

UMB FINANCIAL CORP  
Form 10-Q  
July 31, 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 June 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)**

<b>Missouri</b> <b>(State or other jurisdiction of</b> <b>incorporation or organization)</b>	<b>43-0903811</b> <b>(I.R.S. Employer</b> <b>Identification Number)</b>
<b>1010 Grand Boulevard, Kansas City, Missouri</b> <b>(Address of principal executive offices)</b> <b>(Registrant's telephone number, including area code): (816) 860-7000</b>	<b>64106</b> <b>(ZIP Code)</b>

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

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

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

As of July 25, 2014, UMB Financial Corporation had 45,499,079 shares of common stock outstanding.

**Table of Contents**

**UMB FINANCIAL CORPORATION**

**FORM 10-Q**

**INDEX**

<b><u>PART I FINANCIAL INFORMATION</u></b>	<b>3</b>
ITEM 1. <u>FINANCIAL STATEMENTS (UNAUDITED)</u>	3
<u>CONSOLIDATED BALANCE SHEETS</u>	3
<u>CONDENSED CONSOLIDATED STATEMENTS OF INCOME</u>	4
<u>STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME</u>	5
<u>STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS' 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
<b><u>PART II - OTHER INFORMATION</u></b>	<b>60</b>
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>	61
ITEM 6. <u>EXHIBITS</u>	61
<u>SIGNATURES</u>	62
CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT	64
CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT	65
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002	66
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002	67

**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)*

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b><u>ASSETS</u></b>		
Loans:	\$ 6,920,683	\$ 6,520,512
Allowance for loan losses	(76,802)	(74,751)
Net loans	6,843,881	6,445,761
Loans held for sale	3,156	1,357
Securities:		
Available for sale	6,700,623	6,762,411
Held to maturity (market value of \$269,691 and \$231,510, respectively)	238,799	209,770
Trading	26,484	28,464
Federal Reserve Bank stock and other	67,527	50,482
Total investment securities	7,033,433	7,051,127
Federal funds sold and securities purchased under agreements to resell	82,652	87,018
Interest-bearing due from banks	255,453	2,093,467
Cash and due from banks	639,878	521,001
Bank premises and equipment, net	250,655	249,689
Accrued income	73,805	78,216
Goodwill	209,758	209,758
Other intangibles	49,888	55,585
Other assets	120,131	118,873
Total assets	\$ 15,562,690	\$ 16,911,852
<b><u>LIABILITIES</u></b>		
Deposits:		
Noninterest-bearing demand	\$ 5,399,733	\$ 5,189,998
Interest-bearing demand and savings	5,754,573	7,001,126
Time deposits under \$100,000	442,361	491,792
Time deposits of \$100,000 or more	577,622	957,850

Total deposits	12,174,289	13,640,766
Federal funds purchased and repurchase agreements	1,607,294	1,583,218
Short-term debt		107
Long-term debt	5,745	5,055
Accrued expenses and taxes	131,996	153,450
Other liabilities	42,024	23,191
<b>Total liabilities</b>	<b>13,961,348</b>	<b>15,405,787</b>

**SHAREHOLDERS EQUITY**

Common stock, \$1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 45,475,197 and 45,221,237 shares outstanding, respectively	55,057	55,057
Capital surplus	887,086	882,407
Retained earnings	922,268	884,630
Accumulated other comprehensive income (loss)	16,901	(32,640)
Treasury stock, 9,581,533 and 9,835,493 shares, at cost, respectively	(279,970)	(283,389)
<b>Total shareholders equity</b>	<b>1,601,342</b>	<b>1,506,065</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 15,562,690</b>	<b>\$ 16,911,852</b>

See Notes to Consolidated Financial Statements.

Table of Contents

## UMB FINANCIAL CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 60,309	\$ 56,615	\$ 119,209	\$ 111,335
Securities:				
Taxable interest	19,021	18,841	37,982	37,305
Tax-exempt interest	9,798	10,118	19,705	19,877
Total securities income	28,819	28,959	57,687	57,182
Federal funds and resell agreements	46	40	79	64
Interest-bearing due from banks	466	330	1,589	1,000
Trading securities	149	268	272	533
Total interest income	89,789	86,212	178,836	170,114
<b><u>INTEREST EXPENSE</u></b>				
Deposits	3,092	3,333	6,151	7,125
Federal funds and repurchase agreements	454	491	935	1,058
Other	73	61	135	121
Total interest expense	3,619	3,885	7,221	8,304
Net interest income	86,170	82,327	171,615	161,810
Provision for loan losses	5,000	5,000	9,500	7,000
Net interest income after provision for loan losses	81,170	77,327	162,115	154,810
<b><u>NONINTEREST INCOME</u></b>				
Trust and securities processing	73,357	63,486	144,920	125,798
Trading and investment banking	6,409	5,423	10,732	12,532
Service charges on deposits	20,627	20,882	42,185	42,405
Insurance fees and commissions	732	1,236	1,335	2,198
Brokerage fees	3,075	2,886	4,890	5,832
Bankcard fees	17,185	16,032	32,808	32,470
Gain on sales of securities available for sale, net	2,569	1,519	4,039	7,412



Table of Contents

## UMB FINANCIAL CORPORATION

## STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

*(unaudited, dollars in thousands)*

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net Income	\$ 34,672	\$ 29,929	\$ 58,085	\$ 64,870
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities:				
Change in unrealized holding gains (losses), net	50,910	(136,367)	83,369	(163,415)
Less: Reclassifications adjustment for gains included in net income	(2,569)	(1,519)	(4,039)	(7,412)
Change in unrealized gains (losses) on securities during the period	48,341	(137,886)	79,330	(170,827)
Income tax (expense) benefit	(18,143)	52,087	(29,789)	63,012
Other comprehensive income (loss)	30,198	(85,799)	49,541	(107,815)
Comprehensive income (loss)	\$ 64,870	(55,870)	\$ 107,626	(42,945)

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)*

	<b>Common Stock</b>	<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive (Loss) Income</b>	<b>Treasury Stock</b>	<b>Total</b>
Balance - January 1, 2013	\$ 55,057	\$ 732,069	\$ 787,015	\$ 85,588	\$ (380,384)	\$ 1,279,345
Total comprehensive income (loss)			64,870	(107,815)		(42,945)
Cash dividends (\$0.43 per share)			(17,440)			(17,440)
Purchase of treasury stock					(1,750)	(1,750)
Issuance of equity awards		(2,466)			2,916	450
Recognition of equity based compensation		4,096				4,096
Net tax benefit related to equity compensation plans		503				503
Sale of treasury stock		198			104	302
Exercise of stock options		2,056			1,855	3,911
 Balance June 30, 2013	 \$ 55,057	 \$ 736,456	 \$ 834,445	 \$ (22,227)	 \$ (377,259)	 \$ 1,226,472
Balance - January 1, 2014	\$ 55,057	\$ 882,407	\$ 884,630	\$ (32,640)	\$ (283,389)	\$ 1,506,065
Total comprehensive income			58,085	49,541		107,626
Cash dividends (\$0.45 per share)			(20,447)			(20,447)
Purchase of treasury stock					(3,165)	(3,165)
Issuance of equity awards		(3,395)			3,865	470
Recognition of equity based compensation		4,733				4,733
Net tax benefit related to equity compensation plans		1,202				1,202
Sale of treasury stock		300			159	459
Exercise of stock options		1,839			2,560	4,399
 Balance June 30, 2014	 \$ 55,057	 \$ 887,086	 \$ 922,268	 \$ 16,901	 \$ (279,970)	 \$ 1,601,342

See Notes to Consolidated Financial Statements.

**Table of Contents**

**UMB FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(unaudited, dollars in thousands)*

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Net Income	\$ 58,085	\$ 64,870
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	9,500	7,000
Depreciation and amortization	22,654	22,004
Deferred income tax benefit	(4,361)	(2,803)
Net (increase) decrease in trading securities	(4,012)	7,768
Gains on sales of securities available for sale, net	(4,039)	(7,412)
Gains on sales of assets	(3,234)	(1,008)
Amortization of securities premiums, net of discount accretion	25,889	27,044
Originations of loans held for sale	(32,342)	(77,333)
Net gains on sales of loans held for sale	(495)	(435)
Proceeds from sales of loans held for sale	31,038	74,952
Issuance of equity awards	470	450
Equity based compensation	4,733	4,096
Advance payment on contingency reserve	6,000	
Changes in:		
Accrued income	4,411	(2,068)
Accrued expenses and taxes	(9,043)	17,435
Other assets and liabilities, net	(14,676)	(12,638)
<b>Net cash provided by operating activities</b>	<b>90,578</b>	<b>121,922</b>
<b>Investing Activities</b>		
Proceeds from maturities of securities held to maturity	7,761	10,132
Proceeds from sales of securities available for sale	409,804	609,475
Proceeds from maturities of securities available for sale	791,895	897,664
Purchases of securities held to maturity	(48,830)	(55,735)
Purchases of securities available for sale	(1,079,530)	(1,712,362)
Net increase in loans	(409,806)	(658,751)
Net decrease in fed funds sold and resell agreements	4,366	22,895
Net increase in interest bearing balances due from other financial institutions	(79,772)	(1,907)
Purchases of bank premises and equipment	(19,261)	(17,389)
Net cash (paid) received for acquisitions	(18,111)	692
Proceeds from sales of bank premises and equipment	4,747	810

Net cash used in investing activities	(436,737)	(904,476)
---------------------------------------	-----------	-----------

**Financing Activities**

Net (decrease) increase in demand and savings deposits	(1,024,246)	318,000
Net decrease in time deposits	(421,900)	(241,615)
Net increase in fed funds purchased and repurchase agreements	24,076	370,709
Net decrease in short-term debt	(107)	(200)
Proceeds from long-term debt	1,820	
Repayment of long-term debt	(1,130)	(1,102)
Payment of contingent consideration on acquisitions	(13,725)	(16,171)
Cash dividends paid	(20,433)	(17,255)
Net tax benefit related to equity compensation plans	1,202	503
Proceeds from exercise of stock options and sales of treasury shares	4,858	4,213
Purchases of treasury stock	(3,165)	(1,750)
Net cash (used in) provided by financing activities	(1,452,750)	415,332
Decrease in cash and due from banks	(1,798,909)	(367,222)
Cash and due from banks at beginning of period	2,582,428	1,366,394
Cash and due from banks at end of period	\$ 783,519	\$ 999,172

**Supplemental Disclosures:**

Income taxes paid	\$ 26,118	\$ 20,783
Total interest paid	\$ 7,427	\$ 8,704

See Notes to Consolidated Financial Statements.

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 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**

Amounts due from the Federal Reserve Bank, which are interest-bearing for all periods presented, and amounts due from certificates of deposits held at other financial institutions are included in interest-bearing due from banks. The amounts due from certificates of deposit totaled \$107.4 million and \$23.8 million at June 30, 2014 and June 30, 2013, respectively.

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

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
Due from the Federal Reserve	\$ 143,641	\$ 583,683
Cash and due from banks	639,878	415,489

Cash and cash equivalents at end of period	\$ 783,519	\$ 999,172
--	------------	------------

**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 597,778 and 521,165 shares issuable upon the exercise of options granted by the Company and outstanding at June 30, 2014 and 2013, respectively. Diluted year-to-date income per share includes the dilutive effect of 626,345 and 473,614 shares issuable upon the exercise of stock options granted by the Company and outstanding at June 30, 2014 and 2013, respectively.

Options issued under employee benefit plans to purchase 253,149 shares of common stock were outstanding at June 30, 2014, but were not included in the computation of quarter-to-date and year-to-date diluted EPS because the options were anti-dilutive. Options issued under employee benefit plans to purchase 276,931 shares of common stock were outstanding at June 30, 2013, but were not included in the computation of quarter-to-date and year-to-date diluted EPS because the options were anti-dilutive.

---

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)****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 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 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 financial statements.

**Table of Contents**

**UMB FINANCIAL CORPORATION**

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

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)**

**4. Loans and Allowance for Loan Losses**

**Loan Origination/Risk Management**

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

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

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. The Company requires an appraisal of the collateral be made at origination 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.

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

Underwriting standards for residential real estate and home equity loans are based on the borrower's loan-to-value percentage, collection remedies, 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 SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)

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

		June 30, 2014					
		30-89	Greater	Non-	Total		Total
		Days Past	than 90	Accrual	Past	Current	Loans
		Due and	Days Past	Loans	Due		
		Accruing	Due and				
			Accruing				
Commercial:							
Commercial		\$ 29,400	\$ 1,500	\$ 8,461	\$ 39,361	\$ 3,499,888	\$ 3,539,249
Commercial	credit card	275	92	20	387	118,488	118,875
Real estate:							
Real estate	construction	1,965	128	909	3,002	228,906	231,908
Real estate	commercial	5,784	388	15,922	22,094	1,707,280	1,729,374
Real estate	residential	3,472	13	742	4,227	294,823	299,050
Real estate	HELOC	921		348	1,269	597,962	599,231
Consumer:							
Consumer	credit card	2,041	2,218	669	4,928	301,122	306,050
Consumer	other	8,315	183	104	8,602	64,551	73,153
Leases						23,793	23,793
Total loans		\$ 52,173	\$ 4,522	\$ 27,175	\$ 83,870	\$ 6,836,813	\$ 6,920,683

		December 31, 2013					
		30-89	Greater	Non-	Total		Total
		Days Past	than 90	Accrual	Past	Current	Loans
		Due and	Days Past	Loans	Due		
		Accruing	Due and				
			Accruing				
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

The Company sold \$31.0 million and \$75.0 million of residential real estate and student loans in the secondary market without recourse during the six-month periods ended June 30, 2014 and June 30, 2013, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of \$27.2 million and \$30.7 million at June 30, 2014 and December 31, 2013, respectively. Restructured loans totaled \$11.6 million and \$12.1 million at June 30, 2014 and December 31, 2013, respectively. Loans 90 days past due and still accruing interest amounted to \$4.5 million and \$3.2 million at June 30, 2014 and December 31, 2013, respectively. There was an insignificant amount of interest recognized on impaired loans during 2014 and 2013.

Table of Contents

**UMB FINANCIAL CORPORATION**

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

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)**

**Credit Quality Indicators**

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

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

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

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

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

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

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

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

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

	<b>Commercial</b>		<b>Real estate- construction</b>	
	<b>June 30, 2014</b>	<b>December 31, 2013</b>	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Non-watch list	\$ 3,257,277	\$ 3,041,224	\$ 229,401	\$ 151,359
Watch	96,157	110,932	1,194	210
Special Mention	94,482	78,064	19	
Substandard	91,333	71,283	1,294	1,306
<b>Total</b>	<b>\$ 3,539,249</b>	<b>\$ 3,301,503</b>	<b>\$ 231,908</b>	<b>\$ 152,875</b>

	<b>Real estate - commercial</b>	
	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Non-watch list	\$ 1,610,812	\$ 1,565,894
Watch	43,955	76,647
Special Mention	30,856	19,876
Substandard	43,751	39,734
<b>Total</b>	<b>\$ 1,729,374</b>	<b>\$ 1,702,151</b>

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

	<b>Commercial</b>	<b>credit card</b>	<b>Real estate- residential</b>	
	<b>June 30, 2014</b>	<b>December 31, 2013</b>	<b>June 30, 2014</b>	<b>December 31, 2013</b>

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Performing	\$ 118,855	\$ 103,232	\$ 298,308	\$ 288,488
Non-performing	20	38	742	868
<b>Total</b>	<b>\$ 118,875</b>	<b>\$ 103,270</b>	<b>\$ 299,050</b>	<b>\$ 289,356</b>

	<b>Real estate - HELOC</b>		<b>Consumer credit card</b>	
	<b>June 30, 2014</b>	<b>December 31, 2013</b>	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Performing	\$ 598,883	\$ 565,918	\$ 305,381	\$ 317,305
Non-performing	348	210	669	1,031
<b>Total</b>	<b>\$ 599,231</b>	<b>\$ 566,128</b>	<b>\$ 306,050</b>	<b>\$ 318,336</b>

	<b>Consumer - other</b>		<b>Leases</b>	
	<b>June 30, 2014</b>	<b>December 31, 2013</b>	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Performing	\$ 73,049	\$ 62,542	\$ 23,793	\$ 23,981
Non-performing	104	370		
<b>Total</b>	<b>\$ 73,153</b>	<b>\$ 62,912</b>	<b>\$ 23,793</b>	<b>\$ 23,981</b>

**Table of Contents**

**UMB FINANCIAL CORPORATION**

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

**FOR THE THREE AND SIX MONTHS ENDED JUNE 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 SIX MONTHS ENDED JUNE 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 six months ended June 30, 2014 (*in thousands*):

	Three Months Ended June 30, 2014				
	Commercial	Real estate	Consumer	Leases	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 48,363	\$ 16,091	\$ 10,984	\$ 76	\$ 75,514
Charge-offs	(1,476)	(55)	(3,048)		(4,579)
Recoveries	201	8	658		867
Provision	5,345	(1,827)	1,480	2	5,000
Ending Balance	\$ 52,433	\$ 14,217	\$ 10,074	\$ 78	\$ 76,802
	Six Months Ended June 30, 2014				
	Commercial	Real estate	Consumer	Leases	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 48,886	\$ 15,342	\$ 10,447	\$ 76	\$ 74,751
Charge-offs	(2,947)	(181)	(6,136)		(9,264)
Recoveries	268	17	1,530		1,815
Provision	6,226	(961)	4,233	2	9,500
Ending Balance	\$ 52,433	\$ 14,217	\$ 10,074	\$ 78	\$ 76,802
Ending Balance: individually evaluated for impairment	\$ 2,497	\$ 1,118	\$	\$	\$ 3,615
Ending Balance: collectively evaluated for impairment	49,936	13,099	10,074	78	73,187
<b>Loans:</b>					
Ending Balance: loans	\$ 3,658,124	\$ 2,859,563	\$ 379,203	\$ 23,793	\$ 6,920,683
Ending Balance: individually evaluated for impairment	14,517	12,407	1		26,925
Ending Balance: collectively evaluated for impairment	3,643,607	2,847,156	379,202	23,793	6,893,758



Table of Contents

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2013 (*in thousands*):

	Three Months Ended June 30, 2013				
	Commercial	Real estate	Consumer	Leases	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 43,345	\$ 14,946	\$ 11,529	\$ 61	\$ 69,881
Charge-offs	(941)	(176)	(2,968)		(4,085)
Recoveries	141	7	703		851
Provision	2,563	1,519	904	14	5,000
Ending Balance	\$ 45,108	\$ 16,296	\$ 10,168	\$ 75	\$ 71,647
<b>Six Months Ended June 30, 2013</b>					
	Commercial	Real estate	Consumer	Leases	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 43,390	\$ 15,506	\$ 12,470	\$ 60	\$ 71,426
Charge-offs	(2,423)	(371)	(6,139)		(8,933)
Recoveries	515	16	1,623		2,154
Provision	3,626	1,145	2,214	15	7,000
Ending Balance	\$ 45,108	\$ 16,296	\$ 10,168	\$ 75	\$ 71,647
Ending Balance: individually evaluated for impairment	\$ 2,727	\$ 483	\$	\$	\$ 3,210
Ending Balance: collectively evaluated for impairment	42,381	15,813	10,168	75	68,437
<b>Loans:</b>					
Ending Balance: loans	\$ 3,443,175	\$ 2,495,294	\$ 374,202	\$ 26,250	\$ 6,338,921
Ending Balance: individually evaluated for impairment	14,326	10,465	31		24,822
Ending Balance: collectively evaluated for impairment	3,428,849	2,484,829	374,171	26,250	6,314,099

Table of Contents

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)

**Impaired Loans**

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

	June 30, 2014					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	\$ 17,703	\$ 4,740	\$ 9,777	\$ 14,517	\$ 2,497	\$ 14,624
Commercial credit card						
Real estate:						
Real estate construction	1,399	786	123	909	98	921
Real estate commercial	12,772	7,138	3,384	10,522	1,020	12,223
Real estate residential	1,151	976		976		1,024
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other	1	1		1		5
Leases						
Total	\$ 33,026	\$ 13,641	\$ 13,284	\$ 26,925	\$ 3,615	\$ 28,797

	December 31, 2013					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
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						
<b>Total</b>	<b>\$ 34,650</b>	<b>\$ 10,441</b>	<b>\$ 19,748</b>	<b>\$ 30,189</b>	<b>\$ 4,252</b>	<b>\$ 27,639</b>

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 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 loss as described above in the Allowance for Loan Losses section of this note.

The Company had \$395 thousand in commitments to lend to borrowers with loan modifications classified as TDR's as of June 30, 2014. The Company made no TDR's in the last 12 months that had payment defaults for the three or six-month periods ended June 30, 2014.

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

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	Pre-Modification Number Outstanding of Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number Outstanding of Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment
<b>Troubled Debt Restructurings</b>				
Commercial:				
Commercial	\$	\$	1	\$ 469
Commercial credit card				\$ 469
Real estate:				
Real estate construction				
Real estate commercial				
Real estate residential	3	210	3	210
Real estate HELOC				234
Consumer:				
Consumer credit card				
Consumer other				
Leases				
Total	3	\$ 210	4	\$ 679
		\$ 234		\$ 703



Table of Contents

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)

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

	Three Months Ended June 30, 2013			Six Months Ended June 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
<b>Troubled Debt Restructurings</b>						
Commercial:						
Commercial	1	\$ 658	\$ 596	2	\$ 1,128	\$ 1,067
Commercial credit card						
Real estate:						
Real estate construction						
Real estate commercial				1	937	936
Real estate residential	1	425	425	1	425	425
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	2	\$ 1,083	\$ 1,021	4	\$ 2,490	\$ 2,428



**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)****5. Securities****Securities Available for Sale**

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

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>June 30, 2014</b>				
U.S. Treasury	\$ 466,423	\$ 820	\$ (568)	\$ 466,675
U.S. Agencies	968,580	1,778	(992)	969,366
Mortgage-backed	3,180,331	31,755	(23,881)	3,188,205
State and political subdivisions	1,924,561	27,721	(8,920)	1,943,362
Corporates	133,706	13	(704)	133,015
Total	\$ 6,673,601	\$ 62,087	\$ (35,065)	\$ 6,700,623

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>December 31, 2013</b>				
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 June 30, 2014 (in thousands):

	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in 1 year or less	\$ 406,525	\$ 408,703

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Due after 1 year through 5 years	2,249,226	2,263,974
Due after 5 years through 10 years	705,537	711,189
Due after 10 years	131,982	128,552
<b>Total</b>	<b>3,493,270</b>	<b>3,512,418</b>
Mortgage-backed securities	3,180,331	3,188,205
<b>Total securities available for sale</b>	<b>\$ 6,673,601</b>	<b>\$ 6,700,623</b>

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 six months ended June 30, 2014, proceeds from the sales of securities available for sale were \$409.8 million compared to \$609.5 million for the same period in 2013. Securities transactions resulted in gross realized gains of \$4.1 million and \$7.6 million for the six months ended June 30, 2014 and 2013. The gross realized losses for the six months ended June 30, 2014 and 2013 were \$11 thousand and \$220 thousand, respectively.

Securities available for sale with a market value of \$5.0 billion at June 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 June 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 SIX MONTHS ENDED JUNE 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 June 30, 2014 and December 31, 2013 (in thousands):

June 30, 2014	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Treasury	\$ 157,697	\$ (128)	\$ 29,524	\$ (440)	\$ 187,221	\$ (568)
U.S. Agencies	249,308	(242)	123,824	(750)	373,132	(992)
Mortgage-backed	859,667	(14,316)	482,338	(9,565)	1,342,005	(23,881)
State and political subdivisions	131,485	(429)	375,917	(8,491)	507,402	(8,920)
Corporates	37,856	(114)	86,833	(590)	124,689	(704)
Total temporarily-impaired debt securities available for sale	\$ 1,436,013	\$ (15,229)	\$ 1,098,436	\$ (19,836)	\$ 2,534,449	\$ (35,065)

December 31, 2013	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Treasury	\$ 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. government 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 fair value. The Company expects to recover its cost basis in the securities and does not consider these investments to be other-than-temporarily impaired at June 30, 2014.

**Securities Held to Maturity**

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

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>June 30, 2014</b>				
State and political subdivisions	\$ 238,799	\$ 30,892	\$	\$ 269,691
<b>December 31, 2013</b>				
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 SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)

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

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 61	\$ 69
Due after 1 year through 5 years	28,051	31,680
Due after 5 years through 10 years	97,997	110,674
Due after 10 years	112,690	127,268
<b>Total securities held to maturity</b>	<b>\$ 238,799</b>	<b>\$ 269,691</b>

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

There were no sales of securities held to maturity during the first six months of 2014 or 2013.

**Trading Securities**

The net unrealized gains on trading securities at June 30, 2014 and June 30, 2013 were \$41 thousand and \$788 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 June 30, 2014 and December 31, 2013 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>June 30, 2014</b>				
Federal Reserve Bank stock	\$ 16,279	\$	\$	\$ 16,279
Other securities marketable		20,020		20,020
Other securities non-marketable	28,638	2,590		31,228
<b>Total Federal Reserve Bank stock and other</b>	<b>\$ 44,917</b>	<b>\$ 22,610</b>	<b>\$</b>	<b>\$ 67,527</b>

**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 \$20.0 million at June 30, 2014 and \$16.6 million at December 31, 2013. The fair value of other non-marketable securities includes alternative investment securities of \$7.2 million at June 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 SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)

**6. Goodwill and Other Intangibles**

Changes in the carrying amount of goodwill for the periods ended June 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 June 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 June 30, 2014 and December 31, 2013 (in thousands):

	As of June 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible assets	\$ 36,497	\$ 32,217	\$ 4,280
Customer relationships	104,440	59,582	44,858
Other intangible assets	3,247	2,497	750
Total intangible assets	\$ 144,184	\$ 94,296	\$ 49,888

	As of December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
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*):

	<b>Three Months Ended</b>		<b>Six Months</b>	
	<b>June 30,</b>		<b>Ended</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Aggregate amortization expense	\$ 3,074	\$ 3,354	\$ 6,176	\$ 6,809

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

For the six months ending December 31, 2014	\$ 6,009
For the year ending December 31, 2015	9,619
For the year ending December 31, 2016	8,410
For the year ending December 31, 2017	7,167
For the year ending December 31, 2018	4,976



Table of Contents

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 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):

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Commitments to extend credit for loans (excluding credit card loans)	\$ 2,736,970	\$ 2,690,268
Commitments to extend credit under credit card loans	2,305,790	2,215,278
Commercial letters of credit	1,842	5,949
Standby letters of credit	385,704	356,054
Forward foreign exchange contracts	29,645	21,525
Spot foreign exchange contracts	1,010	8,001

On March 28, 2014, the Company received objections to its calculation of an earn-out amount owed to the sellers of Prairie Capital Management, LLC (PCM) and a related incentive bonus calculation. The sellers, which include current employees of PCM, claimed that certain unrealized gains on equity method investments managed by PCM should have been included in the Company's calculations, which are governed by the asset purchase agreement. For the three month period ended March 31, 2014, the Company had accrued \$15 million of contingency reserve expense related to this dispute. On June 30, 2014, the Company entered into a settlement agreement, which amends and supersedes certain portions of the original PCM asset purchase agreement, dated June 27, 2010, that relate to the subject of the objections raised by the sellers of PCM. During the three-month period ended June 30, 2014, an additional \$5.3 million of contingency reserve expense was recorded due to increases in value of the equity method investments upon

which the settlement is based. Cash payments totaling \$6.0 million were made on June 30, 2014 for this liability, resulting in a remaining liability as of June 30, 2014, of \$14.3M. As part of the agreement, final settlement payments will be made in the third quarter of 2015. This contingency reserve is included in the Other liabilities line on the Company's Consolidated Balance Sheet and the Contingency reserve line on Company's Consolidated Statements of Income.

#### **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 June 30, 2014. Previously reported results have been reclassified to conform to the current organizational structure.

**Table of Contents**

**UMB FINANCIAL CORPORATION**

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

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)**

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.

Table of Contents

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)

**Business Segment Information**

Segment financial results were as follows (in thousands):

	Three Months Ended June 30, 2014				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 72,481	\$ 12,390	\$ (1)	\$ 1,300	\$ 86,170
Provision for loan losses	2,686	2,314			5,000
Noninterest income	56,006	21,219	33,999	22,777	134,001
Noninterest expense	100,928	24,603	22,111	18,869	166,511
Income before taxes	24,873	6,692	11,887	5,208	48,660
Income tax expense	7,211	1,910	3,375	1,492	13,988
Net income	\$ 17,662	\$ 4,782	\$ 8,512	\$ 3,716	\$ 34,672
Average assets	\$ 12,008,000	\$ 2,148,000	\$ 69,000	\$ 1,393,000	\$ 15,618,000

	Three Months Ended June 30, 2013				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 70,558	\$ 11,192	\$ (10)	\$ 587	\$ 82,327
Provision for loan losses	1,628	3,372			5,000
Noninterest income	46,436	18,640	29,155	19,354	113,585
Noninterest expense	92,540	21,850	18,856	17,065	150,311
Income before taxes	22,826	4,610	10,289	2,876	40,601
Income tax expense	6,035	1,203	2,708	726	10,672
Net income	\$ 16,791	\$ 3,407	\$ 7,581	\$ 2,150	\$ 29,929
Average assets	\$ 11,201,000	\$ 1,793,000	\$ 80,000	\$ 1,801,000	\$ 14,875,000



Table of Contents

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)

	Six Months Ended June 30, 2014				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 143,602	\$ 24,778	\$ (3)	\$ 3,238	\$ 171,615
Provision for loan losses	5,112	4,388			9,500
Noninterest income	103,425	41,453	68,094	43,993	256,965
Noninterest expense	208,671	45,631	47,998	36,452	338,752
Income before taxes	33,244	16,212	20,093	10,779	80,328
Income tax expense	9,242	4,485	5,523	2,993	22,243
Net income	\$ 24,002	\$ 11,727	\$ 14,570	\$ 7,786	\$ 58,085
Average assets	\$ 12,204,000	\$ 2,023,000	\$ 71,000	\$ 1,767,000	\$ 16,065,000

	Six Months Ended June 30, 2013				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 137,818	\$ 22,740	\$ (10)	\$ 1,262	\$ 161,810
Provision for loan losses	1,937	5,063			7,000
Noninterest income	99,184	38,077	57,708	39,632	234,601
Noninterest expense	184,076	41,968	37,700	36,945	300,689
Income before taxes	50,989	13,786	19,998	3,949	88,722
Income tax expense	13,740	3,737	5,376	999	23,852
Net income	\$ 37,249	\$ 10,049	\$ 14,622	\$ 2,950	\$ 64,870
Average assets	\$ 11,294,000	\$ 1,726,000	\$ 78,000	\$ 1,731,000	\$ 14,829,000

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 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 June 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 Sheet.

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

Fair value	Asset Derivatives		Liability Derivatives	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
<b>Interest Rate Products:</b>				
Derivatives not designated as hedging instruments	\$ 4,831	\$ 2,442	\$ 4,787	\$ 2,346
Derivatives designated as hedging instruments		76	160	
Total	\$ 4,831	\$ 2,518	\$ 4,947	\$ 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, 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 June 30, 2014, the Company had one interest rate swap with a notional amount of \$6.8 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 six months ended June 30, 2014, the Company recognized net losses of \$8 thousand and \$18 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 SIX MONTHS ENDED JUNE 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 June 30, 2014, the Company had twenty-six interest rate swaps with an aggregate notional amount of \$343.5 million related to this program. During the three and six months ended June 30, 2014, the Company recognized \$31 thousand of net gains and \$52 thousand of net losses, respectively, related to changes in fair value of these swaps. During the three and six months ended June 30, 2013, the Company recognized net gains of \$48 thousand and \$154 thousand, respectively, related to changes in the fair value of these swaps.

**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 six months ended as of June 30, 2014 and June 30, 2013 (*in thousands*):

	Amount of Gain (Loss) Recognized			
	For the Three Months Ended June 30, 2014		For the Six Months Ended June 30, 2013	
<b>Interest Rate Products</b>				
Derivatives not designated as hedging instruments	\$ 31	\$ 48	\$ (52)	\$ 154
<b>Total</b>	<b>\$ 31</b>	<b>\$ 48</b>	<b>\$ (52)</b>	<b>\$ 154</b>
<b>Interest Rate Products</b>				
Derivatives designated as hedging instruments				
Fair value adjustments on derivatives	\$ (116)	\$	\$ (235)	\$
Fair value adjustments on hedged items	108		217	
<b>Total</b>	<b>\$ (8)</b>	<b>\$</b>	<b>\$ (18)</b>	<b>\$</b>

### **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 June 30, 2014 the termination value of derivatives in a net liability position, which includes accrued interest, related to these agreements was \$0.8 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has not yet reached its minimum collateral posting threshold under these agreements. If the Company had breached any of these provisions at June 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 SIX MONTHS ENDED JUNE 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 June 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 June 30, 2014 and December 31, 2013 (*in thousands*):

Description	Fair Value Measurement at June 30, 2014			
	June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
U.S. Treasury	\$ 400	\$ 400	\$	\$
U.S. Agencies	260		260	
Mortgage-backed State and political subdivisions	7,494		7,494	
Trading - other	18,330	18,330		
Trading securities	26,484	18,730	7,754	
U.S. Treasury	466,675	466,675		
U.S. Agencies	969,366		969,366	
Mortgage-backed	3,188,205		3,188,205	
State and political subdivisions	1,943,362		1,943,362	

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Corporates	133,015	133,015		
Available for sale securities	6,700,623	599,690	6,100,933	
Company-owned life insurance	20,452		20,452	
Derivatives	4,831		4,831	
Total	\$ 6,752,390	\$ 618,420	\$ 6,133,970	\$
<b>Liabilities</b>				
Deferred compensation	25,377	25,377		
Contingent consideration liability	52,027			52,027
Derivatives	4,947		4,947	
Total	\$ 82,351	\$ 25,377	\$ 4,947	\$ 52,027

Table of Contents

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 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)
<b>Assets</b>				
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	\$
<b>Liabilities</b>				
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 six months ended June 30, 2014 (*in thousands*):

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Beginning Balance	\$ 46,201	\$ 51,163
Contingency reserve	14,272	
Payment of contingent considerations on acquisitions	(13,725)	(16,171)
Income from fair value adjustments		(138)
Expense from fair value adjustments	5,279	3,329
Ending Balance	\$ 52,027	\$ 38,183

During the six month period ended June 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.

Table of Contents

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 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
<b>Liabilities</b>			
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 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 SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)**

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

Description	June 30, 2014	Fair Value Measurement at June 30, 2014			Total Gains (Losses) Recognized During the Six Months Ended June 30
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 9,669	\$	\$	\$ 9,669	\$ 637
Other real estate owned	205			205	\$
<b>Total</b>	<b>\$ 9,874</b>	<b>\$</b>	<b>\$</b>	<b>\$ 9,874</b>	<b>\$ 637</b>

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

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

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

**Impaired loans** While the overall loan portfolio is not carried at fair value, adjustments are recorded on certain loans to reflect partial write-downs that are based on the value of the underlying collateral. In determining the value of real

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

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

Table of Contents

## UMB FINANCIAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 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 June 30, 2014 and December 31, 2013 are as follows (*in millions*):

	Fair Value Measurement at June 30, 2014				Total Estimated Fair Value
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>FINANCIAL ASSETS</b>					
Securities held to maturity	\$ 238.8	\$	\$ 269.7	\$	\$ 269.7
Federal Reserve Bank and other stock	67.5		67.5		67.5
Loans (exclusive of allowance for loan loss)	6,923.8		6,937.5		6,937.5
<b>FINANCIAL LIABILITIES</b>					
Time deposits	1,020.0		1,019.5		1,019.5
Long-term debt	5.7		5.9		5.9
<b>OFF-BALANCE SHEET ARRANGEMENTS</b>					
Commitments to extend credit for loans					2.9
Commercial letters of credit					0.1
Standby letters of credit					1.2

	Fair Value Measurement at December 31, 2013				Total Estimated Fair Value
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>FINANCIAL ASSETS</b>					
Securities held to maturity	\$ 209.8	\$	\$ 231.5	\$	\$ 231.5
Federal Reserve Bank and other stock	50.5		50.5		50.5
Loans (exclusive of allowance for loan loss)	6,521.9		6,571.6		6,571.6
<b>FINANCIAL LIABILITIES</b>					

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 investment(s).

Table of Contents

**UMB FINANCIAL CORPORATION**

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

**FOR THE THREE AND SIX MONTHS ENDED JUNE 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.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2014 and December 31, 2013. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amount presented herein.

**Table of Contents**

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

This review highlights the material changes in the results of operations and changes in financial condition for the three-month and six-month periods ended June 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. 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 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;

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

**Table of Contents**

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) in this Form 10-Q and Management's Discussion and Analysis (Item 2), or the or 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 balance sheet can be seen in the solid credit quality of the earning assets and the Company's continued growth in low cost funding. At June 30, 2014, the Company's nonperforming assets as a percentage of total assets was 0.18 percent. As a percentage of loans, nonperforming loans decreased to 0.39 percent compared to 0.40 percent on June 30, 2013. These credit quality ratios were achieved while maintaining positive directional growth in average earning assets, which increased 8.9 percent from June 30, 2013, driven by an 11.4 percent increase in average noninterest-bearing demand deposits compared to June 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 \$9.9 million, or 15.6 percent, for the three months ended June 30, 2014 compared to the same period in 2013. The increase in trust and securities processing income was primarily due to a \$3.7 million, or 18.9 percent, increase in fees related to institutional and personal investment management services, a \$3.1 million, or 16.3 percent, increase in fund administration and custody services, and a \$2.2 million, or 10.0 percent increase, in advisory fee income from the Scout Funds. Also notable and continuing to push industry trends, the Company produced double digit loan growth. While maintaining the aforementioned credit ratios, the Company's June 30, 2014 average loans increased \$739.0 million, or 12.0 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 second quarter of 2014, noninterest income increased \$20.4 million, or 18.0 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 second quarter of 2014, this favorable change is primarily attributable to increased trust and securities processing income and increased equity earnings on alternative investments. At June 30, 2014, noninterest income represented 60.9 percent of total revenues, compared to 58.0 percent at June 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 June 30, 2014, the Company had \$1.6 billion in total shareholders' equity. This is an increase of \$374.9 million, or 30.6 percent, compared to total shareholders' equity at June 30, 2013. 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. At June 30, 2014, the Company had a total risk-based capital ratio of 14.62 percent, which is higher than the 10 percent regulatory minimum to be considered well-capitalized. The Company repurchased 5,153 shares at an average price of \$57.73 per share during the second quarter of 2014.

**Earnings Summary**

The Company recorded consolidated net income of \$34.7 million for the three-month period ended June 30, 2014, compared to \$29.9 million for the same period a year earlier. This represents a 15.9 percent increase over the three-month period ended June 30, 2013. Basic earnings per share for the second quarter of 2014 were \$0.77 per share (\$0.76 per share fully-diluted) compared to \$0.75 per share (\$0.74 per share fully-diluted) for the second quarter of 2013. Return on average assets and return on average common shareholders' equity for the three-month period ended June 30, 2014 were 0.89 and 8.77 percent, respectively, compared to 0.81 and 9.31 percent for the three-month period ended June 30, 2013.

**Table of Contents**

The Company recorded consolidated net income of \$58.1 million for the six-month period ended June 30, 2014, compared to \$64.9 million for the same period a year earlier. This represents a 10.5 percent decrease over the six-month period ended June 30, 2013. Basic earnings per share for the six-month period ended June 30, 2014 were \$1.30 per share (\$1.28 per share fully-diluted) compared to \$1.62 per share (\$1.61 per share fully-diluted) for the period in 2013. Return on average assets and return on average common shareholders' equity for the six-month period ended June 30, 2014 were 0.73 and 7.48 percent, respectively, compared to 0.88 and 10.17 percent for the same period in 2013.

Net interest income for the three and six-month periods ended June 30, 2014 increased \$3.8 million, or 4.7 percent, and \$9.8 million, or 6.1 percent, respectively, compared to the same period in 2013. For the three-month period ended June 30, 2014, average earning assets increased by \$749.3 million, or 5.4 percent, and for the six-month period ended June 30, 2014, they increased by \$1.2 billion, or 8.9 percent, compared to the same periods in 2013. Net interest margin, on a tax-equivalent basis, decreased to 2.53 percent and 2.45 percent for the three and six-months periods ended June 30, 2014, compared to 2.56 percent and 2.53 percent for the same periods in 2013. These changes are discussed in greater detail below under Net Interest Income.

The provision for loan losses was flat for the three-month period ended June 30, 2014, and increased by \$2.5 million for the six-month periods ended June 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 two basis points to 1.11 percent as of June 30, 2014, compared to June 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 section in the Company's 2013 Annual Report on Form 10-K.

Noninterest income increased by \$20.4 million, or 18.0 percent, for the three-month period ended June 30, 2014 and increased by \$22.4 million, or 9.5 percent, for the six-month period ended June 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 \$16.2 million, or 10.8 percent, for the three-month period ended June 30, 2014, and increased by \$38.1 million, or 12.7 percent, for the six-month period ended June 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 June 30, 2014, average earning assets increased by \$749.3 million, or 5.4 percent, and for the six-month period ended June 30, 2014, they increased by \$1.2 billion, or 8.9 percent, compared to the same periods in 2013. Net interest margin, on a tax-equivalent basis, decreased to 2.53 percent and 2.45 percent for the three and six-months periods ended June 30, 2014, compared to 2.56 percent and 2.53 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 recent interest rate cycle. While the Company continues to see declining rates, it has been able to improve net interest income through volume. As illustrated in this table, net interest spread and margin for the three months ended June 30,

2014 decreased by three basis points compared to the same period in 2013. Net interest spread for the six months ended June 30, 2014 decreased by seven basis points and net interest margin 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 one year ago.

**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 2.48 percent for the three-month period ended June 30, 2014 and 2.51 percent for the same period in 2013. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.41 percent for the six-month period ended June 30, 2014 and 2.49 percent for the same period in 2013.

	Three Months Ended June 30,		2013	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
<b>Assets</b>				
Loans, net of unearned interest	\$ 6,897,840	3.51%	\$ 6,158,821	3.69%
Securities:				
Taxable	4,836,080	1.58	4,978,109	1.52
Tax-exempt	2,104,368	2.88	2,113,009	2.97
Total securities	6,940,448	1.97	7,091,118	1.95
Federal funds and resell agreements	32,692	0.56	28,524	0.56
Interest-bearing due from banks	619,094	0.30	432,588	0.31
Trading	36,785	1.80	66,482	1.79
Total earning assets	14,526,859	2.63	13,777,533	2.67
Allowance for loan losses	(75,929)		(70,004)	
Other assets	1,167,262		1,167,899	
Total assets	\$ 15,618,192		\$ 14,875,428	
<b>Liabilities and Shareholders Equity</b>				
Interest-bearing deposits	\$ 7,126,614	0.17%	\$ 6,943,399	0.19%
Federal funds and repurchase agreements	1,592,986	0.11	1,848,118	0.11
Borrowed funds	5,771	5.07	4,592	5.33
Total interest-bearing liabilities	8,725,371	0.17	8,796,109	0.18
Noninterest-bearing demand deposits	5,152,980		4,636,240	
Other liabilities	154,229		153,227	
Shareholders equity	1,585,612		1,289,852	

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Total liabilities and shareholders equity	\$ 15,618,192	\$ 14,875,428
Net interest spread	2.46%	2.49%
Net interest margin	2.53	2.56

**Table of Contents**

	Six Months Ended June 30,			
	2014		2013	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
<b>Assets</b>				
Loans, net of unearned interest	\$ 6,788,991	3.54%	\$ 5,987,788	3.75%
Securities:				
Taxable	4,861,475	1.58	4,925,312	1.53
Tax-exempt	2,107,119	2.90	2,054,141	3.02
Total securities	6,968,594	1.98	6,979,453	1.97
Federal funds and resell agreements	29,939	0.53	23,858	0.54
Interest-bearing due from banks	1,154,811	0.28	701,282	0.29
Trading	37,682	1.63	62,048	1.92
Total earning assets	14,980,017	2.55	13,754,429	2.65
Allowance for loan losses	(75,466)		(70,750)	
Other assets	1,160,124		1,145,799	
Total assets	\$ 16,064,675		\$ 14,829,478	
<b>Liabilities and Shareholders Equity</b>				
Interest-bearing deposits	\$ 7,545,182	0.16%	\$ 6,980,728	0.21%
Federal funds and repurchase agreements	1,630,169	0.12	1,761,074	0.12
Borrowed funds	5,738	4.74	4,989	4.89
Total interest-bearing liabilities	9,181,089	0.16	8,746,791	0.19
Noninterest-bearing demand deposits	5,160,206		4,631,425	
Other liabilities	156,608		165,117	
Shareholders equity	1,566,772		1,286,145	
Total liabilities and shareholders equity	\$ 16,064,675		\$ 14,829,478	
Net interest spread		2.39%		2.46%
Net interest margin		2.45		2.53

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 \$820.1 million for the three-month and \$791.3 million for the six-month periods ended June 30, 2014 compared to the same periods in 2013, the benefit from interest free funds was flat in the three-month period and declined one basis point in the six-month period, 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**

	<b>Three Months Ended June 30, 2014 vs 2013</b>			<b>Six Months Ended June 30, 2014 vs 2013</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
Change in interest earned on:						
Loans	\$ 6,462	\$ (2,768)	\$ 3,694	\$ 14,088	\$ (6,214)	\$ 7,874
Securities:						
Taxable	(559)	739	180	(499)	1,176	677
Tax-exempt	(35)	(285)	(320)	852	(1,024)	(172)
Federal funds sold and resell agreements	6		6	16	(1)	15
Interest-bearing due from banks	140	(6)	134	624	(35)	589
Trading	(121)	2	(119)	(137)	(124)	(261)
Interest income	5,893	(2,318)	3,575	14,944	(6,222)	8,722
Change in interest incurred on:						
Interest-bearing deposits	79	(320)	(241)	460	(1,434)	(974)
Federal funds purchased and repurchase agreements	(73)	36	(37)	(75)	(48)	(123)
Borrowed funds	15	(3)	12	18	(4)	14
Interest expense	21	(287)	(266)	403	(1,486)	(1,083)
Net interest income	\$ 5,872	\$ (2,031)	\$ 3,841	\$ 14,541	\$ (4,736)	\$ 9,805

**ANALYSIS OF NET INTEREST MARGIN**

	<b>Three Months Ended June 30,</b>			<b>Six Months Ended June 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>Change</b>	<b>2014</b>	<b>2013</b>	<b>Change</b>
Average earning assets	\$ 14,526,859	\$ 13,777,533	\$ 749,326	\$ 14,980,017	\$ 13,754,429	\$ 1,225,588
Average interest-bearing liabilities	8,725,371	8,796,109	(70,738)	9,181,089	8,746,791	434,298
Average interest free funds	\$ 5,801,488	\$ 4,981,424	\$ 820,064	\$ 5,798,928	\$ 5,007,638	\$ 791,290

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Free funds ratio (free funds to earning assets)	39.94%	36.16%	3.78%	38.71%	36.41%	2.30%
Tax-equivalent yield on earning assets	2.63%	2.67%	(0.04)%	2.55%	2.65%	(0.10)%
Cost of interest-bearing liabilities	0.17	0.18	(0.01)	0.16	0.19	(0.03)
Net interest spread	2.46%	2.49%	(0.03)%	2.39%	2.46%	(0.07)%
Benefit of interest-free funds	0.07	0.07	0.00	0.06	0.07	(0.01)
Net interest margin	2.53%	2.56%	(0.03)%	2.45%	2.53%	(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 \$5.0 million and \$9.5 million related to the provision for loan losses for the three and six-month periods ended June 30, 2014, compared to \$5.0 million and \$7.0 million for the same periods in 2013. As illustrated in Table 3 below, the ALL decreased to 1.11 percent of total loans as of June 30, 2014, compared to 1.13 percent of total loans as of the same period in 2013.

Table 3 presents a summary of the Company's ALL for the six months ended June 30, 2014 and 2013 and for the year ended December 31, 2013. Net charge-offs were \$7.4 million for the first six months of 2014, compared to \$6.8 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)*

	Six Months Ended		Year Ended
	June 30, 2014	2013	December 31, 2013
Allowance-January 1	\$ 74,751	\$ 71,426	\$ 71,426
Provision for loan losses	9,500	7,000	17,500
Charge-offs:			
Commercial	(2,947)	(2,423)	(4,748)
Consumer:			
Credit card	(5,348)	(5,372)	(10,531)
Other	(788)	(767)	(1,600)
Real estate	(181)	(371)	(775)
Total charge-offs	(9,264)	(8,933)	(17,654)
Recoveries:			
Commercial	268	515	867
Consumer:			
Credit card	1,101	1,115	1,720
Other	429	508	815
Real estate	17	16	77

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Total recoveries	1,815	2,154	3,479
Net charge-offs	(7,449)	(6,779)	(14,175)
Allowance-end of period	\$ 76,802	\$ 71,647	\$ 74,751
Average loans, net of unearned interest	\$ 6,787,972	\$ 5,982,266	\$ 6,217,240
Loans at end of period, net of unearned interest	6,920,683	6,338,921	6,520,512
Allowance to loans at end of period	1.11%	1.13%	1.15%
Allowance as a multiple of net charge-offs	5.11x	5.24x	5.27x
Net charge-offs to:			
Provision for loan losses	78.41%	96.84%	81.00%
Average loans	0.22	0.23	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.

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)

	<b>Three Months Ended June 30,</b>		<b>Dollar</b>	<b>Percent</b>
	<b>2014</b>	<b>2013</b>	<b>Change</b>	<b>Change</b>
			<b>14-13</b>	<b>14-13</b>
Trust and securities processing	\$ 73,357	\$ 63,486	\$ 9,871	15.55%
Trading and investment banking	6,409	5,423	986	18.18
Service charges on deposit accounts	20,627	20,882	(255)	(1.22)
Insurance fees and commissions	732	1,236	(504)	(40.78)
Brokerage fees	3,075	2,886	189	6.55
Bankcard fees	17,185	16,032	1,153	7.19
Gains on sales of securities available for sale, net	2,569	1,519	1,050	69.12
Equity earnings on alternative investments	3,462		3,462	>100.00
Other	6,585	2,121	4,464	>100.00
<b>Total noninterest income</b>	<b>\$ 134,001</b>	<b>\$ 113,585</b>	<b>\$ 20,416</b>	<b>17.97%</b>

	<b>Six Months Ended June 30,</b>		<b>Dollar</b>	<b>Percent</b>
	<b>2014</b>	<b>2013</b>	<b>Change</b>	<b>Change</b>
			<b>14-13</b>	<b>14-13</b>
Trust and securities processing	\$ 144,920	\$ 125,798	\$ 19,122	15.20%
Trading and investment banking	10,732	12,532	(1,800)	(14.36)
Service charges on deposits	42,185	42,405	(220)	(0.52)
Insurance fees and commissions	1,335	2,198	(863)	(39.26)
Brokerage fees	4,890	5,832	(942)	(16.15)
Bankcard fees	32,808	32,470	338	1.04
Gains on sales of securities available for sale, net	4,039	7,412	(3,373)	(45.51)
Equity earnings on alternative investments	5,992		5,992	>100.00
Other	10,064	5,954	4,110	69.03

Total noninterest income	\$ 256,965	\$ 234,601	\$ 22,364	9.53%
--------------------------	------------	------------	-----------	-------

Fee-based, or noninterest income (summarized in Table 4), increased by \$20.4 million, or 18.0 percent, during the three months ended June 30, 2014, and increased by \$22.4 million, or 9.5 percent, during the six months ended June 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.

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 six-month periods compared to the same periods last year was primarily due

---

**Table of Contents**

to changes in the following three categories of income. Institutional and personal investment management services fees for the three and six-month periods ended June 30, 2014, increased by \$3.7 million, or 18.9 percent, and \$6.7 million, or 17.2 percent, respectively. Fund administration and custody services fees for the three and six-month periods ended June 30, 2014, increased by \$3.1 million, or 16.3 percent, and \$4.5 million, or 11.6 percent, respectively. Advisory fee income from the Scout Funds for the three and six-month periods ended June 30, 2014, increased by \$2.2 million, or 10.0 percent, and by \$6.5 million, or 15.0 percent, respectively. Trust and securities processing fees are primarily asset-based. As such, they are highly correlated to the change in market value of the assets. Thus, the related income for the remainder of the year will be affected by changes in the securities markets. Management continues to emphasize sales of services to both new and existing clients as well as increasing and improving the distribution channels.

Trading and Investment Banking for the three and six-month periods ended June 30, 2014, increased by \$1.0 million, or 18.2 percent, and decreased \$1.8 million, or 14.4 percent, respectively. The income in this category is market driven and impacted by general increases or decreases in trading volume.

During the three and six-month periods ended June 30, 2014, \$2.6 million and \$4.0 million in pre-tax gains were recognized on the sales of securities available for sale, compared to \$1.5 million and \$7.4 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 six-month periods ended June 30, 2014, \$3.5 million and \$6.0 million of equity earnings on alternative investments were recognized on Prairie Capital Management investments. There were no unrealized gains or losses recognized in the same periods of 2013.

Other noninterest income for the three-month period ended June 30, 2014, increased \$4.5 million, or 210.5 percent primarily driven by a \$2.8 million gain on the sale of a branch property and increased fair value adjustments on interest rate swap transactions of \$0.8 million compared to the same period in 2013. Other noninterest income for the six-month period ended June 30, 2014 increased \$4.1 million, or 69.0 percent, primarily driven by the \$2.8 million property gain noted above and increased fair value adjustments on interest rate swap transactions of \$1.4 million.

**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
	June 30, 2014	2013		
Salaries and employee benefits	\$ 89,532	\$ 83,566	\$ 5,966	7.14%
Occupancy, net	9,705	9,273	432	4.66
Equipment	12,920	11,873	1,047	8.82
Supplies and services	5,554	5,362	192	3.58
Marketing and business development	6,307	5,705	602	10.55
Processing fees	14,817	14,293	524	3.67
Legal and consulting	4,632	4,844	(212)	(4.38)
Bankcard	4,997	4,709	288	6.12
Amortization of other intangible assets	3,074	3,354	(280)	(8.35)
Regulatory fees	2,709	2,484	225	9.06
Contingency reserve	5,272		5,272	>100.00
Other	6,992	4,848	2,144	44.22
<b>Total noninterest expense</b>	<b>\$ 166,511</b>	<b>\$ 150,311</b>	<b>\$ 16,200</b>	<b>10.78%</b>

	Six Months Ended		Dollar Change 14-13	Percent Change 14-13
	June 30, 2014	2013		
Salaries and employee benefits	\$ 178,413	\$ 167,268	\$ 11,145	6.66%
Occupancy, net	19,410	19,160	250	1.30
Equipment	25,583	23,807	1,776	7.46
Supplies and services	10,191	9,849	342	3.47
Marketing and business development	10,909	9,977	932	9.34
Processing fees	28,468	28,383	85	0.30
Legal and consulting	8,004	8,445	(441)	(5.22)
Bankcard	8,685	9,257	(572)	(6.18)
Amortization of other intangible assets	6,176	6,809	(633)	(9.30)
Regulatory fees	5,225	4,395	830	18.89
Contingency reserve	20,272		20,272	>100.00
Other	17,416	13,339	4,077	30.56
<b>Total noninterest expense</b>	<b>\$ 338,752</b>	<b>\$ 300,689</b>	<b>\$ 38,063</b>	<b>12.66%</b>



Noninterest expense increased by \$16.2 million, or 10.8 percent, for the three months ended June 30, 2014, and increased \$38.1 million, or 12.7 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.

Salaries and employee benefits increased by \$6.0 million, or 7.1 percent, and increased \$11.1 million, or 6.7 percent, for the three and six months ended June 30, 2014 compared to the same period in 2013. These increases are due to increases in salaries and wages of \$2.5 million, or 4.7 percent, and \$5.1 million, or 5.0 percent, for the three and six months ended June 30, 2014, compared to the same periods in 2013. Commissions and bonuses increased \$1.2 million, or 6.7 percent, and \$2.5 million, or 7.1 percent, for the three and six months ended June 30, 2014, compared to the same periods in 2013. Employee benefits expense increased \$2.3 million, or 17.4 percent, and \$3.6 million, or 11.8 percent, for the three and six months ended June 30, 2014, compared to the same periods in 2013.

**Table of Contents**

Equipment expense increased \$1.0 million, or 8.8 percent, and \$1.8 million, or 7.5 percent, for the three and six months ended June 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 \$2.1 million, or 44.2 percent, and \$4.1 million, or 30.6 percent, for the three and six months ended June 30, 2014 compared to the same period in 2013. The increase for the three-month period is due to increases of \$0.8 million in fair value adjustments to the contingent consideration liabilities on acquisitions and increases in value adjustments on interest rate swap transactions of \$0.6 million. The increase for the six-month period is due to increases of \$2.1 million in fair value adjustments to the contingent consideration liabilities on acquisitions and increases in value adjustments on interest rate swap transactions of \$1.4 million.

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. For the three-month period ended June 30, 2014, an additional \$5.3 million of contingency reserve expense was recorded 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 Other liabilities line on the Company's Consolidated Balance Sheet and the Contingency reserve line on Company's Consolidated Statements of Income.

**Income Tax Expense**

The Company's effective tax rate is 27.7 percent for the six months ended June 30, 2014, compared to 26.9 percent for the same period in 2013. The increase in the effective tax rate is primarily attributable to a decrease in federal tax credits.

**Strategic Lines of Business**

Table 6

**Bank Operating Results** *(unaudited, dollars in thousands)*

	<b>Three Months Ended</b>		<b>Dollar</b>	<b>Percent</b>
	<b>June 30,</b>		<b>Change</b>	<b>Change</b>
	<b>2014</b>	<b>2013</b>	<b>14-13</b>	<b>14-13</b>
Net interest income	\$ 72,481	\$ 70,558	\$ 1,923	2.73%
Provision for loan losses	2,686	1,628	1,058	64.99
Noninterest income	56,006	46,436	9,570	20.61
Noninterest expense	100,928	92,540	8,388	9.06
Income before taxes	24,873	22,826	2,047	8.97
Income tax expense	7,211	6,035	1,176	19.49
Net income	\$ 17,662	\$ 16,791	\$ 871	5.19%

	<b>Six Months Ended</b>		<b>Dollar</b>	<b>Percent</b>
	<b>June 30,</b>		<b>Change</b>	<b>Change</b>
	<b>2014</b>	<b>2013</b>	<b>14-13</b>	<b>14-13</b>
Net interest income	\$ 143,602	\$ 137,818	\$ 5,784	4.20%
Provision for loan losses	5,112	1,937	3,175	>100.00
Noninterest income	103,425	99,184	4,241	4.28
Noninterest expense	208,671	184,076	24,595	13.36
Income before taxes	33,244	50,989	(17,745)	(34.80)
Income tax expense	9,242	13,740	(4,498)	(32.74)
Net income	\$ 24,002	\$ 37,249	\$ (13,247)	(35.56)%

**Table of Contents**

Bank net income decreased by \$13.2 million, or 35.6 percent, to \$24.0 million for the six-month period ended June 30, 2014 compared to the prior year. Net interest income increased \$5.8 million, or 4.2 percent over the same period in 2013 driven by commercial and commercial real estate loan growth, while being slightly offset by interest rate margin compression. Provision increased by \$3.2 million, due to characteristics of the loan portfolio driving an increased allowance for loan loss reserve for this segment. Noninterest income increased \$4.2 million, or 4.3 percent, over the same period in 2013 driven by increased trust and securities processing income of \$4.3 million, increased unrealized gains on Prairie Capital Management equity method investments of \$6.0 million, and an increase in other noninterest income of \$4.6 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 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 \$3.4 million in bond trading income, securities gains of \$3.4 million, card services income of \$1.7 million, and deposit service charges of \$1.0 million compared to the same period last year.

Noninterest expense increased \$24.6 million, or 13.4 percent, to \$208.7 million compared to the prior year. The increase in noninterest expense is primarily due to a \$20.3 million contingency reserve recorded in the current year and a \$3.9 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 during the six-month period ended June 30, 2014 related to the settlement.

Table 7

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

	Three Months Ended		Dollar Change 14-13	Percent Change 14-13
	2014	2013		
Net interest income	\$ 12,390	\$ 11,192	\$ 1,198	10.70%
Provision for loan losses	2,314	3,372	(1,058)	(31.38)
Noninterest income	21,219	18,640	2,579	13.84
Noninterest expense	24,603	21,850	2,753	12.60
Income before taxes	6,692	4,610	2,082	45.16
Income tax expense	1,910	1,203	707	58.77
Net income	\$ 4,782	\$ 3,407	\$ 1,375	40.36%

  

	Six Months Ended		Dollar Change 14-13	Percent Change 14-13
	2014	2013		
Net interest income	\$ 24,778	\$ 22,740	\$ 2,038	8.96%
Provision for loan losses	4,388	5,063	(675)	(13.33)
Noninterest income	41,453	38,077	3,376	8.87
Noninterest expense	45,631	41,968	3,663	8.73

Income before taxes	16,212	13,786	2,426	17.60
Income tax expense	4,485	3,737	748	20.02
Net income	\$ 11,727	\$ 10,049	\$ 1,678	16.70%

Payment Solutions net income increased \$1.7 million, or 16.7 percent, to \$11.7 million from the prior year. Net interest income increased \$2.0 million, or 9.0 percent and provision expense was flat compared to the prior year for the six months ended June 30, 2014. Noninterest income increased \$3.4 million, or 8.9 percent, driven by an increase in card services income of \$2.0 million. Noninterest expense increased by \$3.7 million, or 8.7 percent, primarily due to increased staffing, technology, and occupancy expenses compared to the same period last year.

**Table of Contents**

Table 8

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

	<b>Three Months Ended June 30,</b>		<b>Dollar</b>	<b>Percent</b>
	<b>2014</b>	<b>2013</b>	<b>Change 14-13</b>	<b>Change 14-13</b>
Net interest income	\$ (1)	\$ (10)	\$ 9	90.00%
Provision for loan losses				
Noninterest income	33,999	29,155	4,844	16.61
Noninterest expense	22,111	18,856	3,255	17.26
Income before taxes	11,887	10,289	1,598	15.53
Income tax expense	3,375	2,708	667	24.63
Net income	\$ 8,512	\$ 7,581	\$ 931	12.28%

	<b>Six Months Ended June 30,</b>		<b>Dollar</b>	<b>Percent</b>
	<b>2014</b>	<b>2013</b>	<b>Change 14-13</b>	<b>Change 14-13</b>
Net interest income	\$ (3)	\$ (10)	\$ 7	70.00%
Provision for loan losses				
Noninterest income	68,094	57,708	10,386	18.00
Noninterest expense	47,998	37,700	10,298	27.32
Income before taxes	20,093	19,998	95	0.48
Income tax expense	5,523	5,376	147	2.73
Net income	\$ 14,570	\$ 14,622	\$ (52)	(0.36)%

For the six months ended June 30, 2014, Institutional Investment Management net income was flat with the same period last year. Noninterest income increased \$10.4 million, or 18.0 percent, due to a \$3.8 million increase in advisory fees from separately managed accounts, and a \$6.5 million increase in fees from the Scout Funds, which are both driven by increased asset values. The increase in noninterest expense of \$10.3 million, or 27.3 percent, over the prior year was primarily due to a \$3.9 million increase in salaries and benefits and a \$4.6 million increase in contingent consideration liabilities related to the Reams acquisition.

**Table of Contents**

Table 9

**Asset Servicing Operating Results** (unaudited, dollars in thousands)

	<b>Three Months Ended</b>		<b>Dollar</b>	<b>Percent</b>
	<b>June 30,</b>		<b>Change</b>	<b>Change</b>
	<b>2014</b>	<b>2013</b>	<b>14-13</b>	<b>14-13</b>
Net interest income	\$ 1,300	\$ 587	\$ 713	>100.00%
Provision for loan losses				
Noninterest income	22,777	19,354	3,423	17.69
Noninterest expense	18,869	17,065	1,804	10.57
Income before taxes	5,208	2,876	2,332	81.08
Income tax expense	1,492	726	766	>100.00
Net income	\$ 3,716	\$ 2,150	\$ 1,566	72.84%

	<b>Six Months Ended</b>		<b>Dollar</b>	<b>Percent</b>
	<b>June 30,</b>		<b>Change</b>	<b>Change</b>
	<b>2014</b>	<b>2013</b>	<b>14-13</b>	<b>14-13</b>
Net interest income	\$ 3,238	\$ 1,262	\$ 1,976	>100.00%
Provision for loan losses				
Noninterest income	43,993	39,632	4,361	11.00
Noninterest expense	36,452	36,945	(493)	(1.33)
Income before taxes	10,779	3,949	6,830	>100.00
Income tax expense	2,993	999	1,994	>100.00
Net income	\$ 7,786	\$ 2,950	\$ 4,836	>100.00%

Asset Servicing net income increased \$4.8 million, or 163.9 percent, to \$7.8 million compared to the same period last year. Net interest income increased \$2.0 million compared to last year. Noninterest income increased \$4.4 million, or 11.0 percent, due to a \$4.4 million, or 11.3%, increase in fee income driven primarily by new business added in transfer agent, alternative investment, and fund administration services. Noninterest expense remained flat with the same period last year.

**Balance Sheet Analysis**

Total assets of the Company decreased by \$1.3 billion, or 8.0 percent, as of June 30, 2014, compared to December 31, 2013, primarily due to a decrease in due from Federal Reserve balances of \$1.9 billion, or 93.0 percent, offset by an increase in loan balances of \$400.2 million, or 6.1 percent. The overall decrease in total assets is directly related to a corresponding decrease in deposit balances of \$1.5 billion, or 10.8 percent, from December 31, 2013 to June 30, 2014.

Total assets of the Company increased \$309.5 million as of June 30, 2014, or 2.0 percent, compared to June 30, 2013. This increase is a result of an increase in loans of \$581.8 million, or 9.2 percent, offset by a decrease in due from

Federal Reserve balances of \$440.0 million, or 75.4 percent. The overall increase in total assets from June 30, 2013 to June 30, 2014 is directly related to a corresponding increase in total deposits of \$444.5 million, or 3.8 percent, and an increase in total shareholder's equity of \$374.9 million, or 30.6 percent, as a result of the common stock issuance completed in September 2013, which increased total shareholder's equity by \$231.4 million. The increases in total deposits and shareholder's equity from June 30, 2013 to June 30, 2014 were offset by decreases in borrowed funds of \$550.7 million.



**Table of Contents**

Table 10

**SELECTED BALANCE SHEET INFORMATION** (unaudited, dollars in thousands)

	<b>June 30,</b>		<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2013</b>
Total assets	\$ 15,562,690	\$ 15,253,217	\$ 16,911,852
Loans, net of unearned interest	6,920,683	6,338,921	6,520,512
Total investment securities	7,033,433	7,178,637	7,051,127
Interest-bearing due from banks	255,453	607,470	2,093,467
Total earning assets	14,218,575	14,127,047	15,678,730
Total deposits	12,174,289	11,729,750	13,640,766
Total borrowed funds	1,613,039	2,162,556	1,588,380

**Loans and Loans Held For Sale**

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 \$400.2 million, or 6.1 percent, to \$6.9 billion at June 30, 2014 compared to December 31, 2013 and increased \$581.8 million, or 9.2 percent, compared to June 30, 2013. Compared to December 31, 2013, commercial loans increased \$237.7 million, or 7.2 percent. Compared to June 30, 2013, commercial loans increased \$207.5 million, or 6.2 percent, commercial real estate increased \$160.2 million, or 10.2 percent, and construction real estate increased \$124.7 million, or 116.4 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 \$7.0 billion at June 30, 2014, compared to \$7.1 billion at December 31, 2013, and \$7.2 billion at June 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 49.5 percent, 45.0 percent, and 50.8 percent, respectively, of the earning assets as of June 30, 2014, December 31, 2013, and June 30, 2013. There were \$5.0 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

June 30, 2014. Of this amount, securities with a market value of \$1.4 billion at June 30, 2014 were pledged at the Federal Reserve Discount Window but were unencumbered as of that date.

Investment securities had an average tax-equivalent yield of 1.98 percent for the first six months of 2014 compared to 1.97 percent for the same period in 2013. The average life of the securities portfolio was 47.4 months at June 30, 2014 compared to 47.7 months at December 31, 2013 and 48.8 months at June 30, 2013. The decrease in average life from June 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.

---

**Table of Contents**

**Deposits and Borrowed Funds**

Deposits decreased \$1.5 billion, or 10.8 percent, from December 31, 2013 to June 30, 2014 and increased \$444.5 million, or 3.8 percent, from June 30, 2013. Noninterest-bearing deposits increased \$209.7 million and interest-bearing deposits decreased \$1.7 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 increased \$512.1 million and interest-bearing deposits decreased \$0.1 million compared to June 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 remained flat with December 31, 2013 and decreased \$0.5 million from June 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 \$1.6 billion at June 30, 2014 and December 31, 2013, compared to \$2.2 billion at June 30, 2013. 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 June 30, 2014, a \$95.3 million increase compared to December 31, 2013 and a \$374.9 million increase compared to June 30, 2013. The increase in shareholder's equity from June 30, 2013 to June 30, 2014 is a result of the common stock issuance completed in September 2013, which increased total shareholder's equity by \$231.4 million.

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 six months ended June 30, 2014 and 2013, the Company acquired 52,123 shares and 37,848 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 July 22, 2014, the Board of Directors declared a dividend of \$0.225 per share. The dividend will be paid on October 1, 2014 to shareholders of record on September 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 13.81 percent and total capital ratio of 14.62 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 8.70 percent as of June 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:

<b>RATIOS</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Return on average assets	0.89%	0.81%	0.73%	0.88%
Return on average equity	8.77	9.31	7.48	10.17
Average equity to assets	10.15	8.67	9.75	8.67
Tier 1 risk-based capital ratio	13.81	10.72	13.81	10.72
Total risk-based capital ratio	14.62	11.52	14.62	11.52
Leverage ratio	8.70	6.76	8.70	6.76

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

<b>Per Share Data</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Earnings basic	\$ 0.77	\$ 0.75	\$ 1.30	\$ 1.62
Earnings diluted	0.76	0.74	1.28	1.61

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Cash dividends	0.225	0.215	0.450	0.430
Dividend payout ratio	29.22%	28.67%	34.62%	26.54%
Book value	\$ 35.21	\$ 30.20	\$ 35.21	\$ 30.20

**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 condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed 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 condensed 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 June 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)	June 30, 2014	June 30, 2013
	Amount of change	Amount of change
300	\$ 24,877	\$ 9,410
200	16,893	5,661
100	8,842	1,651
Static		
(100)	N/A	N/A

The Company is sensitive at June 30, 2014 to increases in rates. Increases in interest rates are projected to cause increases in net interest income. 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. For projected increases in rates, net interest income is projected to increase due to the Company being positioned to adjust yields on assets with changes in market rates more than the cost of paying liabilities is projected to increase.

**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 \$26.5 million as of June 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 Condensed 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.

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 \$1.7 million to \$27.2 million at June 30, 2014, compared to June 30, 2013 and decreased \$3.5 million, compared to December 31, 2013.

**Table of Contents**

The Company had \$1.5 million and \$3.6 million of other real estate owned as of June 30, 2014 and 2013 respectively, compared to \$1.3 million as of December 31, 2013. Loans past due more than 90 days totaled \$4.5 million as of June 30, 2014, compared to \$4.0 million at June 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 \$11.6 million of restructured loans at June 30, 2014, \$14.0 million at June 30, 2013 and \$12.1 million at December 31, 2013.

*Table 13***LOAN QUALITY** (unaudited, dollars in thousands)

	<b>June 30,</b>		<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2013</b>
Nonaccrual loans	\$ 16,117	\$ 12,576	\$ 19,305
Restructured loans on nonaccrual	11,058	12,913	11,401
<b>Total nonperforming loans</b>	<b>27,175</b>	<b>25,489</b>	<b>30,706</b>
Other real estate owned	1,455	3,573	1,288
<b>Total nonperforming assets</b>	<b>\$ 28,630</b>	<b>\$ 29,062</b>	<b>\$ 31,994</b>
Loans past due 90 days or more	\$ 4,522	\$ 4,013	\$ 3,218
Restructured loans accruing	554	1,135	665
Allowance for Loan Losses	76,802	71,647	74,751
<b>Ratios</b>			
Nonperforming loans as a percent of loans	0.39%	0.40%	0.47%
Nonperforming assets as a percent of loans plus other real estate owned	0.41	0.46	0.49
Nonperforming assets as a percent of total assets	0.18	0.19	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	1.11	1.13	1.15
Allowance for loan losses as a multiple of nonperforming loans	2.83x	2.81x	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. Ultimately, 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 \$6.7 billion of high-quality securities available for sale. Securities available for sale with a market value of \$5.0 billion at June 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 June 30, 2014 were pledged at the Federal Reserve Discount Window but were unencumbered as of those dates.

The liquidity of the Company and the Bank 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.

## **Table of Contents**

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 June 30, 2014 was \$5.4 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 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 June 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 places reliance 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**

The Sarbanes-Oxley Act of 2002 requires the Chief Executive Officer and the Chief Financial Officer to make certain certifications with respect to this report and to the Company's disclosure controls and procedures and internal control over financial reporting. The Company has a Code of Ethics that expresses the values that drive employee behavior and maintains the Company's commitment to the highest standards of ethics.

**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 the following criteria for the information the Company is required to report in its periodic SEC filings. SEC filings are recorded, processed, summarized, and reported within the time period required and that 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 June 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 have a materially adverse effect on the financial position, results of operations, or cash flows of 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 June 30, 2014.

**ISSUER PURCHASE OF EQUITY SECURITIES**

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
April 1-April 22, 2014	97	\$ 60.55	97	1,910,813
April 23-April 30, 2014				2,000,000
May 1-May 31, 2014	3,993	57.28	3,993	1,996,007
June 1-June 30, 2014	1,063	59.17	1,063	1,994,944
<b>Total</b>	<b>5,153</b>	<b>\$ 57.73</b>	<b>5,153</b>	



On April 23, 2013, the Company announced a plan to repurchase up to two million shares of common stock, which terminated on April 22, 2014. 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. Rule 10b-18 provides a safe harbor for purchases in a given day if the Company satisfies the manner, timing and volume conditions of the rule when purchasing its own common shares.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**Table of Contents**

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

a) The following exhibits are filed herewith:

- i. 3.1 Articles of Incorporation restated as of April 25, 2006. Amended Article III was filed with the Missouri Secretary of State on May 18, 2006 and incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 and filed with the Commission on May 9, 2006.
- ii. 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 and filed with the Commission on January 28, 2014.
- iii. 4 Description of the Registrant's common stock in Amendment No. 1 on Form 8, incorporated by reference to its General Form for Registration of Securities on Form 10 dated March 5, 1993.
- iv. 10.1 Settlement Agreement and Release dated June 30, 2014 incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Commission on July 3, 2014.
- v. 31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
- vi. 31.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
- vii. 32.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act.
- viii. 32.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act.
- ix. 101.INS XBRL Instance
- x. 101.SCH XBRL Taxonomy Extension Schema
- xi. 101.CAL XBRL Taxonomy Extension Calculation
- xii. 101.DEF XBRL Taxonomy Extension Definition
- xiii. 101.LAB XBRL Taxonomy Extension Labels
- xiv. 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: July 31, 2014