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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from __________ to __________

Commission file number 0-4887

UMB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

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

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FORM 10-Q

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UMB FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

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

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

Federal funds purchased and repurchase agreements	1,711,809	1,583,218
Short-term debt		107
Long-term debt	7,067	5,055
Accrued expenses and taxes	161,194	153,450
Other liabilities	35,172	23,191
Total liabilities	14,668,679	15,405,787
SHAREHOLDERS EQUITY		
Common stock, $1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 45,485,313 and 45,221,237 shares outstanding, respectively	55,057	55,057
Capital surplus	891,353	882,407
Retained earnings	947,664	884,630
Accumulated other comprehensive income (loss)	1,827	(32,640)
Treasury stock, 9,571,417 and 9,835,493 shares, at cost, respectively	(280,552)	(283,389)
Total shareholders equity	1,615,349	1,506,065
Total liabilities and shareholders equity	$ 16,284,028	$ 16,911,852

See Notes to Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

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

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

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

See Notes to Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

(unaudited, dollars in thousands)

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

See Notes to Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS EQUITY

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance January 1, 2013	$ 55,057	$ 732,069	$ 787,015	$ 85,588	$ (380,384)	$ 1,279,345
Total comprehensive loss			99,302	(101,266)		(1,964)
Dividends ($0.645 per share)			(26,179)			(26,179)
Purchase of treasury stock					(2,551)	(2,551)
Issuance of equity awards		(2,189)			2,638	449
Recognition of equity based compensation		6,319				6,319
Net tax benefit related to equity compensation plans		963				963
Sale of treasury stock		367			172	539
Exercise of stock options		2,916			2,641	5,557
Common stock issuance		121,708			79,469	201,177
Balance September 30, 2013	$ 55,057	$ 862,153	$ 860,138	$ (15,678)	$ (298,015)	$ 1,463,655
Balance January 1, 2014	$ 55,057	$ 882,407	$ 884,630	$ (32,640)	$ (283,389)	$ 1,506,065
Total comprehensive income			93,715	34,467		128,182
Dividends ($0.675 per share)			(30,681)			(30,681)
Purchase of treasury stock					(3,858)	(3,858)
Issuance of equity awards		(2,624)			3,114	490
Recognition of equity based compensation		7,224				7,224
Net tax benefit related to equity compensation plans		1,507				1,507
Sale of treasury stock		455			244	699
Exercise of stock options		2,384			3,337	5,721
Balance September 30, 2014	$ 55,057	$ 891,353	$ 947,664	$ 1,827	$ (280,552)	$ 1,615,349

See Notes to Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

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

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

See Notes to Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Financial Statement Presentation

The consolidated financial statements include the accounts of UMB Financial Corporation and its subsidiaries (collectively, the Company) after elimination of all intercompany transactions. In the opinion of management of the Company, all adjustments, which were of a normal recurring nature and necessary for a fair presentation of the financial position and results of operations, have been made. The results of operations and cash flows for the interim periods presented may not be indicative of the results of the full year. The financial statements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations within this Form 10-Q filing and in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

2. Summary of Significant Accounting Policies

The Company is a financial holding company, which offers a wide range of banking and other financial services to its customers through its branches and offices in the states of Missouri, Kansas, Colorado, Illinois, Oklahoma, Texas, Arizona, Nebraska, Pennsylvania, South Dakota, Indiana, Utah, and Wisconsin. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also impact reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A summary of the significant accounting policies to assist the reader in understanding the financial presentation is listed in the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Cash and cash equivalents

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

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

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

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

Per Share Data

Basic income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted quarterly per share data includes the dilutive effect of 551,674 and 650,028 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2014 and 2013, respectively. Diluted year-to-date income per share includes the dilutive effect of 601,260 and 544,930 shares issuable upon the exercise of stock options granted by the Company and outstanding at September 30, 2014 and 2013, respectively.

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

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

Common Stock Issuance

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

3. New Accounting Pronouncements

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

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

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

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

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

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

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

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

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

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

4. Loans and Allowance for Loan Losses

Loan Origination/Risk Management

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

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

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

UMB FINANCIAL CORPORATION

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

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

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

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

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

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UMB FINANCIAL CORPORATION

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

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

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

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

	December 31, 2013					
	30-89 Days Past Due and Accruing	**Greater than 90 Days Past Due and Accruing**	**Non-Accrual Loans**	**Total Past Due**	**Current**	**Total Loans**
Commercial:						
Commercial	$ 2,107	$ 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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

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

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

Credit Quality Indicators

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

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

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

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

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

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

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

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

Credit Exposure

Credit Risk Profile by Risk Rating

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

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

Credit Exposure

Credit Risk Profile Based on Payment Activity

Commercial-credit card	Real estate-residential

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

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

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

UMB FINANCIAL CORPORATION

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

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

Allowance for Loan Losses

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

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

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

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

General valuation allowances are calculated based on the historical loss experience of specific types of loans including an evaluation of the time span and volume of the actual charge-off. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are updated based on actual charge-off experience. A valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio, time span to charge-off, and the total dollar amount of the loans in the pool. The Company s pools of similar loans include similarly risk-graded groups of commercial loans, commercial real estate loans, commercial credit card, home equity loans, consumer real estate loans and consumer and other loans. The Company also considers a loan migration analysis for criticized loans. This analysis includes an assessment of the probability that a loan will move to a loss position based on its risk rating. The consumer credit card pool is evaluated based on delinquencies and credit scores.

In addition, a portion of the allowance is determined by a review of qualitative factors by management.

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

ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2014 *(in thousands):*

	Three Months Ended September 30, 2014				
	Commercial	**Real estate**	**Consumer**	**Leases**	**Total**
Allowance for loan losses:					
Beginning balance	$ 52,433	$ 14,217	$ 10,074	$ 78	$ 76,802
Charge-offs	(2,033)	(57)	(2,745)		(4,835)
Recoveries	396	8	445		849
Provision	3,983	(1,515)	1,964	68	4,500
Ending Balance	$ 54,779	$ 12,653	$ 9,738	$ 146	$ 77,316

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

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

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

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

	Three Months Ended September 30, 2013				
	Commercial	**Real estate**	**Consumer**	**Leases**	**Total**
Allowance for loan losses:					
Beginning balance	$ 45,108	$ 16,296	$ 10,168	$ 75	$ 71,647
Charge-offs	(592)	(162)	(3,126)		(3,880)
Recoveries	246	21	404		671
Provision	3,491	2	2,996	11	6,500
Ending Balance	$ 48,253	$ 16,157	$ 10,442	$ 86	$ 74,938

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

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

Impaired Loans

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

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

	December 31, 2013					
	Unpaid 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

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

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UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

Troubled Debt Restructurings

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

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

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

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

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

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

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

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
Commercial:						
Commercial	1	$ 182	$ 182	3	$ 1,311	$ 1,249
Commercial credit card						
Real estate:						
Real estate construction						
Real estate commercial				1	937	937
Real estate residential				1	425	425
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	1	$ 182	$ 182	5	$ 2,673	$ 2,611

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

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

5. Securities

Securities Available for Sale

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

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

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

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

	Amortized	Fair

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

The following table shows the Company s available for sale investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2014 and December 31, 2013 *(in thousands):*

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

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013						
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. agencies, federal agency mortgage-backed securities, municipal securities, and corporates were caused by changes in interest rates. The Company does not have the intent to sell these securities and does not believe it is more likely than not that the Company will be required to sell these securities before a recovery of amortized cost. The Company expects to recover its cost basis in the securities and does not consider these investments to be other-than-temporarily impaired at

September 30, 2014.

Securities Held to Maturity

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

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

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UMB FINANCIAL CORPORATION

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

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

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

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

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

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

Trading Securities

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

Federal Reserve Bank Stock and Other Securities

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

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

December 31, 2013				
Federal Reserve Bank stock	$ 16,279	$	$	$ 16,279
Other securities marketable	20	16,612		16,632
Other securities non-marketable	17,139	432		17,571
Total Federal Reserve Bank stock and other	$ 33,438	$ 17,044	$	$ 50,482

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

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UMB FINANCIAL CORPORATION

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

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

6. Goodwill and Other Intangibles

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

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

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

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

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

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

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

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

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UMB FINANCIAL CORPORATION

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

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

7. Commitments, Contingencies and Guarantees

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

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

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

Contract or Notional Amount *(in thousands):*

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

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UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

8. Business Segment Reporting

The Company has strategically aligned its operations into the following four reportable segments (collectively, Business Segments): Bank, Payment Solutions, Institutional Investment Management, and Asset Servicing. Business segment financial results produced by the Company s internal management reporting system are evaluated regularly by senior executive officers in deciding how to allocate resources and assess performance for individual Business Segments. The management reporting system assigns balance sheet and income statement items to each business segment using methodologies that are refined on an ongoing basis. For comparability purposes, amounts in all periods presented are based on methodologies in effect at September 30, 2014. Previously reported results have been reclassified to conform to the current organizational structure.

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

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

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

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

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

Business Segment Information

Segment financial results were as follows (in thousands):

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

			Management		
Net interest income	$ 72,906	$ 13,442	$	$ 1,178	$ 87,526
Provision for loan losses	2,446	2,054			4,500
Noninterest income	48,385	21,579	33,919	22,592	126,475
Noninterest expense	99,307	22,056	20,910	19,188	161,461
Income before taxes	19,538	10,911	13,009	4,582	48,040
Income tax expense	5,081	2,795	3,350	1,184	12,410
Net income	$ 14,457	$ 8,116	$ 9,659	$ 3,398	$ 35,630
Average assets	$ 11,639,000	$ 2,823,000	$ 74,000	$ 1,102,000	$ 15,638,000

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UMB FINANCIAL CORPORATION

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

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

	Three Months Ended September 30, 2013				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 73,419	$ 11,587	$ (11)	$ 550	$ 85,545
Provision for loan losses	1,833	4,667			6,500
Noninterest income	48,945	18,409	33,842	20,429	121,625
Noninterest expense	93,150	21,658	21,054	17,201	153,063
Income before taxes	27,381	3,671	12,777	3,778	47,607
Income tax expense	6,922	1,283	3,506	1,464	13,175
Net income	$ 20,459	$ 2,388	$ 9,271	$ 2,314	$ 34,432
Average assets	$ 11,128,000	$ 1,727,000	$ 76,000	$ 1,993,000	$ 14,924,000

	Nine Months Ended September 30, 2014				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 216,508	$ 38,220	$ (3)	$ 4,416	$ 259,141
Provision for loan losses	7,558	6,442			14,000
Noninterest income	151,843	62,998	102,014	66,585	383,440
Noninterest expense	308,013	67,680	68,848	55,672	500,213
Income before taxes	52,780	27,096	33,163	15,329	128,368
Income tax expense	14,326	7,272	8,887	4,168	34,653
Net income	$ 38,454	$ 19,824	$ 24,276	$ 11,161	$ 93,715
Average assets	$ 11,914,000	$ 2,350,000	$ 74,000	$ 1,583,000	$ 15,921,000

	Nine Months Ended September 30, 2013				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 211,238	$ 34,327	$ (22)	$ 1,812	$ 247,355
Provision for loan losses	3,770	9,730			13,500
Noninterest income	148,129	56,486	91,550	60,061	356,226

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