ 6,822,889	\$ 661,206	\$ 6,161,683	\$
Liabilities				
Deferred compensation	\$ 26,188	\$ 26,188	\$	\$
Contingent consideration liability	54,259			54,259
Derivatives	4,778		4,778	
Total	\$ 85,225	\$ 26,188	\$ 4,778	\$ 54,259

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

Description	Fair Value Measurement at December 31, 2013			
	December 31, 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	515		515	
State and political subdivisions	3,072		3,072	
Trading - other	24,477	24,477		
Trading securities	28,464	24,877	3,587	
U.S. Treasury	110,200	110,200		
U.S. Agencies	1,257,663		1,257,663	
Mortgage-backed	2,944,566		2,944,566	
State and political subdivisions	1,995,246		1,995,246	
Corporates	454,736	454,736		
Available for sale securities	6,762,411	564,936	6,197,475	
Company-owned life insurance	19,619		19,619	
Derivatives	2,518		2,518	
Total	\$ 6,813,012	\$ 589,813	\$ 6,223,199	\$
Liabilities				
Deferred compensation	\$ 19,825	\$ 19,825	\$	\$
Contingent consideration liability	46,201			46,201
Derivatives	2,346		2,346	
Total	\$ 68,372	\$ 19,825	\$ 2,346	\$ 46,201

The following table reconciles the beginning and ending balances of the contingent consideration liability for the nine months ended September 30, 2014 (in thousands):

	Nine Months Ended September 30,	
	2014	2013
Beginning Balance	\$ 46,201	\$ 51,163
Contingency reserve	14,272	
Payment of contingent considerations on acquisitions	(13,725)	(16,172)
Income from fair value adjustments		(138)
Expense from fair value adjustments	7,511	4,462
Ending Balance	\$ 54,259	\$ 39,315

During the nine month period ended September 30, 2014, the Company recorded contingency reserve expense of \$20.3 million in its Consolidated Statement of Income related to the resolution of the PCM dispute. On June 30, 2014, the Company made a payment of \$6.0 million, reducing the remaining contingency reserve to \$14.3 million. The settlement agreement amends the original asset purchase agreement dated June 27, 2010, and subsequent to the settlement, the remaining contingency reserve liability has been included in the table above as additional contingent consideration recorded at fair value. Fair value adjustments made subsequent to settlement are included in the table above as Expense from fair value adjustments.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (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
Liabilities			
Contingent consideration liability	Discounted cash flows	Revenue growth percentage	1% - 98%
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 or dealer quote 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 and Chief Executive 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

Assets measured at fair value on a non-recurring basis as of September 30, 2014 and December 31, 2013 (*in thousands*):

Description	Fair Value Measurement at September 30, 2014				Total Gains (Losses) Recognized During the Nine Months Ended September 30
	September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 13,621	\$	\$	\$ 13,621	\$ 632
Other real estate owned	138			138	\$
Total	\$ 13,759	\$	\$	\$ 13,759	\$ 632

Description	Fair Value Measurement at December 31, 2013				Total Gains (Losses) Recognized During the Twelve Months Ended December 31
	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 15,496	\$	\$	\$ 15,496	\$ (2,496)
Other real estate owned	329			329	(125)
Total	\$ 15,825	\$	\$	\$ 15,825	\$ (2,621)

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 write-downs that are based on the external appraisal value of the underlying collateral. 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. 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, third-party price opinions, or internally developed pricing methods and those measurements are classified as Level 3.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (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, 2014 and December 31, 2013 are as follows (*in millions*):

Fair Value Measurement at September 30, 2014

	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	\$ 238.0	\$	\$ 270.3	\$	\$ 270.3
Federal Reserve Bank and other	71.2		71.2		71.2
Loans (exclusive of allowance for loan loss)	7,104.9		7,136.3		7,136.3
FINANCIAL LIABILITIES					
Time deposits	961.1		960.7		960.7
Long-term debt	7.1		7.3		7.3
OFF-BALANCE SHEET ARRANGEMENTS					
Commitments to extend credit for loans					4.3
Commercial letters of credit					0.1
Standby letters of credit					1.8

Fair Value Measurement at December 31, 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	\$ 209.8	\$	\$ 231.5	\$	\$ 231.5
Federal Reserve Bank and other	50.5		50.5		50.5
Loans (exclusive of allowance for loan loss)	6,521.9		6,571.6		6,571.6
FINANCIAL LIABILITIES					

Time deposits	1,449.6	1,449.4	1,449.4
Long-term debt	5.1	4.5	4.5

OFF-BALANCE SHEET**ARRANGEMENTS**

Commitments to extend credit for loans			6.0
Commercial letters of credit			0.1
Standby letters of credit			2.0

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

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

Federal Reserve Bank and Other Amount consists of Federal Reserve Bank stock held by the Bank, Prairie Capital Management equity-method investments, and other miscellaneous investments. The fair value of Federal Reserve Bank stock is considered to be the carrying value as no readily determinable market exists for these investments because they can only be redeemed with the FRB. The fair value of Prairie Capital Management marketable equity-method investments are based on quoted market prices used to estimate the value of the underlying investment. For non-marketable equity-method investments, the Company's proportionate share of the income or loss is recognized on a one-quarter lag based on the valuation of the underlying investments.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)

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

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

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

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

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 of the Company for the three-month and nine-month periods ended September 30, 2014. It should be read in conjunction with the accompanying consolidated financial statements, notes to consolidated financial statements and other financial statistics appearing elsewhere in this report and the Company's Annual Report on Form 10-K. 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, trend, plan, goal, or other 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 Securities and Exchange Commission (SEC). In addition, the Company may make forward-looking statements orally or in writing 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 the Company's control. You should not rely on any forward-looking statement as a prediction or guarantee about the future. Actual future objectives, strategies, plans, prospects, performance, conditions, 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 to the Company;

Table of Contents

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

the Company's ability to 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 innovate 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 the Company's 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 the financial-services 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 the Company's 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 the Company's ability to integrate acquisitions;

the adequacy of the Company's succession planning for key executives or other personnel;

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 Notes to Consolidated Financial Statements (Item 1) and Management's Discussion and Analysis (Item 2) in this Form 10-Q, in the Risk Factors (Item 1A) in the Company's Annual Report on Form 10-K, or as described in any of the Company's 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 Annual Report on Form 10-K, Quarterly Report on Form 10-Q, or Current Report on Form 8-K.

Table of Contents**Overview**

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

The first strategy is to maintain high quality through a strong balance sheet, solid credit quality, a low cost of funding, and effective risk management. The strength in the Company's balance sheet can be seen in the solid credit quality of its earning assets and the Company's continued growth in low cost funding. At September 30, 2014, the Company's nonperforming assets as a percentage of total assets was 0.21 percent. As a percentage of loans, nonperforming loans decreased to 0.46 percent compared to 0.48 percent on September 30, 2013. These credit quality ratios were achieved while maintaining positive directional growth in average earning assets, which increased 7.7 percent from September 30, 2013, driven primarily by a 10.4 percent increase in average noninterest-bearing demand deposits compared to September 30, 2013.

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 \$5.6 million, or 8.2 percent, for the three months ended September 30, 2014, compared to the same period in 2013. The increase in trust and securities processing income was primarily due to a \$4.1 million, or 20.0 percent, increase in fees related to institutional and personal investment management services and a \$2.3 million, or 11.1 percent, increase in fund administration and custody services. While maintaining the aforementioned credit ratios, the Company's September 30, 2014 average loans increased \$578.0 million, or 9.0 percent, 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 2014, noninterest income increased \$4.9 million, or 4.0 percent, compared to the same period of 2013. The Company continues to emphasize its asset management, brokerage, bankcard services, health care services, and treasury management businesses. In particular, during the third quarter of 2014, this favorable change is primarily attributable to increased trust and securities processing income. At September 30, 2014, noninterest income represented 59.1 percent of total revenues, compared to 58.7 percent at September 30, 2013.

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, 2014, the Company had \$1.6 billion in total shareholders' equity. This is an increase of \$151.7 million, or 10.4 percent, compared to total shareholders' equity at September 30, 2013. At September 30, 2014, the Company had a total risk-based capital ratio of 14.37 percent, which is higher than the 10 percent regulatory minimum to be considered well-capitalized. The Company repurchased 12,155 shares at an average price of \$57.02 per share during the third quarter of 2014.

Earnings Summary

The following is a summary regarding the Company's earnings for the third quarter of 2014. The changes identified in the summary are explained in greater detail below. The Company recorded consolidated net income of \$35.6 million

for the three-month period ended September 30, 2014, compared to \$34.4 million for the same period a year earlier. This represents a 3.5 percent increase over the three-month period ended September 30, 2013. Basic earnings per share for the third quarter of 2014 were \$0.79 per share (\$0.78 per share fully-diluted) compared to \$0.85 per share (\$0.83 per share fully-diluted) for the third quarter of 2013. Return on average assets and return on average common shareholders' equity for the three-month period ended September 30, 2014 were 0.90 and 8.77 percent, respectively, compared to 0.92 and 10.84 percent for the three-month period ended September 30, 2013.

Table of Contents

The Company recorded consolidated net income of \$93.7 million for the nine-month period ended September 30, 2014, compared to \$99.3 million for the same period a year earlier. This represents a 5.6 percent decrease over the nine-month period ended September 30, 2013. Basic earnings per share for the nine-month period ended September 30, 2014 were \$2.09 per share (\$2.06 per share fully-diluted) compared to \$2.47 per share (\$2.44 per share fully-diluted) for the period in 2013. Return on average assets and return on average common shareholders' equity for the nine-month period ended September 30, 2014 were 0.79 and 7.92 percent, respectively, compared to 0.89 and 10.39 percent for the same period in 2013.

Net interest income for the three and nine-month periods ended September 30, 2014 increased \$2.0 million, or 2.3 percent, and \$11.8 million, or 4.8 percent, respectively, compared to the same periods in 2013. For the three-month period ended September 30, 2014, average earning assets increased by \$719.9 million, or 5.2 percent, and for the nine-month period ended September 30, 2014, they increased by \$1.1 billion, or 7.7 percent, compared to the same periods in 2013. Net interest margin, on a tax-equivalent basis, decreased to 2.53 percent and 2.48 percent for the three and nine-months periods ended September 30, 2014, compared to 2.61 percent and 2.56 percent for the same periods in 2013.

The provision for loan losses decreased \$2.0 million for the three-month period ended September 30, 2014, and increased by \$0.5 million for the nine-month period ended September 30, 2014, compared to the same periods in 2013. 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 six basis points to 1.09 percent as of September 30, 2014, compared to September 30, 2013. 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 in the Company's Annual Report on Form 10-K for the year-ended December 31, 2013.

Noninterest income increased by \$4.9 million, or 4.0 percent, for the three-month period ended September 30, 2014, and increased by \$27.2 million, or 7.6 percent, for the nine-month period ended September 30, 2014, compared to the same periods one year ago. These changes are discussed in greater detail below under Noninterest Income. Noninterest expense increased by \$8.4 million, or 5.5 percent, for the three-month period ended September 30, 2014, and increased by \$46.5 million, or 10.2 percent, for the nine-month period ended September 30, 2014, compared to the same periods in 2013. 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, 2014, average earning assets increased by \$719.9 million, or 5.2 percent, and for the nine-month period ended September 30, 2014, they increased by \$1.1 billion, or 7.7 percent, compared to the same periods in 2013. Net interest margin, on a tax-equivalent basis, decreased to 2.53 percent and 2.48 percent for the three and nine-months periods ended September 30, 2014, compared to 2.61 percent and 2.56 percent for the same periods in 2013.

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 current interest rate cycle. While the Company continues to see declining rates, it has been able to improve net interest income through increased volume. As illustrated in this table, net interest spread and margin for the three months

ended September 30, 2014 decreased by eight basis points compared to the same period in 2013. Net interest spread and margin for the nine months ended September 30, 2014 decreased by eight basis points compared to the same period in 2013. These results are primarily due to an unfavorable rate variance, offset by a favorable volume variance on loans. The combined impact of these variances has led to an increase in interest income and a slight decrease in interest expense, or an increase in the Company's net interest income as compared to results for the same periods in 2013.

Table of Contents

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

*Table 1***AVERAGE BALANCES/YIELDS AND RATES** (tax-equivalent basis) (unaudited, dollars in thousands)

The following table presents, for the periods indicated, the average earning assets and resulting yields, as well as the average interest-bearing liabilities and resulting yields, expressed in both dollars and rates. All average balances are daily average balances. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.47 percent for the three-month period ended September 30, 2014 and 2.55 percent for the same period in 2013. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.43 percent for the nine-month period ended September 30, 2014 and 2.51 percent for the same period in 2013.

	Three Months Ended September 30,			
	2014		2013	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Assets				
Loans, net of unearned interest	\$ 6,996,363	3.50%	\$ 6,418,368	3.65%
Securities:				
Taxable	4,864,337	1.54	4,835,235	1.56
Tax-exempt	2,128,281	2.80	2,150,108	2.95
Total securities	6,992,618	1.92	6,985,343	1.99
Federal funds and resell agreements	61,161	0.56	46,593	0.53
Interest-bearing due from banks	501,157	0.34	342,307	0.32
Trading	24,550	0.95	63,302	1.85
Total earning assets	14,575,849	2.62	13,855,913	2.71
Allowance for loan losses	(77,347)		(72,792)	
Other assets	1,139,820		1,140,648	
Total assets	\$ 15,638,322		\$ 14,923,769	
Liabilities and Shareholders Equity				
Interest-bearing deposits	\$ 7,444,093	0.16%	\$ 7,117,927	0.17%
Federal funds and repurchase agreements	1,347,665	0.11	1,764,082	0.09
Borrowed funds	5,728	(5.68)	4,688	5.84
Total interest-bearing liabilities	8,797,486	0.15	8,886,697	0.16
Noninterest-bearing demand deposits	5,060,662		4,669,742	
Other liabilities	167,704		107,000	
Shareholders equity	1,612,470		1,260,330	

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Total liabilities and shareholders equity	\$ 15,638,322		\$ 14,923,769
Net interest spread		2.47%	2.55%
Net interest margin		2.53	2.61

Table of Contents

	Nine Months Ended September 30,		2013	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Assets				
Loans, net of unearned interest	\$ 6,858,874	3.53%	\$ 6,132,892	3.72%
Securities:				
Taxable	4,862,439	1.56	4,894,956	1.54
Tax-exempt	2,114,251	2.87	2,086,482	2.99
Total securities	6,976,690	1.96	6,981,438	1.97
Federal funds and resell agreements	40,461	0.55	31,519	0.53
Interest-bearing due from banks	934,532	0.29	580,309	0.29
Trading	33,257	1.46	62,470	1.89
Total earning assets	14,843,814	2.57	13,788,628	2.67
Allowance for loan losses	(76,100)		(71,438)	
Other assets	1,153,074		1,144,064	
Total assets	\$ 15,920,788		\$ 14,861,254	
Liabilities and Shareholders Equity				
Interest-bearing deposits	\$ 7,511,115	0.16%	\$ 7,026,963	0.19%
Federal funds and repurchase agreements	1,534,966	0.11	1,762,087	0.11
Borrowed funds	5,735	1.24	4,888	5.20
Total interest-bearing liabilities	9,051,816	0.16	8,793,938	0.18
Noninterest-bearing demand deposits	5,126,660		4,644,338	
Other liabilities	160,140		145,533	
Shareholders equity	1,582,172		1,277,445	
Total liabilities and shareholders equity	\$ 15,920,788		\$ 14,861,254	
Net interest spread		2.41%		2.49%
Net interest margin		2.48		2.56

Table 2 presents the dollar amount of change in net interest income and margin due to volume and rate. Table 2 also reflects the effect that interest-free funds have on net interest margin. Although the average balance of interest-free funds (total earning assets less interest-bearing liabilities) increased \$809.1 million for the three-month and \$797.3 million for the nine-month periods ended September 30, 2014 compared to the same periods in 2013, the benefit from interest free funds was flat in the three-month and nine-month periods due to decreases in interest rates.

Table of Contents

Table 2

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

	Three Months Ended September 30, 2014 vs 2013			Nine Months Ended September 30, 2014 vs 2013		
	Volume	Rate	Total	Volume	Rate	Total
Change in interest earned on:						
Loans	\$ 5,091	\$ (2,580)	\$ 2,511	\$ 19,161	\$ (8,775)	\$ 10,386
Securities:						
Taxable	113	(246)	(133)	(380)	921	541
Tax-exempt	(93)	(500)	(593)	738	(1,504)	(766)
Federal funds sold and resell agreements	21	4	25	37	3	40
Interest-bearing due from banks	135	15	150	764	(25)	739
Trading	(94)	(145)	(239)	(174)	(323)	(497)
Interest income	5,173	(3,452)	1,721	20,146	(9,703)	10,443
Change in interest incurred on:						
Interest-bearing deposits	132	(214)	(82)	591	(1,647)	(1,056)
Federal funds purchased and repurchase agreements	(111)	84	(27)	(191)	41	(150)
Borrowed funds	(15)	(136)	(151)	8	(145)	(137)
Interest expense	6	(266)	(260)	408	(1,751)	(1,343)
Net interest income	\$ 5,167	\$ (3,186)	\$ 1,981	\$ 19,738	\$ (7,952)	\$ 11,786

ANALYSIS OF NET INTEREST MARGIN

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Average earning assets	\$ 14,575,849	\$ 13,855,913	\$ 719,936	\$ 14,843,814	\$ 13,788,628	\$ 1,055,186
Average interest-bearing liabilities	8,797,486	8,886,697	(89,211)	9,051,816	8,793,938	257,878
Average interest free funds	\$ 5,778,363	\$ 4,969,216	\$ 809,147	\$ 5,791,998	\$ 4,994,690	\$ 797,308
	39.64%	35.86%	3.78%	39.02%	36.22%	2.80%

Free funds ratio (free funds to earning assets)						
Tax-equivalent yield on earning assets	2.62	2.71		2.57	2.67	(0.10)
Cost of interest-bearing liabilities	0.15	0.16	(0.01)	0.16	0.18	(0.02)
Net interest spread	2.47	2.55	(0.08)	2.41	2.49	(0.08)
Benefit of interest-free funds	0.06	0.06	0.00	0.07	0.07	0.00
Net interest margin	2.53%	2.61%	(0.08)%	2.48%	2.56%	(0.08)%

Table of Contents**Provision and Allowance for Loan Losses**

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

Based on the factors above, management of the Company expensed \$4.5 million and \$14.0 million related to the provision for loan losses for the three and nine-month periods ended September 30, 2014, compared to \$6.5 million and \$13.5 million for the same periods in 2013. As illustrated in Table 3 below, the ALL decreased to 1.09 percent of total loans as of September 30, 2014, compared to 1.15 percent of total loans as of the same period in 2013.

Table 3 presents a summary of the Company's ALL for the nine months ended September 30, 2014 and 2013, and for the year ended December 31, 2013. Net charge-offs were \$11.4 million for the first nine months of 2014, compared to \$10.0 million for the same period in 2013. See "Credit Risk Management" under "Item 3. Quantitative and Qualitative Disclosures About Market Risk" in this report for information relating to nonaccrual loans, past due loans, restructured loans and other credit risk matters.

Table 3

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

	Nine Months Ended		Year Ended
	September 30,		December 31,
	2014	2013	2013
Allowance-January 1	\$ 74,751	\$ 71,426	\$ 71,426
Provision for loan losses	14,000	13,500	17,500
Charge-offs:			
Commercial	(4,980)	(3,015)	(4,748)
Consumer:			
Credit card	(7,751)	(8,079)	(10,531)
Other	(1,130)	(1,186)	(1,600)
Real estate	(238)	(533)	(775)
Total charge-offs	(14,099)	(12,813)	(17,654)
Recoveries:			
Commercial	664	761	867
Consumer:			
Credit card	1,413	1,349	1,720
Other	562	678	815
Real estate	25	37	77

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Total recoveries	2,664	2,825	3,479
Net charge-offs	(11,435)	(9,988)	(14,175)
Allowance-end of period	\$ 77,316	\$ 74,938	\$ 74,751
Average loans, net of unearned interest	\$ 6,857,813	\$ 6,128,029	\$ 6,217,240
Loans at end of period, net of unearned interest	7,103,163	6,506,902	6,520,512
Allowance to loans at end of period	1.09%	1.15%	1.15%
Allowance as a multiple of net charge-offs	5.06x	5.61x	5.27x
Net charge-offs to:			
Provision for loan losses	81.68%	73.99%	81.00%
Average loans	0.22	0.22	0.23

Table of Contents**Noninterest Income**

A key objective of the Company is the growth of noninterest income to enhance profitability and provide steady income. Fee-based businesses are typically non-credit related and not generally affected by fluctuations in interest rates but instead are largely driven by the underlying asset values, which are driven by fund inflows, outflows, and market fluctuations.

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

*Table 4***SUMMARY OF NONINTEREST INCOME** (unaudited, dollars in thousands)

	Three Months Ended		Dollar Change	Percent Change
	September 30, 2014	September 30, 2013		
Trust and securities processing	\$ 74,062	\$ 68,465	\$ 5,597	8.17%
Trading and investment banking	3,826	3,792	34	0.90
Service charges on deposit accounts	21,634	21,036	598	2.84
Insurance fees and commissions	911	869	42	4.83
Brokerage fees	3,276	2,895	381	13.16
Bankcard fees	17,121	15,196	1,925	12.67
Gains on sales of securities available for sale, net	26	1,140	(1,114)	(97.72)
Equity earnings on alternative investments	2,470	4,241	(1,771)	(41.76)
Other	3,149	3,991	(842)	(21.10)
Total noninterest income	\$ 126,475	\$ 121,625	\$ 4,850	3.99%

	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2014	September 30, 2013		
Trust and securities processing	\$ 218,982	\$ 194,263	\$ 24,719	12.72%
Trading and investment banking	14,558	16,324	(1,766)	(10.82)
Service charges on deposits	63,819	63,441	378	0.60
Insurance fees and commissions	2,246	3,066	(820)	(26.74)
Brokerage fees	8,166	8,727	(561)	(6.43)
Bankcard fees	49,929	47,666	2,263	4.75
Gains on sales of securities available for sale, net	4,065	8,552	(4,487)	(52.47)
Equity earnings on alternative investments	8,462	4,241	4,221	99.53
Other	13,213	9,946	3,267	32.85

Total noninterest income	\$ 383,440	\$ 356,226	\$ 27,214	7.64%
--------------------------	------------	------------	-----------	-------

Fee-based, or noninterest income (summarized in Table 4), increased by \$4.9 million, or 4.0 percent, during the three months ended September 30, 2014, and increased by \$27.2 million, or 7.6 percent, during the nine months ended September 30, 2014, compared to the same periods in 2013. Table 4 above summarizes the components of noninterest income and the respective year-over-year comparison for each category.

Table of Contents

Trust and securities processing consists of fees earned on personal and corporate trust accounts, custody of securities services, trust investments and investment management services, and servicing of mutual fund assets. The increase in these fees for the three and nine-month periods compared to the same periods last year was primarily due to changes in three categories of income. Institutional and personal investment management services fees for the three and nine-month periods ended September 30, 2014, increased by \$4.1 million, or 20.0 percent, and \$10.9 million, or 18.1 percent, respectively. Fund administration and custody services fees for the three and nine-month periods ended September 30, 2014, increased by \$2.3 million, or 11.1 percent, and \$6.7 million, or 11.4 percent, respectively, due to an increase in the underlying assets under administration. Advisory fee income from the Scout Funds for the three and nine-month periods ended September 30, 2014, decreased by \$1.6 million, or 6.6 percent, and increased by \$4.8 million, or 7.1 percent, respectively, due to changes in the underlying assets under management for the respective periods. Since trust and securities processing fees are primarily asset-based, which are highly correlated to the change in market value of the assets, the related income for the remainder of the year will be affected by changes in the securities markets. Management continues to emphasize sales of services to both new and existing clients as well as increasing and improving the distribution channels.

Trading and investment banking fees for the three-month period ended September 30, 2014 were flat, while the nine-month period decreased \$1.8 million, or 10.8 percent. The income in this category is market driven and impacted by general increases or decreases in trading volume.

Bankcard fees for the three and nine-month periods ended September 30, 2014, increased \$1.9 million, or 12.7 percent, and increased \$2.3 million, or 4.7 percent, respectively. These increases were driven by higher interchange income.

During the three and nine-month periods ended September 30, 2014, \$26 thousand and \$4.1 million in pre-tax gains were recognized on the sales of securities available for sale, compared to \$1.1 million and \$8.6 million for the same periods in 2013. The investment portfolio is continually evaluated for opportunities to improve its performance and risk profile relative to market conditions and the Company's interest rate expectations. This can result in differences from quarter to quarter in the amount of realized gains.

During the three and nine-month periods ended September 30, 2014, \$2.5 million and \$8.5 million of equity earnings on alternative investments were recognized on Prairie Capital Management investments, compared to \$4.2 million for both of the same periods in 2013 due to increases in the underlying fund investments.

Other noninterest income for the three-month period ended September 30, 2014, decreased \$1.2 million, or 27.7 percent primarily driven by decreased valuations on Company-owned life insurance investments. Other noninterest income for the nine-month period ended September 30, 2014 increased \$2.9 million, or 28.1 percent, primarily driven by a \$2.8 million gain on the sale of a branch property.

Table of Contents**Noninterest Expense**

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

Table 5

SUMMARY OF NONINTEREST EXPENSE (unaudited in thousands)

	Three Months Ended		Dollar Change 14-13	Percent Change 14-13
	September 30, 2014	September 30, 2013		
Salaries and employee benefits	\$ 90,041	\$ 83,733	\$ 6,308	7.53%
Occupancy, net	10,475	10,016	459	4.58
Equipment	13,408	12,205	1,203	9.86
Supplies and services	4,817	4,761	56	1.18
Marketing and business development	6,057	5,536	521	9.41
Processing fees	14,085	14,471	(386)	(2.67)
Legal and consulting	4,496	4,433	63	1.42
Bankcard	4,097	4,561	(464)	(10.17)
Amortization of other intangible assets	3,043	3,245	(202)	(6.22)
Regulatory fees	2,577	2,670	(93)	(3.48)
Contingency reserve				
Other	8,365	7,432	933	12.55
Total noninterest expense	\$ 161,461	\$ 153,063	\$ 8,398	5.49%

	Nine Months Ended		Dollar Change 14-13	Percent Change 14-13
	September 30, 2014	September 30, 2013		
Salaries and employee benefits	\$ 268,454	\$ 251,000	\$ 17,454	6.95%
Occupancy, net	29,885	29,175	710	2.43
Equipment	38,991	36,012	2,979	8.27
Supplies and services	15,008	14,611	397	2.72
Marketing and business development	16,966	15,514	1,452	9.36
Processing fees	42,553	42,854	(301)	(0.70)
Legal and consulting	12,500	12,877	(377)	(2.93)
Bankcard	12,782	13,817	(1,035)	(7.49)
Amortization of other intangible assets	9,219	10,054	(835)	(8.31)
Regulatory fees	7,802	7,066	736	10.42
Contingency reserve	20,272		20,272	>100.00
Other	25,781	20,772	5,009	24.11
Total noninterest expense	\$ 500,213	\$ 453,752	\$ 46,461	10.24%

Noninterest expense increased by \$8.4 million, or 5.5 percent, for the three months ended September 30, 2014, and increased \$46.5 million, or 10.2 percent, compared to the same period in 2013. Table 5 above summarizes the components of noninterest expense and the respective year-over-year comparison for each category.

Table of Contents

Salaries and employee benefits increased by \$6.3 million, or 7.5 percent, and increased \$17.5 million, or 7.0 percent, for the three and nine months ended September 30, 2014 compared to the same period in 2013. These increases are due to increases in salaries and wages of \$3.2 million, or 5.9 percent, and \$8.3 million, or 5.3 percent, for the three and nine months ended September 30, 2014, compared to the same periods in 2013. Commissions and bonuses increased \$3.2 million, or 20.3 percent, and \$5.6 million, or 11.2 percent, for the three and nine months ended September 30, 2014, compared to the same periods in 2013 driven by increases in the related fee revenue. Employee benefits expense was flat for the three month period and increased \$3.5 million, or 7.9 percent, for the nine month period ended September 30, 2014, compared to the same periods in 2013.

Equipment expense increased \$1.2 million, or 9.9 percent, and \$3.0 million, or 8.3 percent, for the three and nine months ended September 30, 2014 compared to the same period in 2013. The increases in both periods are due to increased computer hardware and software expenses.

Other noninterest expense increased \$0.9 million, or 12.6 percent, and \$5.0 million, or 24.1 percent, for the three and nine months ended September 30, 2014 compared to the same period in 2013. The increase for the three-month period is due to fair value adjustments to the contingent consideration liabilities on acquisitions. The increase for the nine-month period is due to increases in fair value adjustments to the contingent consideration liabilities on acquisitions and increases in value adjustments on interest rate swap transactions.

On June 30, 2014, the Company entered into a settlement agreement to resolve objections to its calculation of the earn-out amount owed to the sellers of PCM and a related incentive bonus calculation for the employees of PCM. As of March 31, 2014, \$15.0 million of contingency reserve expense had been accrued related to this dispute. An additional \$5.3 million of contingency reserve expense was recorded during the second quarter for a total estimated settlement liability of \$20.3 million. Cash payments totaling \$6.0 million were made on June 30, 2014 for this liability with final settlement payments to be made in the third quarter of 2015. This contingency reserve is included in the Contingency reserve line on Company's Consolidated Statements of Income. Fair value adjustments subsequent to the settlement date are included in Other noninterest expense.

Income Tax Expense

The Company's effective tax rate is 27.0 percent for the nine months ended September 30, 2014, compared to 27.2 percent for the same period in 2013.

Strategic Lines of Business

Table 6

Bank Operating Results (unaudited, dollars in thousands)

	Three Months Ended September 30,		Dollar Change	Percent Change
	2014	2013	14-13	14-13
Net interest income	\$ 72,906	\$ 73,419	\$ (513)	(0.70)%
Provision for loan losses	2,446	1,833	613	33.44
Noninterest income	48,385	48,945	(560)	(1.14)
Noninterest expense	99,307	93,150	6,157	6.61

Income before taxes	19,538	27,381	(7,843)	(28.64)
Income tax expense	5,081	6,922	(1,841)	(26.60)
Net income	\$ 14,457	\$ 20,459	\$ (6,002)	(29.34)%

	Nine Months Ended September 30,		Dollar	Percent
	2014	2013	Change	Change
			14-13	14-13
Net interest income	\$ 216,508	\$ 211,238	\$ 5,270	2.49%
Provision for loan losses	7,558	3,770	3,788	100.48
Noninterest income	151,843	148,129	3,714	2.51
Noninterest expense	308,013	277,226	30,787	11.11
Income before taxes	52,780	78,371	(25,591)	(32.65)
Income tax expense	14,326	19,629	(5,303)	(27.02)
Net income	\$ 38,454	\$ 58,742	\$ (20,288)	(34.54)%

Table of Contents

Bank net income decreased by \$20.3 million, or 34.5 percent, to \$38.5 million for the nine-month period ended September 30, 2014, compared to the same period in 2013. Net interest income increased \$5.3 million, or 2.5 percent, for the nine-month period ended September 30, 2014, compared to the same period in 2013, driven by commercial and commercial real estate loan growth, while being slightly offset by interest rate margin compression. Provision for loan losses increased by \$3.8 million, due to characteristics of the loan portfolio driving an increased allowance for loan loss reserve for this segment. Noninterest income increased \$3.7 million, or 2.5 percent, over the same period in 2013 driven by increased trust and securities processing income of \$6.9 million, increased unrealized gains on Prairie Capital Management equity method investments of \$4.6 million, and an increase in other noninterest income of \$4.2 million. The increase in trust and securities processing income is due to an increase in asset values and new business generated during the current year compared to the same period last year. The increase in other noninterest income is due to a gain on the sale of a branch property of \$2.8 million and an increase in fair value adjustments on interest rate swaps of \$1.4 million. These increases were offset by decreases of \$2.7 million in bond trading income, securities gains of \$4.5 million, card services income of \$1.9 million, and deposit service charges of \$1.5 million compared to the same period last year.

Noninterest expense increased \$30.8 million, or 11.1 percent, to \$308.0 million for the nine-month period ended September 30, 2014, compared to the same period in 2013. The increase in noninterest expense is primarily due to a \$20.3 million contingency reserve recorded in the current year and a \$6.2 million increase in salaries and benefits compared to the same period last year. On June 30, 2014, the Company entered into a settlement agreement to resolve objections to its calculation of the earn-out amount owed to the sellers of PCM and a related incentive bonus calculation for the employees of PCM. A contingency reserve of \$20.3 million was recorded in 2014 related to the settlement.

*Table 7***Payment Solutions Operating Results** (unaudited, dollars in thousands)

	Three Months Ended September 30,		Dollar Change 14-13	Percent Change 14-13
	2014	2013		
Net interest income	\$ 13,442	\$ 11,587	\$ 1,855	16.01%
Provision for loan losses	2,054	4,667	(2,613)	(55.99)
Noninterest income	21,579	18,409	3,170	17.22
Noninterest expense	22,056	21,658	398	1.84
Income before taxes	10,911	3,671	7,240	197.22
Income tax expense	2,795	1,283	1,512	117.85
Net income	\$ 8,116	\$ 2,388	\$ 5,728	239.87%

	Nine Months Ended September 30,		Dollar Change 14-13	Percent Change 14-13
	2014	2013		

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Net interest income	\$ 38,220	\$ 34,327	\$ 3,893	11.34%
Provision for loan losses	6,442	9,730	(3,288)	(33.79)
Noninterest income	62,998	56,486	6,512	11.53
Noninterest expense	67,680	63,626	4,054	6.37
Income before taxes	27,096	17,457	9,639	55.22
Income tax expense	7,272	5,464	1,808	33.09
Net income	\$ 19,824	\$ 11,993	\$ 7,831	65.30%

Table of Contents

For the nine-month period ended September 30, 2014, Payment Solutions net income increased \$7.8 million, or 65.3 percent, to \$19.8 million compared to the same period in 2013. Net interest income increased \$3.9 million, or 11.3 percent and provision for loan losses decreased \$3.3 million for the nine months ended September 30, 2014, compared to the same period in 2013. Noninterest income increased \$6.5 million, or 11.5 percent, driven by an increase in card services income of \$4.2 million and an increase in deposit service charges of \$1.8 million. Noninterest expense increased by \$4.1 million, or 6.4 percent, primarily due to increased staffing, technology, and occupancy expenses compared to the same period last year.

Table 8

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

	Three Months Ended September 30,		Dollar Change	Percent Change
	2014	2013	14-13	14-13
Net interest income	\$	\$ (11)	\$ 11	100.00%
Provision for loan losses				
Noninterest income	33,919	33,842	77	0.23
Noninterest expense	20,910	21,054	(144)	(0.68)
Income before taxes	13,009	12,777	232	1.82
Income tax expense	3,350	3,506	(156)	(4.45)
Net income	\$ 9,659	\$ 9,271	\$ 388	4.19%

	Nine Months Ended September 30,		Dollar Change	Percent Change
	2014	2013	14-13	14-13
Net interest income	\$ (3)	\$ (22)	\$ 19	86.36%
Provision for loan losses				
Noninterest income	102,014	91,550	10,464	11.43
Noninterest expense	68,848	58,754	10,094	17.18
Income before taxes	33,163	32,774	389	1.19
Income tax expense	8,887	8,880	7	0.08
Net income	\$ 24,276	\$ 23,894	\$ 382	1.60%

For the nine months ended September 30, 2014, Institutional Investment Management net income increased \$382 thousand, or 1.6 percent, compared to the same period last year. Noninterest income increased \$10.5 million, or 11.4 percent, due to a \$6.3 million increase in advisory fees from separately managed accounts and a \$4.8 million increase in advisory fees from the Scout Funds, both of which are driven by increased assets under management. Scout assets under management totaled \$30.6 billion as of September 30, 2014 compared to \$29.3 billion for the same period in 2013. The increase in noninterest expense of \$10.1 million, or 17.2 percent, over the prior year was primarily due to a \$4.9 million increase in salaries and benefits and a \$4.1 million increase in contingent consideration liabilities related

to the Reams acquisition.

Table of Contents

Table 9

Asset Servicing Operating Results (unaudited, dollars in thousands)

	Three Months Ended		Dollar Change 14-13	Percent Change 14-13
	September 30, 2014	September 30, 2013		
Net interest income	\$ 1,178	\$ 550	\$ 628	114.18%
Provision for loan losses				
Noninterest income	22,592	20,429	2,163	10.59
Noninterest expense	19,188	17,201	1,987	11.55
Income before taxes	4,582	3,778	804	21.28
Income tax expense	1,184	1,464	(280)	(19.13)
Net income	\$ 3,398	\$ 2,314	\$ 1,084	46.85%
	Nine Months Ended		Dollar Change 14-13	Percent Change 14-13
	September 30, 2014	September 30, 2013		
Net interest income	\$ 4,416	\$ 1,812	\$ 2,604	143.71%
Provision for loan losses				
Noninterest income	66,585	60,061	6,524	10.86
Noninterest expense	55,672	54,146	1,526	2.82
Income before taxes	15,329	7,727	7,602	98.38
Income tax expense	4,168	3,054	1,114	36.48
Net income	\$ 11,161	\$ 4,673	\$ 6,488	138.84%

For the nine months ended September 30, 2014, Asset Servicing net income increased \$6.5 million, or 138.8 percent, to \$11.2 million as compared to the same period last year. Net interest income increased \$2.6 million compared to last year. Noninterest income increased \$6.5 million, or 10.9 percent, due to a \$6.7 million, or 11.2 percent, increase in fee income driven primarily by an increase in custody fees and new business added in alternative investment and fund administration services. As of September 30, 2014, assets under administration totaled \$198.8 billion compared to \$181.7 billion at September 30, 2013. Noninterest expense remained flat with the same period last year.

Balance Sheet Analysis

Total assets of the Company decreased by \$627.8 million, or 3.7 percent, as of September 30, 2014, compared to December 31, 2013, primarily due to a decrease in due from Federal Reserve balances of \$1.2 billion, or 60.0 percent, offset by an increase in loan balances of \$582.7 million, or 8.9 percent. The overall decrease in total assets is directly related to a corresponding decrease in deposit balances of \$887.3 million, or 6.5 percent, from December 31, 2013 to September 30, 2014.

Total assets of the Company increased \$99.8 million as of September 30, 2014, or 0.6 percent, compared to September 30, 2013. This slight increase is a result of an increase in loans of \$596.3 million, or 9.2 percent, mostly offset by a decrease in due from Federal Reserve balances of \$511.3 million, or 38.3 percent. The overall increase in total assets from September 30, 2013 to September 30, 2014 is directly related to a corresponding increase in borrowed funds of \$185.6 million, or 12.1 percent, and an increase in total shareholder's equity of \$151.7 million, or 10.4 percent, offset by a decrease in total deposits of \$287.6 million, or 2.2 percent.

Table of Contents

Table 10

SELECTED BALANCE SHEET INFORMATION (unaudited, dollars in thousands)

	September 30,		December 31,
	2014	2013	2013
Total assets	\$ 16,284,028	\$ 16,184,233	\$ 16,911,852
Loans, net of unearned interest	7,103,163	6,506,902	6,520,512
Total investment securities	7,100,746	6,960,462	7,051,127
Interest-bearing due from banks	986,428	1,357,881	2,093,467
Total earning assets	15,179,994	14,807,774	15,678,730
Total deposits	12,753,437	13,041,044	13,640,766
Total borrowed funds	1,718,876	1,533,305	1,588,380

Loans

Loans represent the Company's largest source of interest income. In addition to growing the commercial loan portfolio, management believes its middle market commercial business and its consumer business, including home equity and credit card loan products, are the market niches that represent its best opportunity to cross-sell fee-related services.

Total loan balances increased \$582.7 million, or 8.9 percent, to \$7.1 billion at September 30, 2014 compared to December 31, 2013 and increased \$596.3 million, or 9.2 percent, compared to September 30, 2013. Compared to December 31, 2013, commercial loans increased \$237.8 million, or 7.2 percent, commercial real estate loans increased \$104.8 million, or 6.2 percent, and construction real estate loans increased \$92.9 million, or 60.8 percent. Compared to September 30, 2013, commercial real estate loans increased \$171.7 million, or 10.5 percent, commercial loans increased \$162.9 million, or 4.8 percent, and construction real estate loans increased \$123.2 million, or 100.5 percent. The increase in total loans is driven by the Company's focus on generating higher-yielding assets by shifting assets from the securities portfolio to the loan portfolio.

Nonaccrual, past due and restructured loans are discussed under "Credit Risk Management" within "Item 3. Quantitative and Qualitative Disclosures About Market Risk" in this report.

Investment Securities

The Company's securities portfolio provides liquidity as a result of the composition and average life of the underlying securities. This liquidity can be used to fund loan growth or to offset the outflow of traditional funding sources. In addition to providing a potential source of liquidity, the securities portfolio can be used as a tool to manage interest rate sensitivity. The Company's goal in the management of its securities portfolio is to maximize return within the Company's parameters of liquidity goals, interest rate risk and credit risk. The Company maintains strong liquidity levels while investing in only high-grade securities. The securities portfolio generates the Company's second largest component of interest income.

Investment securities totaled \$7.1 billion at September 30, 2014 and December 31, 2013, compared to \$7.0 billion at September 30, 2013. Management expects collateral pledging requirements for public funds, loan demand, and deposit funding to be the primary factors impacting changes in the level of security holdings. Investment securities comprised 46.8 percent, 45.0 percent, and 47.0 percent of the earning assets as of September 30, 2014, December 31, 2013, and September 30, 2013, respectively. There were \$5.1 billion of these securities pledged to secure U.S.

Government deposits, other public deposits, certain trust deposits, and other potential borrowings as required by law at September 30, 2014. Of this amount, securities with a market value of \$1.4 billion at September 30, 2014 were pledged at the Federal Reserve Discount Window but were unencumbered as of that date.

Table of Contents

Investment securities had an average tax-equivalent yield of 1.96 percent for the first nine months of 2014 compared to 1.97 percent for the same period in 2013. The average life of the available for sale securities portfolio was 45.2 months at September 30, 2014 compared to 47.7 months at December 31, 2013 and 49.4 months at September 30, 2013. The decrease in average life from September 30, 2013 and December 31, 2013 was primarily related to the Company's strategy to gradually lower the market value sensitivity of the portfolio as well as to better position the portfolio for a rising interest rate environment.

Deposits and Borrowed Funds

Deposits decreased \$887.3 million, or 6.5 percent, from December 31, 2013 to September 30, 2014 and decreased \$287.6 million, or 2.2 percent, from September 30, 2013. Noninterest-bearing deposits increased \$277.8 million and interest-bearing deposits decreased \$1.2 billion from December 31, 2013. The decrease in interest-bearing deposits from December 31, 2013 is primarily due to a single Asset Servicing client that migrated approximately \$1.5 billion of money market deposits to another financial institution during the first quarter of 2014. Noninterest-bearing deposits decreased \$160.4 million and interest-bearing deposits decreased \$127.2 million compared to September 30, 2013.

Deposits represent the Company's primary funding source for its asset base. In addition to the core deposits garnered by the Company's retail branch structure, the Company continues to focus on its cash management services, as well as its trust and mutual fund servicing segments, in order to attract and retain additional core deposits. Management believes a strong core deposit composition is one of the Company's key strengths given its competitive product mix.

Borrowed funds increased \$130.5 million from December 31, 2013 and increased \$185.6 million from September 30, 2013. Borrowings, other than repurchase agreements, are a function of the source and use of funds and will fluctuate to cover short term gaps in funding.

Federal funds purchased and securities sold under agreement to repurchase totaled \$1.7 billion at September 30, 2014, compared to \$1.6 billion and \$1.5 billion at December 31, 2013 and September 30, 2013, respectively. Repurchase agreements are transactions involving the exchange of investment funds by the customer for securities by the Company under an agreement to repurchase the same or similar issues at an agreed-upon price and date.

Capital and Liquidity

The Company places a significant emphasis on the maintenance of a strong capital position, which 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. Higher levels of liquidity, however, bear corresponding costs, measured in terms of lower yields on short-term, more liquid earning assets and higher expenses for extended liability maturities. The Company manages capital for each subsidiary based upon the subsidiary's respective risks and growth opportunities as well as regulatory requirements.

Total shareholders' equity was \$1.6 billion at September 30, 2014, a \$109.3 million increase compared to December 31, 2013, and a \$151.7 million increase compared to September 30, 2013.

The Company's Board of Directors authorized, at its April 22, 2014 and April 23, 2013 meetings, the repurchase of up to two million shares of the Company's common stock during the twelve months following the meetings. During the nine months ended September 30, 2014 and 2013, the Company acquired 64,278 shares and 51,257 shares under the 2014 and 2013 plans, respectively, of its common stock. The Company has not made any purchases other than through these plans.

On October 28, 2014, the Board of Directors declared a dividend of \$0.235 per share. The dividend will be paid on January 2, 2015 to shareholders of record on December 10, 2014.

Risk-based capital guidelines established by regulatory agencies set minimum capital standards based on the level of risk associated with a financial institution's assets. A financial institution's total capital is required to equal at least 8 percent of risk-weighted assets. At least half of that 8 percent must consist of Tier 1 core capital, and the remainder may be Tier 2 supplementary capital. The risk-based capital guidelines indicate the specific risk weightings by type of asset. Certain off-balance-sheet items (such as standby letters of credit and binding loan commitments) are multiplied by credit conversion factors to translate them into balance sheet equivalents before assigning them specific risk weightings. Due to the Company's high level of core capital and substantial portion of earning assets invested in government securities, the Tier 1 capital ratio of 13.72 percent and total capital ratio of 14.51 percent substantially exceed the regulatory minimums.

Table of Contents

The Company is also required to maintain a leverage ratio equal to or greater than 4 percent. The leverage ratio is Tier 1 core capital to total average assets less goodwill and intangibles. The Company's leverage ratio of 8.90 percent as of September 30, 2014 substantially exceeds the regulatory minimum.

In July 2013 the Federal Reserve approved a final rule to implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. The final rule increases minimum requirements for both the quantity and quality of capital held by banking organizations. The rule includes a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5% and a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets.

The final rule substantially revises the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and UMB Bank, n.a., compared to the current U.S. risk-based capital rules. The rule defines the components of capital and addresses other issues affecting the numerator in banking institutions' regulatory capital ratios. The rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replaces the existing risk-weighting approach to enhance risk sensitivity.

Beginning January 1, 2015, the Company must be compliant with revised minimum regulatory capital ratios and will begin the transitional period for definitions of regulatory capital and regulatory capital adjustments and deductions established under the final rule. Compliance with the risk-weighted asset calculations will also be required on January 1, 2015. The impact of these new rules will require the Company to maintain capital in excess of current well-capitalized regulatory standards. The Company believes its capital ratios will be higher than those required in the final rule.

Table 11

The Company's capital position is summarized in the table below and exceeds regulatory requirements:

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
<u>RATIOS</u>				
Return on average assets	0.90%	0.92%	0.79%	0.89%
Return on average equity	8.77	10.84	7.92	10.39
Average equity to assets	10.31	8.45	9.94	8.60
Tier 1 risk-based capital ratio	13.72	12.93	13.72	12.93
Total risk-based capital ratio	14.51	13.74	14.51	13.74
Leverage ratio	8.90	8.34	8.90	8.34

The Company's per share data is summarized in the table below.

Three Months Ended September 30,	Nine Months Ended
-------------------------------------	----------------------

	2014	2013	September 30,	
			2014	2013
<u>Per Share Data</u>				
Earnings basic	\$ 0.79	\$ 0.85	\$ 2.09	\$ 2.47
Earnings diluted	0.78	0.83	2.06	2.44
Cash dividends	0.225	0.215	0.675	0.645
Dividend payout ratio	28.48%	25.29%	32.30%	26.11%
Book value	\$ 35.51	\$ 32.85	\$ 35.51	\$ 32.85

Table of Contents

Off-balance Sheet Arrangements

The Company's main off-balance sheet arrangements are loan commitments, commercial and standby letters of credit, futures contracts and forward exchange contracts, which have maturity dates rather than payment due dates. Please see Note 7, "Commitments, Contingencies and Guarantees" in the Notes to Consolidated Financial Statements for detailed information on these arrangements.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to allowance for loan losses, investments, long-lived assets, contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which have formed the basis for making such judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the recorded estimates under different assumptions or conditions. A summary of critical accounting policies is listed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Company's Annual Report Form 10-K for the fiscal year ended December 31, 2013.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of financial instruments. These changes may be the result of various factors, including interest rates, foreign exchange prices, commodity prices or equity prices. Financial instruments that are subject to market risk can be classified either as held for trading or held for purposes other than trading.

Interest Rate Risk

In the banking industry, a major risk exposure is changing interest rates. To minimize the effect of interest rate changes to net interest income and exposure levels to economic losses, the Company manages its exposure to changes in interest rates through asset and liability management within guidelines established by its Asset Liability Committee (ALCO) and approved by the Company's Board of Directors. The ALCO has the responsibility for approving and ensuring compliance with asset/liability management policies, including interest rate exposure. The Company's primary method for measuring and analyzing consolidated interest rate risk is the Net Interest Income Simulation Analysis. The Company also uses a Net Portfolio Value model to measure market value risk under various rate change scenarios and a gap analysis to measure maturity and repricing relationships between interest-earning assets and interest-bearing liabilities at specific points in time. On a limited basis, the Company uses hedges such as swaps and futures contracts to manage interest rate risk on certain loans and trading securities.

Overall, the Company manages interest rate risk by positioning the balance sheet to maximize net interest income while maintaining an acceptable level of interest rate and credit risk, remaining mindful of the relationship among profitability, liquidity, interest rate risk and credit risk.

Net Interest Income Modeling

The Company's primary interest rate risk tool, the Net Interest Income Simulation Analysis, measures interest rate risk and the effect of interest rate changes on net interest income and net interest margin. This analysis incorporates substantially all of the Company's assets and liabilities together with forecasted changes in the balance sheet and assumptions that reflect the current interest rate environment. Through these simulations, management estimates the impact on net interest income of a 300 basis point upward gradual and a 100 basis point downward gradual change of market interest rates over a one-year period. Assumptions are made to project rates for new loans and deposits based on historical analysis, management outlook, and repricing strategies. Asset prepayments and other market risks are developed from industry estimates of prepayment speeds and other market changes. Since the results of these simulations can be significantly influenced by assumptions utilized, management evaluates the sensitivity of the simulation results to changes in assumptions.

Table of Contents

Table 12 shows the net interest income increase or decrease over the next twelve months as of September 30, 2014 and 2013 based on hypothetical gradual changes in interest rates.

Table 12

MARKET RISK (unaudited, dollars in thousands)

Hypothetical change in interest rate (Rates in Basis Points)	September 30, 2014 Amount of change	September 30, 2013 Amount of change
300	\$ 24,077	\$ 10,378
200	16,283	6,371
100	8,967	2,234
Static		
(100)	N/A	N/A

The Company is positioned to benefit from increases in interest rates. Net interest income is projected to increase in rising rate scenarios due to yields on earning assets increasing more due to changes in market rates than the cost of paying liabilities is projected to increase. The Company's ability to price deposits in a rising rate environment consistent with our history is a key assumption in these scenarios. Due to the already low interest rate environment, the Company did not include a 100 basis point falling scenario. There is little room for projected yields on liabilities to decrease. In the above scenarios, market rates increase in a gradual ramp over 12 months until reaching the maximum change.

Trading Account

The Company's subsidiary, UMB Bank, n.a (the Bank) carries taxable governmental securities in a trading account that is maintained according to Board-approved policy and procedures. The policy limits the amount and type of securities that can be carried in the trading account and requires compliance with any limits under applicable law and regulations, and mandates the use of a value-at-risk methodology to manage price volatility risks within financial parameters. The risk associated with the carrying of trading securities is offset by the sale of exchange-traded financial futures contracts, with both the trading account and futures contracts marked to market daily. This account had a balance of \$31.8 million as of September 30, 2014 compared to \$28.5 million as of December 31, 2013.

The Company is subject to market risk primarily through the effect of changes in interest rates of its assets held for purposes other than trading. The discussion in Table 12 above of interest rate risk, however, combines instruments held for trading and instruments held for purposes other than trading, because the instruments held for trading represent such a small portion of the Company's portfolio that the interest rate risk associated with them is immaterial.

Other Market Risk

The Company does have minimal foreign currency risk as a result of foreign exchange contracts. See Note 7 Commitments, Contingencies and Guarantees in the notes to the Consolidated Financial Statements.

Credit Risk Management

Credit risk represents the risk that a customer or counterparty may not perform in accordance with contractual terms. The Company utilizes a centralized credit administration function, which provides information on the Bank's risk levels, delinquencies, an internal ranking system and overall credit exposure. Loan requests are centrally reviewed to ensure the consistent application of the loan policy and standards. In addition, the Company has an internal loan review staff that operates independently of the Bank. This review team performs periodic examinations of the bank's loans for credit quality, documentation and loan administration. The respective regulatory authority of the Bank also reviews loan portfolios.

Table of Contents

A primary indicator of credit quality and risk management is the level of nonperforming loans. Nonperforming loans include both nonaccrual loans and restructured loans. The Company's nonperforming loans increased \$1.4 million to \$32.7 million at September 30, 2014, compared to September 30, 2013 and increased \$2.0 million, compared to December 31, 2013.

The Company had \$1.4 million of other real estate owned as of September 30, 2014 and 2013, compared to \$1.3 million as of December 31, 2013. Loans past due more than 90 days totaled \$4.7 million as of September 30, 2014, compared to \$3.8 million at September 30, 2013 and \$3.2 million as of December 31, 2013.

A loan is generally placed on nonaccrual status when payments are past due 90 days or more and/or when management has considerable doubt about the borrower's ability to repay on the terms originally contracted. The accrual of interest is discontinued and recorded thereafter only when actually received in cash.

Certain loans are restructured to provide a reduction or deferral of interest or principal due to deterioration in the financial condition of the respective borrowers. The Company had \$10.2 million of restructured loans at September 30, 2014, \$13.5 million at September 30, 2013 and \$12.1 million at December 31, 2013.

Table 13

LOAN QUALITY (unaudited, dollars in thousands)

	September 30,		December 31,
	2014	2013	2013
Nonaccrual loans	\$ 23,204	\$ 19,087	\$ 19,305
Restructured loans on nonaccrual	9,458	12,173	11,401
Total nonperforming loans	32,662	31,260	30,706
Other real estate owned	1,369	1,441	1,288
Total nonperforming assets	\$ 34,031	\$ 32,701	\$ 31,994
Loans past due 90 days or more	\$ 4,678	\$ 3,780	\$ 3,218
Restructured loans accruing	708	1,294	665
Allowance for Loan Losses	77,316	74,938	74,751
Ratios			
Nonperforming loans as a percent of loans	0.46%	0.48%	0.47%
Nonperforming assets as a percent of loans plus other real estate owned	0.48	0.50	0.49
Nonperforming assets as a percent of total assets	0.21	0.20	0.19
Loans past due 90 days or more as a percent of loans	0.07	0.06	0.05
Allowance for loan losses as a percent of loans	1.09	1.15	1.15
Allowance for loan losses as a multiple of nonperforming loans	2.37x	2.40x	2.43x

Liquidity Risk

Liquidity represents the Company's ability to meet financial commitments through the maturity and sale of existing assets or availability of additional funds. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of a large, stable supply of core deposits and wholesale funds. The Company believes public confidence is generated through profitable operations, sound credit quality and a strong capital position. The primary source of liquidity for the Company is regularly scheduled payments and maturity of assets, which include \$6.8 billion of high-quality securities available for sale. Securities available for sale with a market value of \$5.1 billion at September 30, 2014 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 \$1.4 billion at September 30, 2014 were pledged at the Federal Reserve Discount Window but were unencumbered as of those dates.

Table of Contents

The liquidity of the Company is also enhanced by its activity in the federal funds market and by its core deposits. Neither the Company nor its subsidiaries are active in the debt market. The traditional funding source for the Company's subsidiary banks has been core deposits. In 2013, the Company completed the issuance of 4.5 million shares of common stock with net proceeds of \$231.4 million to be used for strategic growth purposes. Management believes it can raise debt or equity capital on favorable terms in the future, should the need arise. The Bank is a member of the Federal Home Loan Bank (FHLB) system, which also provides an additional source of funding.

The Company also has other commercial commitments that may impact liquidity. These commitments include unused commitments to extend credit, standby letters of credit and financial guarantees, and commercial letters of credit. The total amount of these commercial commitments at September 30, 2014 was \$5.9 billion. Since many of these commitments expire without being drawn upon, the total amount of these commercial commitments does not necessarily represent the future cash requirements of the Company.

The Company's cash requirements consist primarily of dividends to shareholders, debt service, operating expenses, and treasury stock purchases. Management fees and dividends received from bank and non-bank subsidiaries traditionally have been sufficient to satisfy these requirements and are expected to be sufficient in the future. The Bank is subject to various rules regarding payment of dividends to the Company. For the most part, the Bank can pay dividends at least equal to its current year's earnings without seeking prior regulatory approval. The Company also uses cash to inject capital in its bank and non-bank subsidiaries to maintain adequate capital as well as to fund strategic initiatives.

To enhance general working capital needs, the Company has a revolving line of credit with Wells Fargo, N.A. which allows the Company to borrow up to \$25.0 million for general working capital purposes. The interest rate applied to borrowed balances will be at the Company's option either 1.00 percent above LIBOR or 1.75 percent below Prime on the date of an advance. The Company will also pay a 0.2 percent unused commitment fee for unused portions of the line of credit. The Company had no advances outstanding at September 30, 2014.

Operational Risk

Operational risk generally refers to the risk of loss resulting from the Company's operations, including those operations performed for the Company by third parties. This would include but is not limited to the risk of fraud by employees or persons outside the Company, the execution of unauthorized transactions by employees or others, errors relating to transaction processing, breaches of the internal control system and compliance requirements, and unplanned interruptions in service. This risk of loss also includes the potential legal or regulatory actions that could arise as a result of an operational deficiency, or as a result of noncompliance with applicable regulatory standards. Included in the legal and regulatory issues with which the Company must comply are a number of imposed rules resulting from the enactment of the Sarbanes-Oxley Act of 2002.

The Company operates in many markets and relies on the ability of its employees and systems to properly process a high number of transactions. In the event of a breakdown in the internal control systems, improper operation of systems or improper employee actions, the Company could suffer financial loss, face regulatory action and suffer damage to its reputation. In order to address this risk, management maintains a system of internal controls with the objective of providing proper transaction authorization and execution, safeguarding of assets from misuse or theft, and ensuring the reliability of financial and other data.

The Company maintains systems of controls that provide management with timely and accurate information about the Company's operations. These systems have been designed to manage operational risk at appropriate levels given the Company's financial strength, the environment in which it operates, and considering factors such as competition and regulation. The Company has also established procedures that are designed to ensure that policies relating to conduct,

ethics and business practices are followed on a uniform basis. In certain cases, the Company has experienced losses from operational risk. Such losses have included the effects of operational errors that the Company has discovered and included as expense in the statement of income. While there can be no assurance that the Company will not suffer such losses in the future, management continually monitors and works to improve its internal controls, systems and corporate-wide processes and procedures.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by the report, the Company's disclosure controls and procedures are effective for ensuring that the Company's SEC filings are recorded, processed, summarized, and reported within the time period required and information required to be disclosed by the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the three months ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

In the normal course of business, the Company and its subsidiaries are named defendants in various legal proceedings. In the opinion of management, after consultation with legal counsel, none of these proceedings are expected to be material to the Company.

ITEM 1A. RISK FACTORS

There were no material changes to the risk factors as previously disclosed in response to Item 1A to Part 1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth the information with respect to purchases made by or on behalf of the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the three months ended September 30, 2014.

ISSUER PURCHASE OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plan or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1-July 31, 2014	10,069	\$ 56.81	10,069	1,984,875
August 1-August 31, 2014	2,086	58.04	2,086	1,982,789
September 1-September 30, 2014				1,982,789
Total	12,155	\$ 57.02	12,155	

On April 22, 2014, the Company announced a plan to repurchase up to two million shares of common stock. This plan will terminate on April 21, 2015. The Company has not made any repurchases other than through this plan. All open market share purchases under the share repurchase plan are intended to be within the scope of Rule 10b-18 promulgated under the Exchange Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

a) The following exhibits are filed herewith:

- 3.1 Articles of Incorporation restated as of April 25, 2006. Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, filed with the Commission on May 9, 2006.
- 3.2 Bylaws, amended and restated as of January 28, 2014, incorporated by reference to Exhibit 3 (ii).2 to the Company's Current Report on Form 8-K filed with the Commission on January 28, 2014.
- 31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
- 31.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
- 32.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act.
- 32.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act.
- 101.INS XBRL Instance
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation
- 101.DEF XBRL Taxonomy Extension Definition
- 101.LAB XBRL Taxonomy Extension Labels
- 101.PRE XBRL Taxonomy Extension Presentation

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

UMB FINANCIAL CORPORATION

/s/ Brian J. Walker
Brian J. Walker

Chief Financial Officer

Chief Accounting Officer

Date: November 6, 2014