UMB FINANCIAL CORP
Form 10-Q
August 01, 2013
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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 June 30, 2013

OR

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

For the transition period from ______ to ______

Commission file number 0-4887

UMB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

As of July 25, 2013, UMB Financial Corporation had 40,628,761 shares of common stock outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	June 30, 2013	December 31, 2012
ASSETS		
Loans:	$ 6,338,921	$ 5,686,749
Allowance for loan losses	(71,647)	(71,426)
Net loans	6,267,274	5,615,323
Loans held for sale	6,693	3,877
Securities:		
Available for sale	6,944,358	6,937,463
Held to maturity (market value of $173,177 and $129,495, respectively)	160,328	114,756
Trading	47,996	55,764
Federal Reserve Bank stock and other	25,955	26,333
Total investment securities	7,178,637	7,134,316
Federal funds sold and securities purchased under agreements to resell	66,973	89,868
Interest-bearing due from banks	607,470	720,500
Cash and due from banks	415,489	667,774
Bank premises and equipment, net	246,300	244,600
Accrued income	71,817	69,749
Goodwill	209,758	209,758
Other intangibles	61,994	68,803
Other assets	120,812	102,628
Total assets	$ 15,253,217	$ 14,927,196
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 4,887,643	$ 4,920,581
Interest-bearing demand and savings	5,801,388	5,450,450
Time deposits under $100,000	509,412	540,269
Time deposits of $100,000 or more	531,307	742,065
Total deposits	11,729,750	11,653,365
Federal funds purchased and repurchase agreements	2,157,979	1,787,270
Short-term debt	514	
Long-term debt	4,063	5,879
Accrued expenses and taxes	117,916	182,468
Other liabilities	16,523	18,869
Total liabilities	14,026,745	13,647,851

SHAREHOLDERS EQUITY		
Common stock, $1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 40,610,316 and 40,340,878 shares outstanding, respectively	55,057	55,057
Capital surplus	736,456	732,069
Retained earnings	834,445	787,015
Accumulated other comprehensive income	(22,227)	85,588
Treasury stock, 14,446,414 and 14,715,852 shares, at cost, respectively	(377,259)	(380,384)
Total shareholders equity	1,226,472	1,279,345
Total liabilities and shareholders equity	$ 15,253,217	$ 14,927,196

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
INTEREST INCOME				
Loans	$ 56,615	$ 54,000	$ 111,335	$ 108,055
Securities:				
Taxable interest	18,841	21,178	37,305	41,307
Tax-exempt interest	10,118	9,468	19,877	18,843
Total securities income	28,959	30,646	57,182	60,150
Federal funds and resell agreements	40	25	64	41
Interest-bearing due from banks	330	362	1,000	1,197
Trading securities	268	317	533	640
Total interest income	86,212	85,350	170,114	170,083
INTEREST EXPENSE				
Deposits	3,333	4,376	7,125	9,364
Federal funds and repurchase agreements	491	508	1,058	948
Other	61	93	121	309
Total interest expense	3,885	4,977	8,304	10,621
Net interest income	82,327	80,373	161,810	159,462
Provision for loan losses	5,000	4,500	7,000	9,000
Net interest income after provision for loan losses	77,327	75,873	154,810	150,462
NONINTEREST INCOME				
Trust and securities processing	63,486	55,755	125,798	110,465
Trading and investment banking	5,423	7,140	12,532	16,818
Service charges on deposits	20,882	19,009	42,405	39,020
Insurance fees and commissions	1,236	913	2,198	1,922
Brokerage fees	2,886	2,705	5,832	5,219
Bankcard fees	16,032	16,830	32,470	31,565
Gain on sales of securities available for sale, net	1,519	3,222	7,412	19,763
Other	2,121	4,652	5,954	17,755
Total noninterest income	113,585	110,226	234,601	242,527
NONINTEREST EXPENSE				
Salaries and employee benefits	83,566	78,001	167,268	157,915
Occupancy, net	9,273	9,211	19,160	18,489
Equipment	11,873	11,004	23,807	21,669
Supplies and services	5,362	5,218	9,849	10,261
Marketing and business development	5,705	5,986	9,977	10,246
Processing fees	14,293	12,593	28,383	25,409
Legal and consulting	4,844	4,012	8,445	7,527

Bankcard	4,709	4,630	9,257	8,872
Amortization of intangible assets	3,354	3,733	6,809	7,585
Regulatory fees	2,484	2,314	4,395	4,733
Other	4,848	7,984	13,339	13,884
Total noninterest expense	150,311	144,686	300,689	286,590
Income before income taxes	40,601	41,413	88,722	106,399
Income tax provision	10,672	12,248	23,852	30,867
NET INCOME	$ 29,929	$ 29,165	$ 64,870	$ 75,532
PER SHARE DATA				
Net income basic	$ 0.75	$ 0.73	$ 1.62	$ 1.89
Net income diluted	0.74	0.72	1.61	1.87
Dividends	0.215	0.205	0.430	0.410
Weighted average shares outstanding	39,966,869	40,034,649	39,924,423	40,030,052

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

(unaudited, dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Net Income	$ 29,929	$ 29,165	$ 64,870	$ 75,532
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gains on securities:				
Change in unrealized holding (losses) gains, net	(136,367)	30,771	(163,415)	20,155
Less: Reclassifications adjustment for gains included in net income	(1,519)	(3,222)	(7,412)	(19,763)
Change in unrealized (losses) gains on securities during the period	(137,886)	27,549	(170,827)	392
Income tax benefit (expense)	52,087	(10,173)	63,012	(247)
Other comprehensive (loss) income	(85,799)	17,376	(107,815)	145
Comprehensive (loss) income	$ (55,870)	46,541	$ (42,945)	75,677

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance January 1, 2012	$ 55,057	$ 723,299	$ 697,923	$ 81,099	$ (366,246)	$ 1,191,132
Total comprehensive income			75,532	145		75,677
Cash dividends ($0.41 per share)			(16,620)			(16,620)
Purchase of treasury stock					(5,284)	(5,284)
Issuance of equity awards		(1,698)			1,942	244
Recognition of equity based compensation		3,565				3,565
Net tax benefit related to equity compensation plans		164				164
Sale of treasury stock		234			189	423
Exercise of stock options		1,144			1,553	2,697
Balance June 30, 2012	$ 55,057	$ 726,708	$ 756,835	$ 81,244	$ (367,846)	$ 1,251,998
Balance January 1, 2013	$ 55,057	$ 732,069	$ 787,015	$ 85,588	$ (380,384)	$ 1,279,345
Total comprehensive income			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

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Operating Activities		
Net Income	$ 64,870	$ 75,532
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	7,000	9,000
Depreciation and amortization	22,004	20,505
Deferred income tax (benefit) expense	(2,803)	876
Net decrease in trading securities	7,768	1,298
Gains on sales of securities available for sale, net	(7,412)	(19,763)
Gains on sales of assets	(1,008)	(655)
Amortization of securities premiums, net of discount accretion	27,044	24,866
Originations of loans held for sale	(77,333)	(107,658)
Net gains on sales of loans held for sale	(435)	(919)
Proceeds from sales of loans held for sale	74,952	107,765
Issuance of equity awards	450	244
Equity based compensation	4,096	3,565
Changes in:		
Accrued income	(2,068)	4,601
Accrued expenses and taxes	17,435	(10,040)
Other assets and liabilities, net	(12,638)	(14,106)
Net cash provided by operating activities	121,922	95,111
Investing Activities		
Proceeds from maturities of securities held to maturity	10,132	3,930
Proceeds from sales of securities available for sale	609,475	974,581
Proceeds from maturities of securities available for sale	897,664	826,048
Purchases of securities held to maturity	(55,735)	(10,849)
Purchases of securities available for sale	(1,712,362)	(2,032,803)
Net increase in loans	(658,751)	(364,749)
Net decrease in fed funds sold and resell agreements	22,895	35,345
Net (increase) decrease in interest-bearing balances due from other financial institutions	(1,907)	94,023
Purchases of bank premises and equipment	(17,389)	(20,303)
Net cash received for acquisitions	692	701
Proceeds from sales of bank premises and equipment	810	661
Net cash used in investing activities	(904,476)	(493,415)
Financing Activities		
Net increase in demand and savings deposits	318,000	516,947
Net decrease in time deposits	(241,615)	(357,008)
Net increase (decrease) in fed funds purchased and repurchase agreements	370,709	(550,261)
Net decrease in short-term debt	(200)	(2,000)
Repayment of long-term debt	(1,102)	(1,269)
Payment of contingent consideration on acquisitions	(16,171)	(7,651)
Cash dividends paid	(17,255)	(16,626)

Net tax benefit related to equity compensation plans	503	164
Proceeds from exercise of stock options and sales of treasury shares	4,213	3,120
Purchases of treasury stock	(1,750)	(5,284)
Net cash provided by (used in) financing activities	415,332	(419,868)
Decrease in cash and due from banks	(367,222)	(818,172)
Cash and due from banks at beginning of period	1,366,394	1,459,631
Cash and due from banks at end of period	$ 999,172	$ 641,459
Supplemental Disclosures:		
Income taxes paid	$ 20,783	$ 23,908
Total interest paid	$ 8,704	$ 11,588

See Notes to Condensed Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

1. Financial Statement Presentation

The condensed consolidated financial statements include the accounts of UMB Financial Corporation and its subsidiaries (collectively, the Company) after elimination of all intercompany transactions. In the opinion of management of the Company, all adjustments, which were of a normal recurring nature and necessary for a fair presentation of the financial position and results of operations, have been made. The results of operations and cash flows for the interim periods presented may not be indicative of the results of the full year. The financial statements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations within this form 10-Q filing and in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

2. Summary of Accounting Policies

The Company is a bank financial holding company, which offers a wide range of banking and other financial services to its customers through its branches and offices in the states of Missouri, Kansas, Colorado, Illinois, Oklahoma, Texas, Arizona, Nebraska, Pennsylvania, South Dakota, Indiana, Utah, and Wisconsin. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also impact reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A summary of the significant accounting policies to assist the reader in understanding the financial presentation is listed in the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Interest-bearing Due From Banks

Amounts due from the Federal Reserve Bank which are interest-bearing for all periods presented, and amounts due from certificates of deposits held at other financial institutions are included in interest-bearing due from banks. The amounts due from certificates of deposit totaled $23.8 million and $56.9 million at June 30, 2013 and June 30, 2012, respectively.

This table provides a summary of cash and due from banks as presented on the Consolidated Statement of Cash Flows as of June 30, 2013 and June 30, 2012 (in thousands):

	June 30,	
	2013	2012
Due from the Federal Reserve	$ 583,683	$ 238,566
Cash and due from banks	415,489	402,893
Cash and due from banks at end of period	$ 999,172	$ 641,459

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 521,165 and 442,499 shares issuable upon the exercise of options granted by the Company and outstanding at June 30, 2013 and 2012, respectively. Diluted year-to-date income per share includes the dilutive effect of 473,614 and 397,060 shares issuable upon the exercise of stock options granted by the Company and outstanding at June 30, 2013 and 2012, respectively.

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. Options issued under employee benefit plans to purchase 521,705 shares of common stock were outstanding at June 30, 2012, but were not included in the computation of quarterly diluted EPS because the options were anti-dilutive.

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UMB FINANCIAL CORPORATION

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

3. New Accounting Pronouncements

Presentation of Comprehensive Income In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income: Presentation of Comprehensive Income (ASU 2011-05), which amends the FASB Standards Codification to allow the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 was effective for the Company for the period ended March 31, 2012; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU No. 2011-12 (ASU 2011-12) Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12. The Company adopted ASU 2011-05 for the quarter ended March 31, 2012 with no material impact on its financial statements except for a change in presentation. In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income: Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income, which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The new disclosure requirements are effective for interim periods beginning after December 15, 2012. The adoption of this accounting pronouncement did not impact on the Company s financial statements except for additional financial statement disclosures.

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

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UMB FINANCIAL CORPORATION

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

4. Loans and Allowance for Loan Losses

Loan Origination/Risk Management

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

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

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

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

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

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

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UMB FINANCIAL CORPORATION

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

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

	June 30, 2013					
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Commercial:						
Commercial	$ 12,926	$ 288	$ 7,624	$ 20,838	$ 3,310,935	$ 3,331,773
Commercial credit card	314	69	83	466	110,936	111,402
Real estate:						
Real estate construction	1,075		1,162	2,237	104,934	107,171
Real estate commercial	12,385	428	13,070	25,883	1,543,325	1,569,208
Real estate residential	2,238	56	718	3,012	246,548	249,560
Real estate HELOC	1,047		208	1,255	568,100	569,355
Consumer:						
Consumer credit card	2,482	2,584	1,541	6,607	305,728	312,335
Consumer other	3,107	588	1,083	4,778	57,089	61,867
Leases					26,250	26,250
Total loans	$ 35,574	$ 4,013	$ 25,489	$ 65,076	$ 6,273,845	$ 6,338,921

	December 31, 2012					
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Commercial:						
Commercial	$ 5,170	$ 93	$ 14,122	$ 19,385	$ 2,854,309	$ 2,873,694
Commercial credit card	561	43	61	665	103,655	104,320
Real estate:						
Real estate construction	3,750		1,263	5,013	73,473	78,486
Real estate commercial	3,590	113	8,170	11,873	1,423,938	1,435,811
Real estate residential	1,371	49	666	2,086	210,277	212,363
Real estate HELOC	1,324	50	225	1,599	572,324	573,923
Consumer:						
Consumer credit card	2,989	2,955	2,285	8,229	326,289	334,518
Consumer other	1,116	251	1,311	2,678	51,872	54,550
Leases					19,084	19,084
Total loans	$ 19,871	$ 3,554	$ 28,103	$ 51,528	$ 5,635,221	$ 5,686,749

The Company sold $75.0 million and $107.8 million of residential real estate and student loans in the secondary market during the six month periods ended June 30, 2013 and June 30, 2012, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of $25.5 million and $28.1 million at June 30, 2013 and December 31, 2012, respectively. Restructured loans totaled $14.0 million and $12.5 million at June 30, 2013 and December 31, 2012, respectively. Loans 90 days past due and still accruing interest amounted to $4.0 million and $3.6 million at June 30, 2013 and December 31, 2012, respectively. There was an insignificant amount of interest recognized on impaired loans during 2013 and 2012.

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UMB FINANCIAL CORPORATION

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

Credit Quality Indicators

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

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

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

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

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

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

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UMB FINANCIAL CORPORATION

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

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

Credit Exposure

Credit Risk Profile by Risk Rating

	Commercial		Real estate - construction	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Non-watch list	$ 3,107,932	$ 2,670,925	$ 104,708	$ 75,631
Watch	95,296	98,636	814	518
Special Mention	66,704	29,462		14
Substandard	61,841	74,671	1,649	2,323
Total	$ 3,331,773	$ 2,873,694	$ 107,171	$ 78,486

	Real estate - commercial	
	June 30, 2013	December 31, 2012
Non-watch list	$ 1,430,952	$ 1,325,460
Watch	80,514	63,278
Special Mention	12,738	11,613
Substandard	45,004	35,460
Total	$ 1,569,208	$ 1,435,811

Credit Exposure

Credit Risk Profile Based on Payment Activity

	Commercial - credit card		Real estate - residential	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Performing	$ 111,319	$ 104,259	$ 248,842	$ 211,697
Non-performing	83	61	718	666
Total	$ 111,402	$ 104,320	$ 249,560	$ 212,363

	Real estate - HELOC		Consumer - credit card	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Performing	$ 569,147	$ 573,698	$ 310,794	$ 332,233
Non-performing	208	225	1,541	2,285
Total	$ 569,355	$ 573,923	$ 312,335	$ 334,518

	Consumer - other		Leases	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Performing	$ 60,784	$ 53,239	$ 26,250	$ 19,084
Non-performing	1,083	1,311		
Total	$ 61,867	$ 54,550	$ 26,250	$ 19,084

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

Allowance for Loan Losses

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

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

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

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

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

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS

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

	Three Months Ended June 30, 2013				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
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

	Six Months Ended June 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	(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 deteriorated credit quality	42,381	15,813	10,168	75	68,437
Loans:					
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

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2012 *(in thousands)*:

	Three Months Ended June 30, 2012				
	Commercial	**Real estate**	**Consumer**	**Leases**	**Total**
Allowance for loan losses:					
Beginning balance	$ 37,381	$ 23,236	$ 12,848	$ 21	$ 73,486
Charge-offs	(2,968)	(69)	(3,098)		(6,135)
Recoveries	12	3	786		801
Provision	3,517	(510)	1,465	28	4,500
Ending Balance	$ 37,942	$ 22,660	$ 12,001	$ 49	$ 72,652

	Six Months Ended June 30, 2012				
	Commercial	**Real estate**	**Consumer**	**Leases**	**Total**
Allowance for loan losses:					
Beginning balance	$ 37,927	$ 20,486	$ 13,593	$ 11	$ 72,017
Charge-offs	(3,237)	(408)	(6,588)		(10,233)
Recoveries	250	9	1,609		1,868
Provision	3,002	2,573	3,387	38	9,000
Ending Balance	$ 37,942	$ 22,660	$ 12,001	$ 49	$ 72,652
Ending Balance: individually evaluated for impairment	$ 2,730	$ 1,104	$	$	$ 3,834
Ending Balance: collectively evaluated for impairment	35,212	21,556	12,001	49	68,818
Loans:					
Ending Balance: loans	$ 2,740,412	$ 2,187,356	$ 370,469	$ 17,372	$ 5,315,609
Ending Balance: individually evaluated for impairment	15,208	13,754	71		29,033
Ending Balance: collectively evaluated for impairment	2,725,204	2,173,602	370,398	17,372	5,286,576

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

Impaired Loans

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

	June 30, 2013					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	$ 23,022	$ 1,377	$ 12,949	$ 14,326	$ 2,727	$ 14,829
Commercial credit card						
Real estate:						
Real estate construction	1,413	743	416	1,159		