UMB FINANCIAL CORP
Form 10-Q
August 01, 2013
Table of Contents

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.

Table of Contents

UMB FINANCIAL CORPORATION

FORM 10-Q

INDEX

PART I FINANCIAL INFORMATION		3
ITEM 1.	FINANCIAL STATEMENTS (UNAUDITED)	3
CONDENSED CONSOLIDATED BALANCE SHEETS		3
CONDENSED CONSOLIDATED STATEMENTS OF INCOME		4
CONDENSED STATEMENTS OF CONSOLIDATED COMPRENSIVE INCOME		5
STATEMENTS OF CHANGES IN CONDENSED CONSOLIDATED SHAREHOLDERS EQUITY		6
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS		7
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS		8
ITEM 2.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	35
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	52
ITEM 4.	CONTROLS AND PROCEDURES	55
PART II OTHER INFORMATION		57
ITEM 1.	LEGAL PROCEEDINGS	57
ITEM 1A.	RISK FACTORS	57
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	57
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	57
ITEM 4.	MINE SAFETY DISCLOSURES	57
ITEM 5.	OTHER INFORMATION	57
ITEM 6.	EXHIBITS	58
SIGNATURES		59
CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT		60
CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT		61
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002		62
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002		63

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	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.

Table of Contents

UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended June 30, 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.

Table of Contents

UMB FINANCIAL CORPORATION

CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

(unaudited, dollars in thousands)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 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.

Table of Contents

UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

UMB FINANCIAL CORPORATION

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.

UMB FINANCIAL CORPORATION

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

Table of Contents

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 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

Table of Contents

UMB FINANCIAL CORPORATION

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	221	1,284
Real estate commercial	8,305	6,312	1,582	7,894	262	8,530
Real estate residential	1,628	1,412		1,412		1,079
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other	34	31		31		42
Leases						
Total	$ 34,402	$ 9,875	$ 14,947	$ 24,822	$ 3,210	$ 25,764

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

17

Table of Contents

UMB FINANCIAL CORPORATION

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

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

Troubled Debt Restructurings

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

The Company had $139.2 thousand in commitments to lend to borrowers with loan modifications classified as TDR s. The Company made no TDR s in the last 12 months that had payment defaults for the three or six month periods ended June 30, 2013.

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

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

18

Table of Contents

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 loans restructured by class for the three and six months ended June 30, 2012 *(in thousands)*:

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
Commercial:						
Commercial	1	$ 2,132	$ 2,139	2	$ 2,932	$ 2,939
Commercial credit card						
Real estate:						
Real estate construction						
Real estate commercial						
Real estate residential						
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	1	$ 2,132	$ 2,139	2	$ 2,932	$ 2,939

Table of Contents

UMB FINANCIAL CORPORATION

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

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

5. Securities

Securities Available for Sale

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

June 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$ 102,017	$ 183	$ (744)	$ 101,456
U.S. Agencies	1,048,130	3,687	(3,986)	1,047,831
Mortgage-backed	3,251,094	22,441	(45,335)	3,228,200
State and political subdivisions	2,072,365	24,506	(31,773)	2,065,098
Corporates	506,817	958	(6,002)	501,773
Commercial Paper				
Total	$ 6,980,423	$ 51,775	$ (87,840)	$ 6,944,358

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

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

	Amortized Cost	Fair Value
Due in 1 year or less	$ 579,747	$ 582,461
Due after 1 year through 5 years	2,146,047	2,152,119
Due after 5 years through 10 years	805,714	796,921
Due after 10 years	197,821	184,657
Total	3,729,329	3,716,158
Mortgage-backed securities	3,251,094	3,228,200

Total securities available for sale	$ 6,980,423	$ 6,944,358

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

For the six months ended June 30, 2013, proceeds from the sales of securities available for sale were $609.5 million compared to $974.6 million for the same period in 2012. Securities transactions resulted in gross realized gains of $7.6 million and $20.1 million for the six months ended June 30, 2013 and 2012. The gross realized losses for the six months ended June 30, 2013 and 2012 were $0.2 million and $0.3 million, respectively.

Table of Contents

UMB FINANCIAL CORPORATION

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

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

Trading Securities

The net unrealized gains on trading securities at June 30, 2013 and June 30, 2012 were $788.2 thousand and $495.0 thousand respectively, and were included in trading and investment banking income on the consolidated statements of income.

Securities Held to Maturity

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

June 30, 2013	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State and political subdivisions	$ 160,328	$ 12,849	$	$ 173,177
December 31, 2012				
State and political subdivisions	$ 114,756	$ 14,739	$	$ 129,495

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

	Amortized Cost	**Fair Value**
Due in 1 year or less	$ 6,169	$ 6,663
Due after 1 year through 5 years	31,534	34,061
Due after 5 years through 10 years	57,962	62,607
Due after 10 years	64,663	69,846
Total securities held to maturity	$ 160,328	$ 173,177

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

There were no sales of securities held to maturity during the first six months of 2013 or 2012.

Securities available for sale and held to maturity with a market value of $5.7 billion at June 30, 2013, and $5.9 billion at December 31, 2012, were pledged to secure U.S. Government deposits, other public deposits, certain trust deposits as required by law, and other potential borrowings.

Table of Contents

UMB FINANCIAL CORPORATION

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

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

The following table shows the Company s available for sale investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2013 and December 31, 2012 *(in thousands):*

June 30, 2013	**Less than 12 months**		**12 months or more**		**Total**	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury	$ 54,174	$ (744)	$	$	$ 54,174	$ (744)
U.S. Agencies	490,481	(3,986)			490,481	(3,986)
Mortgage-backed	1,875,885	(45,335)			1,875,885	(45,335)
State and political subdivisions	871,189	(31,597)	6,177	(176)	877,366	(31,773)
Corporates	391,644	(6,002)			391,644	(6,002)
Commercial Paper						
Total temporarily - impaired debt securities available for sale	$ 3,683,373	$ (87,664)	$ 6,177	$ (176)	$ 3,689,550	$ (87,840)

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

The unrealized losses in the Company s investments in direct obligations of U.S. treasury obligations, U.S. government agencies, federal agency mortgage-backed securities, municipal securities, and corporates were caused by changes in interest rates. The Company does not have the intent to sell these securities and does not believe it is more likely than not that the Company will be required to sell these securities before a recovery of fair value. The Company expects to recover its cost basis in the securities and does not consider these investments to be other-than-temporarily impaired at June 30, 2013.

Table of Contents

UMB FINANCIAL CORPORATION

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

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

6. Goodwill and Other Intangibles

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

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

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

	As of June 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible assets	$ 36,497	$ 31,093	$ 5,404
Customer relationships	103,960	48,371	55,589
Other intangible assets	3,247	2,246	1,001
Total intangible assets	$ 143,704	$ 81,710	$ 61,994

	As of December 31, 2012		
Core deposit intangible assets	$ 36,497	$ 30,403	$ 6,094
Customer relationships	103,960	42,399	61,561
Other intangible assets	3,247	2,099	1,148
Total intangible assets	$ 143,704	$ 74,901	$ 68,803

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Aggregate amortization expense	$ 3,354	$ 3,733	$ 6,809	$ 7,585

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

For the six months ending December 31, 2013	$ 6,409
For the year ending December 31, 2014	12,146
For the year ending December 31, 2015	9,550
For the year ending December 31, 2016	8,342
For the year ending December 31, 2017	7,098

Table of Contents

UMB FINANCIAL CORPORATION

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

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

7. Commitments, Contingencies and Guarantees

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

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

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

Contract or Notional Amount *(in thousands)*:

	June 30, 2013	December 31, 2012
Commitments to extend credit for loans (excluding credit card loans)	$ 2,488,507	$ 2,458,444
Commitments to extend credit under credit card loans	2,207,696	2,184,415
Commercial letters of credit	1,170	1,041
Standby letters of credit	335,243	343,503
Futures contracts	11,000	7,500
Forward foreign exchange contracts	7,743	2,005
Spot foreign exchange contracts	1,223	2,910

8. Business Segment Reporting

The Company has strategically aligned its operations into the following four reportable segments (collectively, Business Segments): Bank, Payment Solutions, Institutional Investment Management, and Asset Servicing. Business segment financial results produced by the Company s internal management accounting system are evaluated regularly by the Executive Committee in deciding how to allocate resources and assess performance for individual Business Segments. The Business Segments were redefined during the first quarter of 2012 to reflect changes in how executive management responsibilities were changed by the Executive Committee for each of the core businesses, the products and services provided and the types of customers served, and how financial information is currently evaluated by management. The management accounting system assigns balance sheet and income statement items to each business segment using methodologies that are refined on an ongoing basis. For comparability purposes, amounts in all periods presented are based on methodologies in effect at June 30, 2013. Previously reported results have been reclassified to conform to the current organizational structure.

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

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

Table of Contents

UMB FINANCIAL CORPORATION

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

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

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

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

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

Business Segment Information

Segment financial results were as follows (in thousands):

	Three Months Ended June 30, 2013				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 70,558	$ 11,192	$ (10)	$ 587	$ 82,327
Provision for loan losses	1,682	3,318			5,000
Noninterest income	46,501	18,649	29,160	19,275	113,585
Noninterest expense	92,339	21,986	18,932	17,054	150,311
Income before taxes	23,038	4,537	10,218	2,808	40,601
Income tax expense	5,664	1,350	2,691	967	10,672
Net income	$ 17,374	$ 3,187	$ 7,527	$ 1,841	$ 29,929
Average assets	$ 11,201,000	$ 1,793,000	$ 80,000	$ 1,801,000	$ 14,875,000

	Three Months Ended June 30, 2012				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 69,354	$ 10,556	$	$ 463	$ 80,373
Provision for loan losses	2,222	2,278			4,500
Noninterest income	49,716	18,106	23,625	18,779	110,226
Noninterest expense	94,284	16,620	16,486	17,296	144,686
Income before taxes	22,564	9,764	7,139	1,946	41,413
Income tax expense	6,422	2,791	2,197	838	12,248
Net income	$ 16,142	$ 6,973	$ 4,942	$ 1,108	$ 29,165

Average assets	$ 10,800,000	$ 871,000	$ 83,000	$ 1,448,000	$ 13,202,000

Table of Contents

UMB FINANCIAL CORPORATION

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

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

	Six Months Ended June 30, 2013				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 137,818	$ 22,740	$ (10)	$ 1,262	$ 161,810
Provision for loan losses	1,939	5,061			7,000
Noninterest income	99,249	38,086	57,713	39,553	234,601
Noninterest expense	183,803	42,108	37,840	36,938	300,689
Income before taxes	51,325	13,657	19,863	3,877	88,722
Income tax expense	12,798	4,137	5,343	1,574	23,852
Net income	$ 38,527	$ 9,520	$ 14,520	$ 2,303	$ 64,870
Average assets	$ 11,295,000	$ 1,724,000	$ 78,000	$ 1,732,000	$ 14,829,000

	Six Months Ended June 30, 2012				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 137,323	$ 21,281	$ 3	$ 855	$ 159,462
Provision for loan losses	4,057	4,943			9,000
Noninterest income	119,644	34,205	49,751	38,927	242,527
Noninterest expense	187,406	31,429	33,668	34,087	286,590
Income before taxes	65,504	19,114	16,086	5,695	106,399
Income tax expense	18,015	5,709	4,776	2,367	30,867
Net income	$ 47,489	$ 13,405	$ 11,310	$ 3,328	$ 75,532
Average assets	$ 10,935,000	$ 857,000	$ 83,000	$ 1,375,000	$ 13,250,000

Table of Contents

UMB FINANCIAL CORPORATION

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

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

9. Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

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

Fair Values of Derivative Instruments on the Balance Sheet

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

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

	Asset Derivatives		Liability Derivatives	
Fair value	**June 30, 2013**	**December 31, 2012**	**June 30, 2013**	**December 31, 2012**
Derivatives not designated as hedging instruments Interest rate products	$ 2,020	$ 3,503	$ 1,989	$ 3,625
Total	$ 2,020	$ 3,503	$ 1,989	$ 3,625

Non-designated Hedges

None of the Company s derivatives are designated in qualifying hedging relationships. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously offset by interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of June 30, 2013, the Company had twenty interest rate swaps with an aggregate notional amount of $191.6 million related to this program. During the three and six months ended June 30, 2013, the Company recognized net gains of $48 thousand and $154 thousand, respectively, related to changes in fair value of these swaps. During the three and six months ended June 30, 2012, the Company recognized net losses of $40 thousand and $82 thousand, respectively, related to changes in the fair value of these swaps.

UMB FINANCIAL CORPORATION

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

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

Effect of Derivative Instruments on the Income Statement

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

	Amount of Gain (Loss) Recognized			
	For the Three Months Ended		For the Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Derivatives not designated as hedging instruments				
Interest rate products	$ 48	$ (40)	$ 154	$ (82)
Total	$ 48	$ (40)	$ 154	$ (82)

Credit-risk-related Contingent Features

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

As of June 30, 2013 the termination value of derivatives in a net liability position, which includes accrued interest, related to these agreements was $0.4 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has not yet reached its minimum collateral posting threshold under these agreements. If the Company had breached any of these provisions at June 30, 2013, it could have been required to settle its obligations under the agreements at the termination value.

10. Fair Value Measurements

The following table presents information about the Company s assets measured at fair value on a recurring basis as of June 30, 2013, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

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

Table of Contents

UMB FINANCIAL CORPORATION

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

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

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

		Fair Value Measurement at June 30, 2013		
Description	**June 30, 2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
U.S. Treasury	$ 400	$ 400	$	$
U.S. Agencies				
Mortgage-backed	12,935		12,935	
State and political subdivisions	3,069		3,069	
Trading other	31,592	31,585	7	
Trading securities	47,996	31,985	16,011	
U.S. Treasury	101,456	101,456		
U.S. Agencies	1,047,831		1,047,831	
Mortgage-backed	3,228,200		3,228,200	
State and political subdivisions	2,065,098		2,065,098	
Corporates	501,773	501,773		
Commercial paper				
Available for sale securities	6,944,358	603,229	6,341,129	
Company-owned life insurance	13,069		13,069	
Derivatives	2,020		2,020	
Total	$ 7,007,443	$ 635,214	$ 6,372,229	$
Liabilities				
Deferred compensation	16,554	16,554		
Contingent consideration liability	38,183			38,183
Derivatives	1,989		1,989	
Total	$ 56,726	$ 16,554	$ 1,989	$ 38,183

Table of Contents

UMB FINANCIAL CORPORATION

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

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

Description	December 31, 2012	Fair Value Measurement at December 31, 2012 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
U.S. Treasury	$ 400	$ 400	$	$
U.S. Agencies	506		506	
Mortgage-backed	11,288		11,288	
State and political subdivisions	12,913		12,913	
Trading other	30,657	30,657		
Trading securities	55,764	31,057	24,707	
U.S. Treasury	117,851	117,851		
U.S. Agencies	1,026,115		1,026,115	
Mortgage-backed	3,556,193		3,556,193	
State and political subdivisions	1,892,684		1,892,684	
Corporates	338,887	338,887		
Commercial paper	5,733		5,733	
Available for sale securities	6,937,463	456,738	6,480,725	
Company-owned life insurance	10,539		10,539	
Derivatives	3,503		3,503	
Total	$ 7,007,269	$ 487,795	$ 6,519,474	$
Liabilities				
Deferred compensation	13,705	$ 13,705	$	$
Contingent consideration liability	51,163			51,163
Derivatives	3,625		3,625	
Total	$ 68,493	$ 13,705	$ 3,625	$ 51,163

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

	Six Months Ended June 30, 2013	2012
Beginning Balance	$ 51,163	$ 72,046
Payment of contingent considerations on acquisitions	(16,171)	(7,651)
Income from fair value adjustments	(138)	(6,973)
Expense from fair value adjustments	3,329	370

Ending Balance	$ 38,183	$ 57,792

The Company adopted ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04) for the quarter ended March 31, 2012. The amendments set forth by the ASU require the Company s contingent consideration liability to be measured from the perspective of a market participant that holds an identical asset as of the measurement date. Due to this methodology change, the Company began calculating the discount rates using a weighted average cost of capital approach, which caused an increase in the discount rates utilized. This resulted in a $6.9 million ($4.7 million, net of tax) reduction of the contingent consideration liabilities and a corresponding increase to other non-interest income due which is included in the Income from fair value adjustments line in the table above for the six month period ended June 30, 2012.

Table of Contents

UMB FINANCIAL CORPORATION

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

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

The following table presents certain quantitative information about the significant unobservable input used in the fair value measurement for the contingent consideration liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Description	Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Liabilities			
Contingent consideration liability	Discounted cash flows	Revenue and expense growth percentage	6% - 31%

An increase in the revenue growth percentage may result in a significantly higher estimated fair value of the contingent consideration liability. Alternatively, a decrease in the revenue growth percentage may result in a significantly lower estimated fair value of the contingent consideration liability.

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

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

Securities Available for Sale and Investment Securities Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Trading Securities Fair values for trading securities (including financial futures), are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices for similar securities.

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

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

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

Contingent Consideration The fair value of contingent consideration liabilities are derived from a discounted cash flow model of future contingent payments. The valuation of these liabilities are estimated by a collaborative effort of the Company s mergers and acquisitions group, business unit management, and the corporate accounting group. These groups report primarily to the Company s Chief Financial Officer. These future contingent payments are calculated based on estimates of future income and expense from each acquisition. These estimated cash flows are projected by the business unit management and reviewed by the mergers and acquisitions group. To obtain a current valuation of these projected cash flows, an expected present value technique is utilized to calculate a discount rate. The cash flow projections and discount rates are reviewed quarterly and updated as market conditions necessitate. Potential valuation adjustments are made as future income and expense projections for each acquisition are made which affect the calculation of the related contingent consideration payment. These adjustments are recorded through noninterest income and expense.

31

Table of Contents

UMB FINANCIAL CORPORATION

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

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

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

		Fair Value Measurement at June 30, 2013			
Description	**June 30, 2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Losses Recognized During the Six Months Ended June 30**
Impaired loans	$ 11,737	$	$	$ 11,737	$ (1,454)
Other real estate owned	404			404	$ (64)
Total	$ 12,141	$	$	$ 12,141	$ (1,518)

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

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

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

Impaired loans While the overall loan portfolio is not carried at fair value, adjustments are recorded on certain loans to reflect partial write-downs that are based on the value of the underlying collateral. In determining the value of real estate collateral, the Director of Property Management, who reports to the Chief Risk Officer, obtains external appraisals. The external appraisals are generally based on recent sales of comparable properties which are then adjusted for the unique characteristics of the property being valued. Upon receiving the external appraisal, the Director of Property Management in collaboration with the Company s credit department led by the Chief Credit Officer review the appraisal to determine if the appraisal is a reasonable basis for the value of the property based upon historical experience and detailed knowledge of the specific property and location. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgments based on the experience and expertise of internal specialists within the Company s property management group and the Company s credit department. The valuation of the impaired loans is reviewed on a quarterly basis. Because many of these inputs are not observable, the measurements are classified as Level 3.

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

Table of Contents

UMB FINANCIAL CORPORATION

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

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

Fair value disclosures require disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The estimated fair value of the Company s financial instruments at June 30, 2013 and December 31, 2012 are as follows *(in millions):*

		Fair Value Measurement at June 30, 2013			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
FINANCIAL ASSETS					
Securities held to maturity	$ 160.3	$	$ 173.2	$	$ 173.2
Federal Reserve Bank and other stock	26.0		26.0		26.0
Loans (exclusive of allowance for loan loss)	6,345.6		6,402.6		6,402.6
FINANCIAL LIABILITIES					
Time deposits	1,040.7		1,044.3		1,044.3
Long-term debt	4.1		4.4		4.4
OFF-BALANCE SHEET ARRANGEMENTS					
Commitments to extend credit for loans					2.9
Commercial letters of credit					0.1
Standby letters of credit					1.0

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

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

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

Federal Reserve Bank and Other Stock Amount consists of Federal Reserve Bank stock held by the Bank and other miscellaneous investments. The fair value is considered to be the carrying value as no readily determinable market exists for these investments because they can only be redeemed with the Federal Reserve Bank.

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

Table of Contents

UMB FINANCIAL CORPORATION

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

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

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

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

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

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2013 and December 31, 2012. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amount presented herein.

Table of Contents

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

This review highlights the material changes in the results of operations and changes in financial condition for the three-month and six-month periods ended June 30, 2013. It should be read in conjunction with the accompanying condensed consolidated financial statements, notes to condensed consolidated financial statements and other financial statistics appearing elsewhere in this report. Results of operations for the periods included in this review are not necessarily indicative of results to be attained during any future period.

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

The information included or incorporated by reference in this report contains forward-looking statements of expected future developments within the meaning of and pursuant to the safe harbor provisions established by Section 21E of the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. These forward-looking statements may refer to financial condition, results of operations, plans, objectives, future financial performance and business of the Company, including, without limitation:

- Statements that are not historical in nature; and
- Statements preceded by, followed by or that include the words believes, expects, may, should, could, anticipates, estimates, or similar words or expressions.

Forward-looking statements are not guarantees of future performance or results. You are cautioned not to put undue reliance on any forward-looking statement which speaks only as of the date it was made. Forward-looking statements reflect management s expectations and are based on currently available data; however, they involve risks, uncertainties and assumptions. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- General economic and political conditions, either nationally, internationally or in the Company s footprint, may be less favorable than expected;
- Legislative or regulatory changes;
- Changes in the interest rate environment;
- Changes in the securities markets impacting mutual fund performance and flows;
- Changes in operations;
- The ability to successfully and timely integrate acquisitions;
- Competitive pressures among financial services companies may increase significantly;
- Changes in technology may be more difficult or expensive than anticipated;

Changes in the ability of customers to repay loans;

Changes in loan demand may adversely affect liquidity needs; and

Changes in employee costs.

Any forward-looking statements should be read in conjunction with information about risks and uncertainties set forth in this report and in documents incorporated herein by reference. Forward-looking statements speak only as of the date they are made, and the Company does not intend to review or revise any particular forward-looking statement in light of events that occur thereafter or to reflect the occurrence of unanticipated events.

Table of Contents

Overview

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

The first strategy is to maintain high quality through a strong balance sheet, solid credit quality, a low cost of funding, and effective risk management. The strength in the balance sheet can be seen in the solid credit quality of the earning assets and the Company s continued growth in low cost funding. At June 30, 2013, the Company s nonperforming assets as a percentage of total assets was 0.19 percent. As a percentage of loans, nonperforming loans decreased to 0.40 percent as compared to 0.58 percent on June 30, 2012. These credit quality ratios were achieved while maintaining positive directional growth in average earning assets, which increased 12.5 percent from June 30, 2012, driven by a 14.2 percent increase in average noninterest-bearing demand deposits compared to June 30, 2012.

The second strategy is to deliver profitable and sustainable growth by accelerating fee businesses, growing quality earning assets, maximizing efficiencies, and maintaining sales leverage. The Company s acceleration of fee businesses is apparent with the increase in trust and securities processing. Trust and securities processing income increased $7.7 million, or 13.9 percent, for the three months ended June 30, 2013 compared to the same period in 2012. The increase in trust and securities processing income was primarily due to a $4.2 million, or 23.7 percent, in advisory fee income from the Scout Funds and a $2.4 million, or 13.9 percent, increase in fees related to institutional and personal investment management services. Also notable and continuing to push industry trends, the Company produced double digit loan growth. While maintaining the aforementioned credit ratios, the Company s June 30, 2013 average loans increased $942.3 million, or 18.1 percent, as compared to the same three month period one year ago.

The third strategy is to maintain diversified revenue streams. The emphasis on fee-based operations helps reduce the Company s exposure to changes in interest rates. During the second quarter of 2013, noninterest income increased $3.4 million, or 3.0 percent, compared to the same period of 2012. The Company continues to emphasize its asset management, brokerage, bankcard services, health care services, and treasury management businesses. In particular, during the second quarter of 2013, this favorable change is primarily attributable to increased trust and securities processing income. At June 30, 2013, noninterest income represented 58.0 percent of total revenues, as compared to 57.8 percent at June 30, 2012.

The fourth strategy is a focus on capital management. The Company places a significant emphasis on the maintenance of a strong capital position, which management believes promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company s ability to capitalize on business growth and acquisition opportunities. The Company continues to maximize shareholder value through a mix of reinvesting in organic growth, investing in acquisitions, evaluating increased dividends over time and utilizing a share buy-back strategy when appropriate. At June 30, 2013, the Company had $1.2 billion in total shareholders equity. This is a decrease of $25.5 million, or 2.0 percent, compared to total shareholders equity at June 30, 2012. At June 30, 2013, the Company had a total risk-based capital ratio of 11.52 percent, which is higher than the 10 percent regulatory minimum to be considered well-capitalized. The Company repurchased 1,881 shares at an average price of $49.93 per share during the second quarter of 2013.

Earnings Summary

The Company recorded consolidated net income of $29.9 million for the three-month period ended June 30, 2013, compared to $29.2 million for the same period a year earlier. This represents a 2.6 percent increase over the three-month period ended June 30, 2012. Basic earnings per share for the second quarter of 2013 were $0.75 per share ($0.74 per share fully-diluted) compared to $0.73 per share ($0.72 per share fully-diluted) for the second quarter of 2012. Return on average assets and return on average common shareholders equity for the three-month period ended June 30, 2013 were 0.81 and 9.31 percent, respectively, compared to 0.89 and 9.42 percent for the three-month period ended June 30, 2012.

The Company recorded consolidated net income of $64.9 million for the six-month period ended June 30, 2013, compared to $75.5 million for the same period a year earlier. This represents a 14.1 percent decrease over the six-month period ended June 30, 2012. Basic earnings per share for the six-month period ended June 30, 2013 were $1.62 per share ($1.61 per share fully-diluted) compared to $1.89 per share ($1.87 per share fully-diluted) for the period in 2012. Return on average assets and return on average common shareholders equity for the six-month period ended June 30, 2013 were 0.88 and 10.17 percent, respectively, compared to 1.15 and 12.36 percent for the same period in 2012.

Net interest income for the three and six-month periods ended June 30, 2013 increased $2.0 million, or 2.4 percent, and $2.3 million, or 1.5 percent, respectively, compared to the same period in 2012. For the three-month period ended June 30, 2013, average earning assets increased by $1.6 billion, or 13.2 percent, and for the six-month period ended June 30, 2013, they increased by $1.5 billion, or 12.5 percent, compared to the same periods in 2012. Net interest margin, on a tax-equivalent basis, decreased to 2.56 percent and 2.53 percent for the three and six-months periods ended June 30, 2013, compared to 2.82 percent and 2.79 percent for the same periods in 2012. These changes are discussed in greater detail below under Net Interest Income.

The provision for loan losses increased by $0.5 million and decreased by $2.0 million for the three and six-month periods ended June 30, 2013, compared to the same periods in 2012. These changes are a direct result of applying the Company s methodology for computing the allowance for loan losses. The allowance for loan losses as a percentage of total loans decreased by 24 basis points to 1.13 percent as of June 30, 2013, compared to June 30, 2012. For a description of the Company s methodology for computing the allowance for loan losses, please see the summary discussion of the Allowance for Loan Losses within the Critical Accounting Policies and Estimates subsection of the Management s Discussion and Analysis of Financial Condition and Results of Operations section in the Company s 2012 Annual Report on Form 10-K.

Noninterest income increased by $3.4 million, or 3.1 percent, for the three-month period ended June 30, 2013 and decreased by $7.9 million, or 3.3 percent, for the six-month period ended June 30, 2013, compared to the same periods one year ago. These changes are discussed in greater detail below under Noninterest Income.

Noninterest expense increased by $5.6 million, or 3.9 percent, for the three-month period ended June 30, 2013, and increased by $14.1 million, or 4.9 percent, for the six-month period ended June 30, 2013, compared to the same periods in 2012. These increases are discussed in greater detail below under Noninterest Expense.

Net Interest Income

Net interest income is a significant source of the Company s earnings and represents the amount by which interest income on earning assets exceeds the interest expense paid on liabilities. The volume of interest-earning assets and the related funding sources, the overall mix of these assets and liabilities, and the rates paid on each affect net interest income. For the three-month period ended June 30, 2013, average earning assets increased by $1.6 billion, or 13.2 percent, and for the six-month period ended June 30, 2013, they increased by $1.5 billion, or 12.5 percent, compared to the same periods in 2012. Net interest margin, on a tax-equivalent basis, decreased to 2.56 percent and 2.53 percent for the three and six-months periods ended June 30, 2013, compared to 2.82 percent and 2.79 percent for the same periods in 2012.

Table 1 shows the impact of earning asset rate changes compared to changes in the cost of interest-bearing liabilities. The Company continues to experience a repricing of these earning assets and interest-bearing liabilities during the recent interest rate cycle. While the Company continues to see declining rates, it has been able to improve net interest income through volume. As illustrated in this table, net interest spread for the three months ended June 30, 2013 decreased by 24 basis points and net interest margin decreased by 26 basis points compared to the same period in 2012. Net interest spread for the six months ended June 30, 2013 decreased by 23 basis points and net interest margin decreased by 26 basis points compared to the same period in 2012. These results are primarily due to an unfavorable rate variance, offset by a favorable volume variance on loans and securities. The combined impact of these variances has led to a decrease in interest expense and flat interest income, or an increase in the Company s net interest income as compare to results one year ago.

Table of Contents

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

Table 1

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

The following table presents, for the periods indicated, the average earning assets and resulting yields, as well as the average interest-bearing liabilities and resulting yields, expressed in both dollars and rates. All average balances are daily average balances. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.51 percent for the three-month period ended June 30, 2013 and 2.82 percent for the same period in 2012. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.49 percent for the six-month period ended June 30, 2013 and 2.80 percent for the same period in 2012.

	Three Months Ended June 30,			
	2013		2012	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Assets				
Loans, net of unearned interest	$ 6,158,821	3.69%	$ 5,216,477	4.17%
Securities:				
Taxable	4,978,109	1.52	4,616,169	1.85
Tax-exempt	2,113,009	2.97	1,830,468	3.16
Total securities	7,091,118	1.95	6,446,637	2.22
Federal funds and resell agreements	28,524	0.56	24,908	0.40
Interest-bearing due from banks	432,588	0.31	432,693	0.34
Trading	66,482	1.79	49,789	2.80
Total earning assets	13,777,533	2.67	12,170,504	2.99
Allowance for loan losses	(70,004)		(74,437)	
Other assets	1,167,899		1,105,978	
Total assets	$ 14,875,428		$ 13,202,045	
Liabilities and Shareholders Equity				
Interest-bearing deposits	$ 6,943,399	0.19%	$ 6,194,126	0.28%
Federal funds and repurchase agreements	1,848,118	0.11	1,450,375	0.14
Borrowed funds	4,592	5.33	15,317	2.44
Total interest-bearing liabilities	8,796,109	0.18	7,659,818	0.26
Noninterest-bearing demand deposits	4,636,240		4,126,141	
Other liabilities	153,227		170,920	
Shareholders equity	1,289,852		1,245,166	
Total liabilities and shareholders equity	$ 14,875,428		$ 13,202,045	
Net interest spread		2.49%		2.73%
Net interest margin		2.56		2.82

	Six Months Ended June 30, 2013		2012	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Assets				
Loans, net of unearned interest	$ 5,987,788	3.75%	$ 5,134,570	4.24%
Securities:				
Taxable	4,925,312	1.53	4,479,160	1.85
Tax-exempt	2,054,141	3.02	1,797,713	3.21
Total securities	6,979,453	1.97	6,276,873	2.24
Federal funds and resell agreements	23,858	0.54	22,220	0.37
Interest-bearing due from banks	701,282	0.29	737,853	0.33
Trading	62,048	1.92	50,991	2.71
Total earning assets	13,754,429	2.65	12,222,507	2.96
Allowance for loan losses	(70,750)		(73,416)	
Other assets	1,145,799		1,100,889	
Total assets	$ 14,829,478		$ 13,249,980	
Liabilities and Shareholders Equity				
Interest-bearing deposits	$ 6,980,728	0.21%	$ 6,255,636	0.30%
Federal funds and repurchase agreements	1,761,074	0.12	1,511,401	0.13
Borrowed funds	4,989	4.89	16,125	3.85
Total interest-bearing liabilities	8,746,791	0.19	7,783,162	0.27
Noninterest-bearing demand deposits	4,631,425		4,055,613	
Other liabilities	165,117		181,845	
Shareholders equity	1,286,145		1,229,360	
Total liabilities and shareholders equity	$ 14,829,478		$ 13,249,980	
Net interest spread		2.46%		2.69%
Net interest margin		2.53		2.79

Table 2 presents the dollar amount of change in net interest income and margin due to volume and rate. Table 2 also reflects the effect that interest-free funds have on net interest margin. Although interest-free funds (total earning assets less interest-bearing liabilities) increased $470.7 million for the three-month and $568.3 million for the six-month periods ended June 30, 2013 compared to the same periods in 2012, the benefit from interest free funds decreased by 3 basis points in the three and six month periods, due to decreases in interest rates.

Table of Contents

Table 2

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

ANALYSIS OF CHANGES IN NET INTEREST INCOME

	Three Months Ended June 30, 2013 vs 2012			Six Months Ended June 30, 2013 vs 2012		
	Volume	Rate	Total	Volume	Rate	Total
Change in interest earned on:						
Loans	$ 8,783	$ (6,168)	$ 2,615	$ 15,749	$ (12,469)	$ 3,280
Securities:						
Taxable	1,385	(3,722)	(2,337)	3,343	(7,345)	(4,002)
Tax-exempt	1,703	(1,053)	650	3,056	(2,022)	1,034
Federal funds sold and resell agreements	5	10	15	4	19	23
Interest-bearing due from banks		(32)	(32)	(53)	(144)	(197)
Trading	75	(124)	(49)	61	(168)	(107)
Interest income	11,951	(11,089)	862	22,160	(22,129)	31
Change in interest incurred on:						
Interest-bearing deposits	362	(1,405)	(1,043)	735	(2,974)	(2,239)
Federal funds purchased and repurchase agreements	106	(123)	(17)	148	(38)	110
Borrowed funds	(142)	110	(32)	(271)	83	(188)
Interest expense	326	(1,418)	(1,092)	612	(2,929)	(2,317)
Net interest income	$ 11,625	$ (9,671)	$ 1,954	$ 21,548	$ (19,200)	$ 2,348

ANALYSIS OF NET INTEREST MARGIN

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Average earning assets	$ 13,777,533	$ 12,170,504	$ 1,607,029	$ 13,754,429	$ 12,222,507	$ 1,531,922
Average interest-bearing liabilities	8,796,109	7,659,818	1,136,291	8,746,791	7,783,162	963,629
Average interest free funds	$ 4,981,424	$ 4,510,686	$ 470,738	$ 5,007,638	$ 4,439,345	$ 568,293
Free funds ratio (free funds to earning assets)	36.15%	37.06%	(0.91)%	36.41%	36.32%	0.09%
Tax-equivalent yield on earning assets	2.67	2.99	(0.32)%	2.65%	2.96%	(0.31)%
Cost of interest-bearing liabilities	0.18	0.26	(0.08)	0.19	0.27	(0.08)
Net interest spread	2.49%	2.73%	(0.24)%	2.46%	2.69%	(0.23)%
Benefit of interest-free funds	0.07	0.10	(0.03)	0.07	0.10	(0.03)
Net interest margin	2.56%	2.83%	(0.27)%	2.53%	2.79%	(0.26)%

40

Table of Contents

Provision and Allowance for Loan Losses

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

Based on the factors above, management of the Company expensed $5.0 million and $7.0 million related to the provision for loan losses for the three and six-month periods ended June 30, 2013, compared to $4.5 million and $9.0 million for the same periods in 2012. As illustrated in Table 3 below, the ALL decreased to 1.13 percent of total loans as of June 30, 2013, compared to 1.37 percent of total loans as of the same period in 2012.

Table 3 presents a summary of the Company s ALL for the six months ended June 30, 2013 and 2012 and for the year ended December 31, 2012. Net charge-offs were $6.8 million for the first six months of 2013, compared to $8.4 million for the same period in 2012. See Credit Risk Management under Item 3. Quantitative and Qualitative Disclosures About Market Risk in this report for information relating to nonaccrual loans, past due loans, restructured loans and other credit risk matters.

Table 3

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

	Six Months Ended June 30,		Year Ended December 31,
	2013	2012	2012
Allowance-January 1	$ 71,426	$ 72,017	$ 72,017
Provision for loan losses	7,000	9,000	17,500
Charge-offs:			
Commercial	(2,423)	(3,237)	(8,446)
Consumer:			
Credit card	(5,372)	(5,787)	(11,148)
Other	(767)	(801)	(1,530)
Real estate	(371)	(408)	(932)
Total charge-offs	(8,933)	(10,233)	(22,056)
Recoveries:			
Commercial	515	250	1,136
Consumer:			
Credit card	1,115	1,045	1,766
Other	508	564	1,035
Real estate	16	9	28
Total recoveries	2,154	1,868	3,965
Net charge-offs	(6,779)	(8,365)	(18,091)
Allowance-end of period	$ 71,647	$ 72,652	$ 71,426
Average loans, net of unearned interest	$ 5,982,266	$ 5,127,382	$ 5,243,264
Loans at end of period, net of unearned interest	6,338,921	5,315,609	5,686,749
Allowance to loans at end of period	1.13%	1.37%	1.26%

Allowance as a multiple of net charge-offs	5.24x	4.32x	3.95x
Net charge-offs to:			
Provision for loan losses	96.84%	92.94%	103.38%
Average loans	0.23	0.33	0.35

41

Table of Contents

Noninterest Income

A key objective of the Company is the growth of noninterest income to enhance profitability and provide steady income. Fee-based businesses are typically non-credit related and not generally affected by fluctuations in interest rates.

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

Table 4

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

	Three Months Ended June 30, 2013	2012	Dollar Change 13-12	Percent Change 13-12
Trust and securities processing	$ 63,486	$ 55,755	$ 7,731	13.87%
Trading and investment banking	5,423	7,140	(1,717)	(24.05)
Service charges on deposit accounts	20,882	19,009	1,873	9.85
Insurance fees and commissions	1,236	913	323	35.38
Brokerage fees	2,886	2,705	181	6.69
Bankcard fees	16,032	16,830	(798)	(4.74)
Gains on sales of securities available for sale, net	1,519	3,222	(1,703)	(52.86)
Other	2,121	4,652	(2,531)	(54.41)
Total noninterest income	$ 113,585	$ 110,226	$ 3,359	3.05%

	Six Months Ended June 30, 2013	2012	Dollar Change 13-12	Percent Change 13-12
Trust and securities processing	$ 125,798	$ 110,465	$ 15,333	13.88%
Trading and investment banking	12,532	16,818	(4,286)	(25.48)
Service charges on deposits	42,405	39,020	3,385	8.68
Insurance fees and commissions	2,198	1,922	276	14.36
Brokerage fees	5,832	5,219	613	11.75
Bankcard fees	32,470	31,565	905	2.87
Gains on sales of securities available for sale, net	7,412	19,763	(12,351)	(62.50)
Other	5,954	17,755	(11,801)	(66.47)
Total noninterest income	$ 234,601	$ 242,527	$ (7,926)	(3.27)%

Fee-based, or noninterest income (summarized in Table 4), increased by $3.4 million, or 3.1 percent, during the three months ended June 30, 2013, and decreased by $7.9 million, or 3.3 percent, during the six months ended June 30, 2013, compared to the same periods in 2012.

Trust and securities processing consists of fees earned on personal and corporate trust accounts, custody of securities services, trust investments and money management services, and servicing of mutual fund assets. The increase in these fees for the three and six-month periods compared to the same periods last year was primarily due to changes in the following three categories of income. Advisory fee income from the Scout Funds for the three and six-month periods ended June 30, 2013, increased by $4.2 million, or 23.7 percent, and by $9.0 million, or 26.6 percent, respectively. Fund administration and custody services fees for the three and six-month periods ended June 30, 2013, increased by $0.5 million, or 2.8 percent, and $1.3 million, or 3.4 percent, respectively. Institutional and

Table of Contents

personal investment management services fees for the three and six-month periods ended June 30, 2013, increased by $2.4 million, or 13.9 percent, and $4.5 million, or 12.9 percent, respectively. Trust and securities processing fees are primarily asset-based. As such, they are highly correlated to the change in market value of the assets. Thus, the related income for the remainder of the year will be affected by changes in the securities markets. Management continues to emphasize sales of services to both new and existing clients as well as increasing and improving the distribution channels.

Trading and Investment Banking for the three and six-month periods ended June 30, 2013, decreased by $1.7 million, or 24.1 percent, and $4.3 million, 25.5 percent, respectively. These decreases are due to declines in the trading portfolio driven by market conditions.

During the three and six-month periods ended June 30, 2013, $1.5 million and $7.4 million in pre-tax gains were recognized on the sales of securities available for sale.

Other noninterest income for the three-month period ended June 30, 2013, decreased $2.5 million, or 54.4 percent primarily driven by decreased fair value adjustments on interest rate swap transactions of $1.9 million and $3.3 million compared to the same period in 2012. Other noninterest income decreased $11.8 million, or 66.5 percent, primarily driven by an $8.2 million adjustment in contingent consideration liabilities on acquisitions recognized in 2012. These adjustments were due to the adoption of new accounting guidance in 2012 related to fair value measurements and changes in cash flow projections.

Noninterest Expense

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

Table 5

SUMMARY OF NONINTEREST EXPENSE *(unaudited in thousands)*

	Three Months Ended			
	June 30,		**Dollar Change**	**Percent Change**
	2013	**2012**	**13-12**	**13-12**
Salaries and employee benefits	$ 83,566	$ 78,001	$ 5,565	7.13%
Occupancy, net	9,273	9,211	62	0.67
Equipment	11,873	11,004	869	7.90
Supplies and services	5,362	5,218	144	2.76
Marketing and business development	5,705	5,986	(281)	(4.69)
Processing fees	14,293	12,593	1,700	13.50
Legal and consulting	4,844	4,012	832	20.74
Bankcard	4,709	4,630	79	1.71
Amortization of other intangible assets	3,354	3,733	(379)	(10.15)
Regulatory fees	2,484	2,314	170	7.35
Other	4,848	7,984	(3,136)	(39.28)
Total noninterest expense	$ 150,311	$ 144,686	$ 5,625	3.89%

43

Table of Contents

	Six Months Ended June 30, 2013	2012	Dollar Change 13-12	Percent Change 13-12
Salaries and employee benefits	$ 167,268	$ 157,915	$ 9,353	5.92%
Occupancy, net	19,160	18,489	671	3.63
Equipment	23,807	21,669	2,138	9.87
Supplies and services	9,849	10,261	(412)	(4.02)
Marketing and business development	9,977	10,246	(269)	(2.63)
Processing fees	28,383	25,409	2,974	11.70
Legal and consulting	8,445	7,527	918	12.20
Bankcard	9,257	8,872	385	4.34
Amortization of other intangible assets	6,809	7,585	(776)	(10.23)
Regulatory fees	4,395	4,733	(338)	(7.14)
Other	13,339	13,884	(545)	(3.93)
Total noninterest expense	$ 300,689	$ 286,590	$ 14,099	4.92%

Noninterest expense increased by $5.6 million, or 3.9 percent, for the three months ended June 30, 2013, and increased by $14.1 million, or 4.9 percent, for the six months ended June 30, 2013, compared to the same period in 2012. Table 5 above summarizes the components of noninterest expense and the respective year-over-year comparison for each category.

Salaries and employee benefits increased by $5.6 million, or 7.1 percent, for the three months ended June 30, 2013, and by $9.4 million, or 5.9 percent, for the six months ended June 30, 2013, compared to the same period in 2012. These increases are primarily due to higher base salary, commissions and bonuses, and benefits expense. Salaries increased by $2.6 million, or 5.2 percent, and $4.6 million, or 4.7 percent, for the three and six months ended June 30, 2013, compared to the same periods in 2012. Commissions and bonuses increased by $1.7 million, or 10.6 percent, and $2.5 million, or 7.7 percent, for the three and six months ended June 30, 2013, compared to the same periods in 2012. Employee benefits expense increased by $1.3 million, or 10.6 percent, and $2.3 million, or 8.1 percent, for the three and six months ended June 30, 2013, compared to the same periods in 2012.

Processing fees increased by $1.7 million, or 13.5 percent, and $3.0 million, or 11.7 percent, for the three and six months ended June 30, 2013, compared to the same periods in 2012.

During the three-month period ended June 30, 2013, the increases in noninterest expense were offset by a decrease in other expense of $3.1 million, or 39.3 percent, primarily due to decreased fair value adjustments on interest rate swap transactions of $1.9 million.

Income Tax Expense

The Company s effective tax rate is 26.9 percent for the six months ended June 30, 2013, compared to 29.0 percent for the same period in 2012. The decrease in the effective rate for 2013 is primarily attributable to a larger portion of income being earned from tax-exempt municipal securities and an increase in federal tax credits.

Table of Contents

Strategic Lines of Business

Table 6

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Dollar Change 13-12	Percent Change 13-12
Net interest income	$ 70,558	$ 69,354	$ 1,204	1.74%
Provision for loan losses	1,682	2,222	(540)	(24.30)
Noninterest income	46,501	49,716	(3,215)	(6.47)
Noninterest expense	92,339	94,284	(1,945)	(2.06)
Income before taxes	23,038	22,564	474	2.10
Income tax expense	5,664	6,422	(758)	(11.80)
Net income	$ 17,374	$ 16,142	$ 1,232	7.63%

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Dollar Change 13-12	Percent Change 13-12
Net interest income	$ 137,818	$ 137,323	$ 495	0.36%
Provision for loan losses	1,939	4,057	(2,118)	(52.21)
Noninterest income	99,249	119,644	(20,395)	(17.05)
Noninterest expense	183,803	187,406	(3,603)	(1.92)
Income before taxes	51,325	65,504	(14,179)	(21.65)
Income tax expense	12,798	18,015	(5,217)	(28.96)
Net income	$ 38,527	$ 47,489	$ (8,962)	(18.87)%

Bank net income decreased by $9.0 million, or 18.9 percent, to $38.5 million compared to the prior year. Noninterest income decreased $20.4 million, or 17.1 percent, over the same period in 2012. This decrease was driven by decreased securities gains of $12.4 million, decreased bond trading income of $4.0 million, and decreased miscellaneous income of $7.4 million, offset by an increase in trust and securities processing income of $2.2 million. The decrease in miscellaneous income was due to a $2.2 million decrease related to fair value adjustments to the contingent consideration liabilities on acquisitions and a $3.3 million decrease in fair value adjustments on interest rate swap transactions. Provision decreased by $2.1 million, due to improvements in the credit characteristics of the loan portfolio in this segment. Noninterest expense decreased $3.6 million, or 1.9 percent, to $183.8 million as compared to 2012, which was driven by a decrease in fair value adjustments on interest rate swap transactions of $2.9 million.

Table of Contents

Table 7

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

	Three Months Ended June 30, 2013	2012	Dollar Change 13-12	Percent Change 13-12
Net interest income	$ 11,192	$ 10,556	$ 636	6.03%
Provision for loan losses	3,318	2,278	1,040	45.65
Noninterest income	18,649	18,106	543	3.00
Noninterest expense	21,986	16,620	5,366	32.29
Income before taxes	4,537	9,764	(5,227)	(53.53)
Income tax expense	1,350	2,791	(1,441)	(51.63)
Net income	$ 3,187	$ 6,973	$ (3,786)	(54.30)%

	Six Months Ended June 30, 2013	2012	Dollar Change 13-12	Percent Change 13-12
Net interest income	$ 22,740	$ 21,281	$ 1,459	6.86%
Provision for loan losses	5,061	4,943	118	2.39
Noninterest income	38,086	34,205	3,881	11.35
Noninterest expense	42,108	31,429	10,679	33.98
Income before taxes	13,657	19,114	(5,457)	(28.55)
Income tax expense	4,137	5,709	(1,572)	(27.54)
Net income	$ 9,520	$ 13,405	$ (3,885)	(28.98)%

Payments Solutions net income decreased $3.9 million, or 29.0 percent, to $9.5 million from the prior year. Noninterest income increased $3.9 million, or 11.3 percent, driven by an increase deposit service charge income from institutional cash management and healthcare services customers driven from new business growth as well as an acquisition of customers. Noninterest expense increased by $10.7 million, primarily from increased staffing, advertising, consulting fees, and bankcard processing fees associated with the increase in sales volume. Provision expense increased by $0.1 million, or 2.4 percent. Net interest margin increased by $1.4 million, or 6.9 percent, due to growth in earning assets and deposits, but offset with a reduction in the deposit fund transfer credits.

Table 8

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

	Three Months Ended June 30, 2013	2012	Dollar Change 13-12	Percent Change 13-12
Net interest income	$ (10)	$	$ (10)	%
Provision for loan losses				
Noninterest income	29,160	23,625	5,535	23.43
Noninterest expense	18,932	16,486	2,446	14.84

Income before taxes	10,218	7,139	3,079	43.13
Income tax expense	2,691	2,197	494	22.49
Net income	$ 7,527	$ 4,942	$ 2,585	52.31%

Table of Contents

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Dollar Change 13-12	Percent Change 13-12
Net interest income	$ (10)	$ 3	$ (13)	(>100.0)%
Provision for loan losses				
Noninterest income	57,713	49,751	7,962	16.00
Noninterest expense	37,840	33,668	4,172	12.39
Income before taxes	19,863	16,086	3,777	23.48
Income tax expense	5,343	4,776	567	11.87
Net income	$ 14,520	$ 11,310	$ 3,210	28.38%

Institutional Investment Management net income increased $3.2 million, or 28.4 percent, to $14.5 million compared to the prior year. This increase was primarily driven by an increase of $8.0 million, or 16.0 percent, in noninterest income offset by a $4.2 million, or 12.4 percent, increase in noninterest expense and a $0.6 million, or 11.9 percent, increase in income tax expense. The increase in noninterest income is due to a $9.0 million increase in advisory fees derived from an increase in asset values and the addition of a new administrative fee added during the second quarter of 2012, and a $2.8 million increase in fees related to institutional and personal investment management services. This increase was offset by a $3.3 million decrease related to fair value adjustments to the contingent consideration liabilities on acquisitions. The increase in noninterest expense was due to a $2.5 million increase in third party distribution expense and a $2.1 million increase in salaries and benefits.

Table 9

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Dollar Change 13-12	Percent Change 13-12
Net interest income	$ 587	$ 463	$ 124	26.78%
Provision for loan losses				
Noninterest income	19,275	18,779	496	2.64
Noninterest expense	17,054	17,296	(242)	(1.40)
Income before taxes	2,808	1,946	862	44.30
Income tax expense	967	838	129	15.39
Net income	$ 1,841	$ 1,108	$ 733	66.16%

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Dollar Change 13-12	Percent Change 13-12
Net interest income	$ 1,262	$ 855	$ 407	47.60%
Provision for loan losses				
Noninterest income	39,553	38,927	626	1.61
Noninterest expense	36,938	34,087	2,851	8.36
Income before taxes	3,877	5,695	(1,818)	(31.92)
Income tax expense	1,574	2,367	(793)	(33.50)
Net income	$ 2,303	$ 3,328	$ (1,025)	(30.80)%

Table of Contents

Asset Servicing net income decreased $1.0 million, or 30.8 percent, to $2.3 million compared to the same period last year. Noninterest income increased $0.6 million, or 1.6 percent, due to a $1.3 million increase in fee income from business added in transfer agent, alternative investment, and fund administration services, increases from asset based fees, and a $0.7 million gain from the transfer of trust-related distribution services. These increases were offset by a decrease in miscellaneous income of $1.3 million in fair value adjustments to the contingent consideration liabilities on acquisitions compared to same period last year. Net interest margin increased by $0.4 million, or 47.6 percent, due to deposit growth within this segment. Noninterest expense increased $2.8 million, or 8.36 percent, due primarily to a $2.6 million increase in fair value adjustments to the contingent consideration liabilities on acquisitions. Salary and benefit expense increased by $1.2 million, or 7.5 percent, compared to the prior year, reflecting costs of staffing added to support new business. Increases were offset by declines in processing fees of $0.8 million and amortization expense of intangibles of $0.2 million compared to the same period last year.

Balance Sheet Analysis

Total assets of the Company as of June 30, 2013 increased $326.0 million, or 2.2 percent, compared to December 31, 2012 and increased $2.1 billion, or 15.7 percent, compared to June 30, 2012. The increase in total assets from June 2012 to June 2013 is a result an increase in investment securities balances including trading securities of $674.4 million, or 10.4 percent, and an increase in loans of $1.0 billion, or 19.3 percent. The increase in total assets from December to June is primarily a result of an increase in loans of $652.2 million, or 11.5 percent, offset by a decrease in due from Federal Reserve balances of $114.9 million, or 16.5 percent. The overall increase in total assets compared to June 30, 2012 is directly related to a corresponding increase in deposit balances of 1.4 billion, or 13.6 percent, and an increase in federal funds purchased and securities sold under agreement to repurchase of $757.4 million, or 54.1 percent. The increase in total assets from December 2012 to June 2013 is due to an increase in federal funds purchased and securities sold under agreement to repurchase of $370.7 million, or 20.7 percent.

Table 10

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

	June 30,		December 31,
	2013	**2012**	**2012**
Total assets	$ 15,253,217	$ 13,182,662	$ 14,927,196
Loans, net of unearned interest	6,338,921	5,315,609	5,686,749
Total investment securities	7,178,637	6,504,523	7,134,316
Interest-bearing due from banks	607,470	295,499	720,500
Total earning assets	14,127,047	12,084,739	13,563,884
Total deposits	11,729,750	10,329,850	11,653,365
Total borrowed funds	2,162,556	1,415,826	1,793,149

Loans and Loans Held For Sale

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

Total loan balances have increased $652.2 million, or 11.5 percent, compared to December 31, 2012 and increased $1.0 billion, or 19.3 percent, at June 30, 2013 compared to June 30, 2012. The increase from December 31, 2012 is primarily a result of a $458.1 million, or 15.9 percent, increase in commercial loans and a $133.4 million, or 9.3 percent, increase in commercial real estate loans. Compared to June 30, 2012, commercial loans increased $695.8 million, or 26.4 percent, and increased commercial real estate loans of $216.8 million, or 16.0 percent.

Table of Contents

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

Investment Securities

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

Investment securities totaled $7.2 billion at June 30, 2013, compared to $6.5 billion at June 30, 2012, and $7.1 billion at December 31, 2012. Collateral pledging requirements for public funds, loan demand, and deposit funding are the primary factors impacting changes in the level of security holdings. Investment securities comprised 50.8 percent, 52.6 percent, and 53.8 percent, respectively, of the earning assets as of June 30, 2013, December 31, 2012, and June 30, 2012. There were $5.7 billion of these securities pledged to secure U.S. Government deposits, other public deposits, certain trust deposits, and other potential borrowings as required by law at June 30, 2013.

Investment securities had an average tax-equivalent yield of 1.97 percent for the first six months of 2013 compared to 2.24 percent for the same period in 2012, or a decrease of 27 basis points. The average life of the securities portfolio was 48.7 months at June 30, 2013 compared to 40.0 months at December 31, 2012 and 35.5 months at June 30, 2012. The increase in average life from June 30, 2012 and December 31, 2012 was primarily related to an increase in the percentage of investments invested in the core portfolio resulting in a lower percentage of short term investments held compared to the same period last year due to excess liquidity being retained in the continued low rate environment.

Deposits and Borrowed Funds

Deposits increased $76.4 million, or 0.7 percent, from December 31, 2012 to June 30, 2013. Interest-bearing deposits increased $109.3 million offset by decreased noninterest-bearing deposits of $32.9 million from December 31, 2012. From June 30, 2012 to June 30, 2013, deposits increased $1.4 billion, or 13.6 percent. Noninterest-bearing deposits increased $670.2 million and interest-bearing deposits increased $729.7 million from June 30, 2012. The increase in noninterest-bearing deposits from June 30, 2012 and December 31, 2012 came primarily from the Company s public funds, mutual fund processing and treasury management businesses. The increase in interest-bearing deposits compared to June 30, 2012 is primarily related to increases in money market accounts.

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

Borrowed funds increased $369.4 million from December 31, 2012. Borrowings, other than repurchase agreements, are a function of the source and use of funds and will fluctuate to cover short term gaps in funding. Borrowed funds increased $746.7 million from June 30, 2012.

Federal funds purchased and securities sold under agreement to repurchase totaled $2.2 billion at June 30, 2013, compared to $1.8 billion at December 31, 2012 and $1.4 billion at June 30, 2012. Repurchase agreements are transactions involving the exchange of investment funds by the customer for securities by the Company under an agreement to repurchase the same or similar issues at an agreed-upon price and date.

Table of Contents

Capital and Liquidity

The Company places a significant emphasis on the maintenance of a strong capital position, which promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company s ability to capitalize on business growth and acquisition opportunities. Higher levels of liquidity, however, bear corresponding costs, measured in terms of lower yields on short-term, more liquid earning assets and higher expenses for extended liability maturities. The Company manages capital for each subsidiary based upon the subsidiary s respective risks and growth opportunities as well as regulatory requirements.

Total shareholders equity was $1.2 billion at June 30, 2013, a $52.9 million decrease compared to December 31, 2012. The Company s Board of Directors authorized, at its April 23, 2013, April 24, 2012, and April 27, 2011 meetings, the repurchase of up to two million shares of the Company s common stock during the twelve months following the meetings. During the six months ended June 30, 2013 and 2012, the Company acquired 37,848 shares and 120,455 shares, respectively, of its common stock under these plans. The Company has not made any purchases other than through these plans.

On July 23, 2013, the Board of Directors declared a dividend of $0.215 per share. The dividend will be paid on October 1, 2013 to shareholders of record on September 10, 2013.

Risk-based capital guidelines established by regulatory agencies set minimum capital standards based on the level of risk associated with a financial institution s assets. A financial institution s total capital is required to equal at least 8 percent of risk-weighted assets. At least half of that 8 percent must consist of Tier 1 core capital, and the remainder may be Tier 2 supplementary capital. The risk-based capital guidelines indicate the specific risk weightings by type of asset. Certain off-balance-sheet items (such as standby letters of credit and binding loan commitments) are multiplied by credit conversion factors to translate them into balance sheet equivalents before assigning them specific risk weightings. Due to the Company s high level of core capital and substantial portion of earning assets invested in government securities, the Tier 1 capital ratio of 10.72 percent and total capital ratio of 11.52 percent substantially exceed the regulatory minimums.

Table 11

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
RATIOS	**2013**	**2012**	**2013**	**2012**
Return on average assets	0.81%	0.89%	0.88%	1.15%
Return on average equity	9.31	9.42	10.17	12.36
Average equity to assets	8.67	9.43	8.67	9.28
Tier 1 risk-based capital ratio	10.72	11.63	10.72	11.63
Total risk-based capital ratio	11.52	12.59	11.52	12.59
Leverage ratio	6.76	6.92	6.76	6.92

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
Per Share Data	**2013**	**2012**	**2013**	**2012**
Earnings basic	$ 0.75	$ 0.73	$ 1.62	$ 1.89
Earnings diluted	0.74	0.72	1.61	1.87
Cash dividends	0.215	0.205	0.430	0.410
Dividend payout ratio	28.67%	28.08%	26.54%	21.69%
Book value	$ 30.20	$ 30.89	$ 30.20	$ 30.89

Table of Contents

Off-balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses the Company s condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to allowance for loan losses, investments, long-lived assets, contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which have formed the basis for making such judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the recorded estimates under different assumptions or conditions. A summary of critical accounting policies is listed in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of the Company s Annual Report Form 10-K for the fiscal year ended December 31, 2012.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

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

Interest Rate Risk

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

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

Net Interest Income Modeling

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

Table 12 shows the net interest income increase or decrease over the next twelve months as of June 30, 2013 and 2012 based on hypothetical changes in interest rates.

Table 12

MARKET RISK *(unaudited, dollars in thousands)*

Hypothetical change in interest rate (Rates in Basis Points)	June 30, 2013 Amount of change	June 30, 2012 Amount of change
300	$9,410	$15,617
200	5,661	9,866
100	1,651	4,612
Static		
(100)	N/A	N/A

52

Table of Contents

At June 30, 2013, the Company is sensitive to increases in rates. Increases in interest rates are projected to cause increases in net interest income. Due to the already low interest rate environment, the Company did not include a 100 basis point falling scenario. There is little room for projected yields on liabilities to decrease. For projected increases in rates, net interest income is projected to increase due to the Company being positioned to adjust yields on assets with changes in market rates more than the cost of paying liabilities is projected to increase. Nevertheless, the Company is positioned in the current low rate environment to be relatively neutral to further interest rate changes over the next twelve months. If rates remain flat the Company will be exposed to the risk of asset yields continuing to decrease while deposit costs remain relatively flat.

Trading Account

The Company s subsidiary, UMB Bank, n.a., carries taxable government securities in a trading account that is maintained according to a Bank board-approved policy and relevant procedures. The policy limits the amount and type of securities that UMB Bank, n.a. can carry in the trading account and also requires that UMB Bank, n.a. comply with any limits under applicable law and regulations. The policy also mandates the use of a value at risk methodology to manage price volatility risks within financial parameters. The risk associated with carrying trading securities is offset by the sale of exchange traded futures contracts, with both the trading account and futures contracts marked to market daily. This account had a balance of $48.0 million as of June 30, 2013 compared to $55.8 million as of December 31, 2012.

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

Other Market Risk

The Company does not have material commodity price risks or derivative risks. The Company does have minimal foreign currency risk as a result of foreign exchange contracts. See Note 7 Commitments, Contingencies and Guarantees in the notes to the Condensed Consolidated Financial Statements.

Credit Risk Management

Credit risk represents the risk that a customer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers. The Company utilizes a centralized credit administration function, which provides information on affiliate bank risk levels, delinquencies, an internal ranking system and overall credit exposure. In addition, the Company centrally reviews loan requests to ensure the consistent application of the loan policy and standards. The Company has an internal loan review staff that operates independently of the affiliate banks. This review team performs periodic examinations of each bank s loans for credit quality, documentation and loan administration. The respective regulatory authority of each affiliate bank also reviews loan portfolios.

A primary indicator of credit quality and risk management is the level of nonperforming loans. Nonperforming loans include both nonaccrual loans and restructured loans. The Company s nonperforming loans decreased $5.2 million to $25.5 million at June 30, 2013, compared to June 30, 2012 and decreased $2.6 million, compared to December 31, 2012.

The Company had $3.6 and $6.0 million of other real estate owned as of June 30, 2013 and 2012 respectively, compared to $3.5 million as of December 31, 2012. Loans past due more than 90 days totaled $4.0 million as of June 30, 2013, compared to $6.2 million at June 30, 2012 and $3.6 million as of December 31, 2012.

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

Table of Contents

Certain loans are restructured to provide a reduction or deferral of interest or principal due to deterioration in the financial condition of the respective borrowers. The Company had $14.0 million of restructured loans at June 30, 2013, $8.3 million at June 30, 2012 and $12.5 million at December 31, 2012.

Table 13

LOAN QUALITY *(unaudited, dollars in thousands)*

	June 30,		December 31,
	2013	**2012**	**2012**
Nonaccrual loans	$ 12,576	$ 24,867	$ 16,376
Restructured loans	12,913	5,775	11,727
Total nonperforming loans	25,489	30,642	28,103
Other real estate owned	3,573	5,954	3,524
Total nonperforming assets	$ 29,062	$ 36,596	$ 31,627
Loans past due 90 days or more	$ 4,013	$ 6,198	$ 3,554
Restructured loans accruing	1,135	2,485	752
Allowance for Loan Losses	71,647	72,652	71,426
Ratios			
Nonperforming loans as a percent of loans	0.40%	0.58	%0.49%
Nonperforming assets as a percent of loans plus other real estate owned	0.46	0.69	0.56
Nonperforming assets as a percent of total assets	0.19	0.28	0.21
Loans past due 90 days or more as a percent of loans	0.06	0.12	0.06
Allowance for loan losses as a percent of loans	1.13	1.37	1.26
Allowance for loan losses as a multiple of nonperforming loans	2.81x	2.37x	2.54x

Liquidity Risk

Liquidity represents the Company s ability to meet financial commitments through the maturity and sale of existing assets or availability of additional funds. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of a large, stable supply of core deposits and wholesale funds. Ultimately, public confidence is generated through profitable operations, sound credit quality and a strong capital position. The primary source of liquidity for the Company is regularly scheduled payments and maturity of assets, which include $6.9 billion of high-quality securities available for sale. Investment securities with a market value of $5.7 billion at June 30, 2013 were pledged to secure U.S. Government deposits, other public deposits, securities sold under repurchase agreements, and certain trust deposits as required by law. The liquidity of the Company and its affiliate banks is also enhanced by its activity in the federal funds market and by its core deposits. Neither the Company nor its subsidiaries are active in the debt market. The traditional funding source for the Company s subsidiary banks has been core deposits. Based upon regular contact with investment banking firms, management believes it can raise debt or equity capital on favorable terms, should the need arise.

The Company also has other commitments that may impact liquidity. These commitments include unused commitments to extend credit, standby letters of credit and financial guarantees, and commercial letters of credit. The total amount of these unused commitments at June 30, 2013 was $5.1 billion. As of June 30, 2013, the utilization rate of the total outstanding commitments was 26.2 percent. Since many of these commitments expire without being drawn upon, the total amount of these commercial commitments does not necessarily represent the future cash requirements of the Company.

The Company s cash requirements consist primarily of dividends to shareholders, debt service, operating expenses, and treasury stock purchases. Management fees and dividends received from bank and non-bank subsidiaries traditionally have been sufficient to satisfy these requirements and are expected to be sufficient in the future. The affiliate bank is subject to various rules regarding payment of dividends to the Company. For the most

54

part, the bank can pay dividends at least equal to its current year s earnings without seeking prior regulatory approval. The Company also uses cash to inject capital in its bank and non-bank subsidiaries to maintain adequate capital as well as fund strategic initiatives.

To enhance general working capital needs, the Company has a revolving line of credit with Wells Fargo, N.A. which allows the Company to borrow up to $25.0 million for general working capital purposes. The interest rate applied to borrowed balances will be at the Company s option either 1.00 percent above LIBOR or 1.75 percent below Prime on the date of an advance. The Company will also pay a 0.2 percent unused commitment fee for unused portions of the line of credit. The Company had no advances outstanding at June 30, 2013.

Operational Risk

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

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

The Company maintains systems of controls that provide management with timely and accurate information about the Company s operations. These systems have been designed to manage operational risk at appropriate levels given the Company s financial strength, the environment in which it operates, and considering factors such as competition and regulation. The Company has also established procedures that are designed to ensure that policies relating to conduct, ethics and business practices are followed on a uniform basis. In certain cases, the Company has experienced losses from operational risk. Such losses have included the effects of operational errors that the Company has discovered and included as expense in the statement of income. While there can be no assurance that the Company will not suffer such losses in the future, management continually monitors and works to improve its internal controls, systems and corporate-wide processes and procedures.

ITEM 4. CONTROLS AND PROCEDURES

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

Disclosure Controls and Procedures

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

Table of Contents

Change in Internal Control Over Financial Reporting

There has been no change in the Company s internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, the Company and its subsidiaries are named defendants in various lawsuits and counter-claims. Except as stated below, in the opinion of management, after consultation with legal counsel, none of these lawsuits are expected to have a material effect on the financial position, results of operations, or cash flows of the Company.

ITEM 1A. RISK FACTORS

There were no material changes to the risk factors as previously disclosed in response to Item 1A to Part 1 of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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

The table below sets forth the information with respect to purchases made by or on behalf of the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the three months ended June 30, 2013.

ISSUER PURCHASE OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1-April 25, 2013	1,048	$ 47.11	1,048	1,571,086
April 26-April 30, 2013				1,571,086
May 1-May 31, 2013	613	52.65	613	1,570,473
June 1-June 30, 2013	220	55.77	220	1,570,253
Total	1,881	$ 49.93	1,881	

On April 24, 2012, the Company announced a plan to repurchase up to two million shares of common stock. This plan terminated on April 25, 2013. The Company has not made any repurchases other than through this plan. All open market share purchases under the share repurchase plan are intended to be within the scope of Rule 10b-18 promulgated under the Exchange Act. Rule 10b-18 provides a safe harbor for purchases in a given day if the Company satisfies the manner, timing and volume conditions of the rule when purchasing its own common shares. On April 23, 2013 the Company announced a plan to repurchase up to two million shares of common stock. This plan will terminate on April 22, 2014.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

a) The following exhibits are filed herewith:

i. 3.1 Articles of Incorporation restated as of April 25, 2006. Amended Article III was filed with the Missouri Secretary of State on May 18, 2006 and incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 and filed with the Commission on May 9, 2006.

ii. 3.2 Bylaws, amended and restated as of July 26, 2011 incorporated by reference to Exhibit 3 (ii).2 to the Company s Current Report on Form 8-K and filed with the Commission on August 4, 2011.

iii. 4 Description of the Registrant s common stock in Amendment No. 1 on Form 8, incorporated by reference to its General Form for Registration of Securities on Form 10 dated March 5, 1993.

iv. 31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act.

v. 31.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act.

vi. 32.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act.

vii. 32.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act.

viii. 101.INS XBRL Instance

ix. 101.SCH XBRL Taxonomy Extension Schema

x. 101.CAL XBRL Taxonomy Extension Calculation

xi. 101.DEF XBRL Taxonomy Extension Definition

xii. 101.LAB XBRL Taxonomy Extension Labels

xiii. 101.PRE XBRL Taxonomy Extension Presentation

Table of Contents

SIGNATURES

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

UMB FINANCIAL CORPORATION

/s/ Brian J. Walker
Brian J. Walker
Senior Vice President, Corporate Controller
(Authorized Officer and Chief Accounting Officer)

Date: August 1, 2013

59