

UMB FINANCIAL CORP  
Form 10-Q  
October 31, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(MARK ONE)

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

For the quarterly period ended September 30, 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)

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

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

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

As of October 28, 2013, UMB Financial Corporation had 45,154,747 shares of common stock outstanding.

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	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Loans:	\$ 6,506,902	\$ 5,686,749
Allowance for loan losses	(74,938)	(71,426)
Net loans	6,431,964	5,615,323
Loans held for sale	3,033	3,877
Investment Securities:		
Available for sale	6,697,997	6,937,463
Held to maturity (market value of \$189,316 and \$129,495, respectively)	175,993	114,756
Trading	54,994	55,764
Federal Reserve Bank stock and other	31,478	26,333
Total investment securities	6,960,462	7,134,316
Federal funds sold and securities purchased under agreements to resell	54,434	89,868
Interest-bearing due from banks	1,357,881	720,500
Cash and due from banks	604,592	667,774
Bank premises and equipment, net	247,827	244,600
Accrued income	72,030	69,749
Goodwill	209,758	209,758
Other intangibles	58,749	68,803
Other assets	183,503	102,628
Total assets	\$ 16,184,233	\$ 14,927,196
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$ 5,628,258	\$ 4,920,581
Interest-bearing demand and savings	6,248,189	5,450,450
Time deposits under \$100,000	593,275	540,269
Time deposits of \$100,000 or more	571,322	742,065
Total deposits	13,041,044	11,653,365
Federal funds purchased and repurchase agreements	1,527,964	1,787,270
Short-term debt	211	
Long-term debt	5,130	5,879
Accrued expenses and taxes	130,398	182,468
Other liabilities	15,831	18,869
Total liabilities	14,720,578	13,647,851

**SHAREHOLDERS EQUITY**

Common stock, \$1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 44,554,834 and 40,340,878 shares outstanding, respectively	55,057	55,057
Capital surplus	862,153	732,069
Retained earnings	860,138	787,015
Accumulated other comprehensive income	(15,678)	85,588
Treasury stock, 10,501,896 and 14,715,852 shares, at cost, respectively	(298,015)	(380,384)
Total shareholders equity	1,463,655	1,279,345
Total liabilities and shareholders equity	\$ 16,184,233	\$ 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 59,125	\$ 54,558	\$ 170,459	\$ 162,613
Securities:				
Taxable interest	19,017	20,345	56,325	61,652
Tax-exempt interest	10,338	9,602	30,216	28,445
Total securities income	29,355	29,947	86,541	90,097
Federal funds and resell agreements	62	48	126	88
Interest-bearing due from banks	276	225	1,276	1,422
Trading securities	278	201	808	842
Total interest income	89,096	84,979	259,210	255,062
<b><u>INTEREST EXPENSE</u></b>				
Deposits	3,097	4,079	10,222	13,443
Federal funds and repurchase agreements	385	454	1,443	1,402
Other	69	81	190	390
Total interest expense	3,551	4,614	11,855	15,235
Net interest income	85,545	80,365	247,355	239,827
Provision for loan losses	6,500	4,500	13,500	13,500
Net interest income after provision for loan losses	79,045	75,865	233,855	226,327
<b><u>NONINTEREST INCOME</u></b>				
Trust and securities processing	68,465	56,291	194,263	166,756
Trading and investment banking	3,792	7,120	16,324	23,938
Service charges on deposits	21,036	19,171	63,441	58,191
Insurance fees and commissions	869	1,028	3,066	2,949
Brokerage fees	2,895	3,104	8,727	8,324
Bankcard fees	15,196	14,466	47,666	46,031
Gain on sales of available for sale securities, net	1,140	259	8,552	20,022
Other	8,232	4,882	14,187	22,637
Total noninterest income	121,625	106,321	356,226	348,848
<b><u>NONINTEREST EXPENSE</u></b>				
Salaries and employee benefits	83,733	78,813	251,000	236,728
Occupancy, net	10,016	9,870	29,175	28,359
Equipment	12,205	10,330	36,012	31,999
Supplies and services	4,761	4,995	14,611	15,256
Marketing and business development	5,536	7,368	15,514	17,615
Processing fees	14,471	12,964	42,854	38,372
Legal and consulting	4,433	4,311	12,877	11,838

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Bankcard	4,561	4,700	13,817	13,572
Amortization of intangible assets	3,245	3,643	10,054	11,228
Regulatory fees	2,670	2,363	7,066	7,096
Other	7,432	6,548	20,772	20,432
<b>Total noninterest expense</b>	<b>153,063</b>	<b>145,905</b>	<b>453,752</b>	<b>432,495</b>
Income before income taxes	47,607	36,281	136,329	142,680
Income tax provision	13,175	10,156	37,027	41,023
<b>NET INCOME</b>	<b>\$ 34,432</b>	<b>\$ 26,125</b>	<b>\$ 99,302</b>	<b>\$ 101,657</b>

**PER SHARE DATA**

Net income basic	\$ 0.85	\$ 0.65	\$ 2.47	\$ 2.54
Net income diluted	0.83	0.64	2.44	2.51
Dividends	0.215	0.205	0.645	0.615
Weighted average shares outstanding	40,698,700	40,081,304	40,185,351	40,047,261

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****UMB FINANCIAL CORPORATION****CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)***(unaudited, dollars in thousands)*

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 34,432	\$ 26,125	\$ 99,302	\$ 101,657
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities:				
Change in unrealized holding gains (losses), net	11,694	32,256	(151,721)	52,410
Less: Reclassifications adjustment for gains included in net income	(1,140)	(259)	(8,552)	(20,022)
Change in unrealized gains (losses) on securities during the period	10,554	31,997	(160,273)	32,388
Income tax (expense) benefit	(4,005)	(11,827)	59,007	(12,074)
Other comprehensive income (loss)	6,549	20,170	(101,266)	20,314
Comprehensive income (loss)	\$ 40,981	\$ 46,295	\$ (1,964)	\$ 121,971

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)*

	<b>Common Stock</b>	<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Treasury Stock</b>	<b>Total</b>
Balance January 1, 2012	\$ 55,057	\$ 723,299	\$ 697,923	\$ 81,099	\$ (366,246)	\$ 1,191,132
Total comprehensive income			101,657	20,314		121,971
Cash dividends (\$0.615 per share)			(24,939)			(24,939)
Purchase of treasury stock					(6,062)	(6,062)
Issuance of equity awards		(1,612)			1,856	244
Recognition of equity based compensation		5,425				5,425
Net tax benefit related to equity compensation plans		333				333
Sale of treasury stock		354			256	610
Exercise of stock options		2,475			2,986	5,461
Balance September 30, 2012	\$ 55,057	\$ 730,274	\$ 774,641	\$ 101,413	\$ (367,210)	\$ 1,294,175
Balance January 1, 2013	\$ 55,057	\$ 732,069	\$ 787,015	\$ 85,588	\$ (380,384)	\$ 1,279,345
Total comprehensive income			99,302	(101,266)		(1,964)
Cash dividends						
(\$0.645 per share)			(26,179)			(26,179)
Purchase of treasury stock					(2,551)	(2,551)
Issuance of equity awards		(2,189)			2,638	449
Recognition of equity based compensation		6,319				6,319
Net tax benefit related to equity compensation plans		963				963
Sale of treasury stock		367			172	539
Exercise of stock options		2,916			2,641	5,557
Common stock issuance		121,708			79,469	201,177
Balance September 30, 2013	\$ 55,057	\$ 862,153	\$ 860,138	\$ (15,678)	\$ (298,015)	\$ 1,463,655

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****UMB FINANCIAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(unaudited, dollars in thousands)*

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Net Income	\$ 99,302	\$ 101,657
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	13,500	13,500
Depreciation and amortization	32,998	30,576
Deferred income tax (benefit) expense	(5,292)	1,409
Net decrease in trading securities	770	18,223
Gains on sales of securities available for sale, net	(8,552)	(20,022)
Gains on sales of assets	(674)	(503)
Amortization of securities premiums, net of discount accretion	40,339	37,277
Originations of loans held for sale	(101,935)	(179,493)
Net gains on sales of loans held for sale	(609)	(1,526)
Proceeds from sales of loans held for sale	103,388	177,335
Issuance of equity awards	449	244
Equity based compensation	6,319	5,425
Changes in:		
Accrued income	(2,281)	5,898
Accrued expenses and taxes	28,401	5,364
Other assets and liabilities, net	(13,009)	(18,305)
Net cash provided by operating activities	193,114	177,059
<b>Investing Activities</b>		
Proceeds from maturities of securities held to maturity	27,209	6,327
Proceeds from sales of securities available for sale	678,522	991,842
Proceeds from maturities of securities available for sale	1,193,130	1,172,929
Purchases of securities held to maturity	(94,481)	(19,504)
Purchases of securities available for sale	(1,894,722)	(2,528,213)
Net increase in loans	(829,856)	(442,109)
Net decrease in fed funds sold and resell agreements	35,434	24,906
Net (increase) decrease in interest-bearing balances due from other financial institutions	(411)	121,079
Purchases of bank premises and equipment	(26,997)	(31,516)
Net cash received for acquisitions	692	1,529
Proceeds from sales of bank premises and equipment	808	1,034
Net cash used in investing activities	(910,672)	(701,696)
<b>Financing Activities</b>		
Net increase in demand and savings deposits	1,505,416	864,852
Net decrease in time deposits	(117,737)	(421,983)
Net decrease in fed funds purchased and repurchase agreements	(259,306)	(786,628)
Net decrease in short-term debt	(303)	(12,000)
Proceeds from long-term debt	1,000	529
Repayment of long-term debt	(1,235)	(1,426)
Payment of contingent consideration on acquisitions	(16,172)	(12,260)

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Cash dividends paid	(26,002)	(24,946)
Net tax benefit related to equity compensation plans	963	333
Common stock issuance	201,177	
Proceeds from exercise of stock options and sales of treasury shares	6,096	6,071
Purchases of treasury stock	(2,551)	(6,062)
<b>Net cash used in financing activities</b>	<b>1,291,346</b>	<b>(393,520)</b>
Increase (decrease) in cash and due from banks	573,788	(918,157)
Cash and due from banks at beginning of period	1,366,394	1,459,631
Cash and due from banks at end of period	\$ 1,940,182	\$ 541,474
<b>Supplemental Disclosures:</b>		
Income taxes paid	\$ 34,351	\$ 31,718
Total interest paid	\$ 12,560	\$ 16,423
See Notes to Condensed Consolidated Financial Statements.		

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 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 issued by other financial institutions are included in interest-bearing due from banks. The amounts due from certificates of deposit totaled \$22.3 million and \$29.9 million at September 30, 2013 and September 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 September 30, 2013 and September 30, 2012 (in thousands):*

	September 30,	
	2013	2012
Due from the Federal Reserve	\$ 1,335,590	\$ 144,135
Cash and due from banks	604,592	397,339
<b>Cash and due from banks at end of period</b>	<b>\$ 1,940,182</b>	<b>\$ 541,474</b>

**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 650,028 and 517,430 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2013 and 2012, respectively. Diluted year-to-date income per share includes the dilutive effect of 544,930 and 431,418 shares issuable upon the exercise of stock options granted by the Company and outstanding at September 30, 2013 and 2012, respectively.

Options issued under employee benefit plans to purchase 270,839 and 510,850 shares of common stock were outstanding at September 30, 2013 and 2012, respectively, but were not included in the computation of year-to-date diluted EPS because the options were anti-dilutive.



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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

**Common Stock Issuance**

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

**3. New Accounting Pronouncements**

**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 were effective for interim periods beginning after December 15, 2012 and were adopted by the Company for the quarter-ended March 31, 2013. The adoption of this accounting pronouncement did not impact 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 and were adopted by the Company for the quarter-ended March 31, 2013. The adoption of this accounting pronouncement did not impact the Company's financial statements.

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**UMB FINANCIAL CORPORATION**

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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

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

**Loan Origination/Risk Management**

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

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

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

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

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

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

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

		September 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		\$ 3,204	\$ 388	\$ 8,053	\$ 11,645	\$ 3,364,750	\$ 3,376,395	
Commercial	credit card	589	242	190	1,021	117,187	118,208	
Real estate:								
Real estate	construction		128	1,151	1,279	121,324	122,603	
Real estate	commercial	4,342	200	18,950	23,492	1,611,745	1,635,237	
Real estate	residential	2,385	133	602	3,120	270,624	273,744	
Real estate	HELOC	678		404	1,082	572,290	573,372	
Consumer:								
Consumer	credit card	2,748	2,245	1,273	6,266	303,731	309,997	
Consumer	other	4,870	444	637	5,951	65,756	71,707	
Leases						25,639	25,639	
<b>Total loans</b>		<b>\$ 18,816</b>	<b>\$ 3,780</b>	<b>\$ 31,260</b>	<b>\$ 53,856</b>	<b>\$ 6,453,046</b>	<b>\$ 6,506,902</b>	

		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	
<b>Total loans</b>		<b>\$ 19,871</b>	<b>\$ 3,554</b>	<b>\$ 28,103</b>	<b>\$ 51,528</b>	<b>\$ 5,635,221</b>	<b>\$ 5,686,749</b>	



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The Company sold \$103.4 million and \$177.3 million of residential real estate and student loans in the secondary market during the nine month periods ended September 30, 2013 and September 30, 2012, respectively.

The Company has ceased the recognition of interest on non-accrual loans with a carrying value of \$31.3 million and \$28.1 million at September 30, 2013 and December 31, 2012, respectively. Restructured loans totaled \$13.5 million and \$12.5 million at September 30, 2013 and December 31, 2012, respectively. Loans 90 days past due and still accruing interest amounted to \$3.8 million and \$3.6 million at September 30, 2013 and December 31, 2012, respectively. There was an insignificant amount of interest recognized on impaired loans during 2013 and 2012.

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UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)

**Credit Quality Indicators**

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

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

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

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

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

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

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## UMB FINANCIAL CORPORATION

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

## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)

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

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

	Commercial		Real estate - construction	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Non-watch list	\$ 3,158,126	\$ 2,670,925	\$ 120,585	\$ 75,631
Watch	87,015	98,636		518
Special Mention	67,586	29,462		14
Substandard	63,668	74,671	2,018	2,323
<b>Total</b>	<b>\$ 3,376,395</b>	<b>\$ 2,873,694</b>	<b>\$ 122,603</b>	<b>\$ 78,486</b>

	Real estate - commercial	
	September 30, 2013	December 31, 2012
Non-watch list	\$ 1,499,023	\$ 1,325,460
Watch	80,490	63,278
Special Mention	15,912	11,613
Substandard	39,812	35,460
<b>Total</b>	<b>\$ 1,635,237</b>	<b>\$ 1,435,811</b>

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

	Commercial - credit card		Real estate - residential	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Performing	\$ 118,018	\$ 104,259	\$ 273,142	\$ 211,697
Non-performing	190	61	602	666
<b>Total</b>	<b>\$ 118,208</b>	<b>\$ 104,320</b>	<b>\$ 273,744</b>	<b>\$ 212,363</b>

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	Real estate - HELOC		Consumer - credit card	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Performing	\$ 572,968	\$ 573,698	\$ 308,724	\$ 332,233
Non-performing	404	225	1,273	2,285
<b>Total</b>	<b>\$ 573,372</b>	<b>\$ 573,923</b>	<b>\$ 309,997</b>	<b>\$ 334,518</b>

	Consumer - other		Leases	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Performing	\$ 71,070	\$ 53,239	\$ 25,639	\$ 19,084
Non-performing	637	1,311		
<b>Total</b>	<b>\$ 71,707</b>	<b>\$ 54,550</b>	<b>\$ 25,639</b>	<b>\$ 19,084</b>

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**UMB FINANCIAL CORPORATION**

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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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.

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 30, 2013 (in thousands):

	Three Months Ended September 30, 2013				
	Commercial	Real estate	Consumer	Leases	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 45,108	\$ 16,296	\$ 10,168	\$ 75	\$ 71,647
Charge-offs	(592)	(162)	(3,126)		(3,880)
Recoveries	246	21	404		671
Provision	3,491	2	2,996	11	6,500
Ending Balance	\$ 48,253	\$ 16,157	\$ 10,442	\$ 86	\$ 74,938
	Nine Months Ended September 30, 2013				
	Commercial	Real estate	Consumer	Leases	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 43,390	\$ 15,506	\$ 12,470	\$ 60	\$ 71,426
Charge-offs	(3,015)	(533)	(9,265)		(12,813)
Recoveries	761	37	2,027		2,825
Provision	7,117	1,147	5,210	26	13,500
Ending Balance	\$ 48,253	\$ 16,157	\$ 10,442	\$ 86	\$ 74,938
Ending Balance: individually evaluated for impairment	\$ 3,301	\$ 1,412	\$	\$	\$ 4,713
Ending Balance: collectively evaluated for impairment	44,952	14,745	10,442	86	70,225
<b>Loans:</b>					
Ending Balance: loans	\$ 3,494,603	\$ 2,604,956	\$ 381,704	\$ 25,639	\$ 6,506,902
Ending Balance: individually evaluated for impairment	14,835	15,852	30		30,717
Ending Balance: collectively evaluated for impairment	3,479,768	2,589,104	381,674	25,639	6,476,185

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

	<b>Three Months Ended September 30, 2012</b>				
	<b>Commercial</b>	<b>Real estate</b>	<b>Consumer</b>	<b>Leases</b>	<b>Total</b>
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 37,942	\$ 22,660	\$ 12,001	\$ 49	\$ 72,652
Charge-offs	(3,147)	(316)	(3,087)		(6,550)
Recoveries	151	16	599		766
Provision	8,167	(5,591)	1,916	8	4,500
Ending Balance	\$ 43,113	\$ 16,769	\$ 11,429	\$ 57	\$ 71,368
	<b>Nine Months Ended September 30, 2012</b>				
	<b>Commercial</b>	<b>Real estate</b>	<b>Consumer</b>	<b>Leases</b>	<b>Total</b>
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 37,927	\$ 20,486	\$ 13,593	\$ 11	\$ 72,017
Charge-offs	(6,385)	(724)	(9,674)		(16,783)
Recoveries	401	25	2,208		2,634
Provision	11,170	(3,018)	5,302	46	13,500
Ending Balance	\$ 43,113	\$ 16,769	\$ 11,429	\$ 57	\$ 71,368
Ending Balance: individually evaluated for impairment	\$ 1,591	\$ 1,067	\$	\$	\$ 2,658
Ending Balance: collectively evaluated for impairment	41,522	15,702	11,429	57	68,710
<b>Loans:</b>					
Ending Balance: loans	\$ 2,800,529	\$ 2,183,960	\$ 386,490	\$ 18,784	\$ 5,389,763
Ending Balance: individually evaluated for impairment	18,380	14,396	45		32,821
Ending Balance: collectively evaluated for impairment	2,782,149	2,169,564	386,445	18,784	5,356,942

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)****Impaired Loans**

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

		September 30, 2013					
		Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:							
Commercial		\$ 29,380	\$ 2,556	\$ 12,279	\$ 14,835	\$ 3,301	\$ 14,831
Commercial credit card							
Real estate:							
Real estate	construction	1,409	731	416	1,147	222	1,249
Real estate	commercial	13,845	5,339	8,081	13,420	1,190	9,752
Real estate	residential	1,519	1,285		1,285		1,131
Real estate	HELOC						
Consumer:							
Consumer	credit card						
Consumer	other	34	30		30		39
Leases							
Total		\$ 46,187	\$ 9,941	\$ 20,776	\$ 30,717	\$ 4,713	\$ 27,002

		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





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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 \$0.1 million and \$1.2 million in commitments to lend to borrowers with loan modifications classified as TDRs as of September 30, 2013 and September 30, 2012, respectively. The Company made no TDRs in the last 12 months that had payment defaults for the three or nine month periods ended September 30, 2013 or September 30, 2012.

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

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

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This table provides a summary of loans restructured by class for the three and nine months ended September 30, 2012 (*in thousands*):

	Three Months Ended September 30, 2012			Nine Months Ended September 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
<b>Troubled Debt Restructurings</b>						
Commercial:						
Commercial credit card	4	\$ 853	\$ 821	6	\$ 3,785	\$ 3,760
Real estate:						
Real estate construction						
Real estate commercial						
Real estate residential						
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
<b>Total</b>	<b>4</b>	<b>\$ 853</b>	<b>\$ 821</b>	<b>6</b>	<b>\$ 3,785</b>	<b>\$ 3,760</b>

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)****5. Securities****Securities Available for Sale**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2013</b>				
U.S. Treasury	\$ 102,030	\$ 404	\$ (648)	\$ 101,786
U.S. Agencies	1,025,397	3,540	(2,960)	1,025,977
Mortgage-backed	3,079,675	26,889	(45,645)	3,060,919
State and political subdivisions	2,070,846	24,436	(29,187)	2,066,095
Corporates	445,562	973	(3,315)	443,220
Commercial Paper				
<b>Total</b>	<b>\$ 6,723,510</b>	<b>\$ 56,242</b>	<b>\$ (81,755)</b>	<b>\$ 6,697,997</b>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2012</b>				
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
<b>Total</b>	<b>\$ 6,802,656</b>	<b>\$ 139,649</b>	<b>\$ (4,842)</b>	<b>\$ 6,937,463</b>

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

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 576,035	\$ 578,483
Due after 1 year through 5 years	2,090,432	2,101,158
Due after 5 years through 10 years	795,518	788,065
Due after 10 years	181,850	169,372
<b>Total</b>	<b>3,643,835</b>	<b>3,637,078</b>
Mortgage-backed securities	3,079,675	3,060,919

Total securities available for sale	\$ 6,723,510	\$ 6,697,997
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Securities may be disposed of before contractual maturities due to sales by the Company or because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

For the nine months ended September 30, 2013, proceeds from the sales of securities available for sale were \$678.5 million compared to \$991.8 million for the same period in 2012. Securities transactions resulted in gross realized gains of \$8.8 million and \$20.3 million for the nine months ended September 30, 2013 and 2012. The gross realized losses for the nine months ended September 30, 2013 and 2012 were \$220.0 thousand and \$342.0 thousand, respectively.

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The net unrealized gains on trading securities at September 30, 2013 and September 30, 2012 were \$14.0 thousand and \$416.7 thousand, respectively, and were included in trading and investment banking income in the consolidated statements of income.

**Securities Held to Maturity**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2013</b>				
State and political subdivisions	\$ 175,993	\$ 13,323	\$	\$ 189,316
<b>December 31, 2012</b>				
State and political subdivisions	\$ 114,756	\$ 14,739	\$	\$ 129,495

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

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 49	\$ 53
Due after 1 year through 5 years	35,536	38,226
Due after 5 years through 10 years	58,105	62,504
Due after 10 years	82,303	88,533
<b>Total securities held to maturity</b>	<b>\$ 175,993</b>	<b>\$ 189,316</b>

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

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

Securities available for sale and held to maturity with a market value of \$5.0 billion at September 30, 2013, and \$5.9 billion at December 31, 2012, were pledged to secure U.S. Government deposits, other public deposits and certain trust deposits as required by law. Of this amount, securities with a market value of \$1.8 billion at September 30, 2013 and December 31, 2012 were pledged at the Federal Reserve Discount Window but were unencumbered as of those dates.

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

September 30, 2013	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Treasury	\$ 29,291	\$ (648)	\$	\$	\$ 29,291	\$ (648)
U.S. Agencies	462,594	(2,960)			462,594	(2,960)
Mortgage-backed	1,853,108	(45,645)			1,853,108	(45,645)
State and political subdivisions	794,610	(28,969)	11,320	(218)	805,930	(29,187)
Corporates	319,347	(3,315)			319,347	(3,315)
Commercial Paper						
Total temporarily - impaired debt securities available for sale	\$ 3,458,950	\$ (81,537)	\$ 11,320	\$ (218)	\$ 3,470,270	\$ (81,755)

December 31, 2012	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Treasury	\$ 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 U.S. treasury obligations, U.S. government agencies, federal agency mortgage-backed securities, and municipal securities were caused by changes in interest rates. Because the Company does not have the intent to sell these securities, it is more likely than not that the Company will not 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 September 30, 2013.

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)****6. Goodwill and Other Intangibles**

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

	<b>Bank</b>	<b>Institutional Investment Management</b>	<b>Asset Servicing</b>	<b>Total</b>
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 September 30, 2013	\$ 142,753	\$ 47,529	\$ 19,476	\$ 209,758

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

	<b>As of September 30, 2013</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Core deposit intangible assets	\$ 36,497	\$ 31,399	\$ 5,098
Customer relationships	103,960	51,236	52,724
Other intangible assets	3,247	2,320	927
Total intangible assets	\$ 143,704	\$ 84,955	\$ 58,749
	<b>As of December 31, 2012</b>		
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*):



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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Aggregate amortization expense	\$ 3,245	\$ 3,643	\$ 10,054	\$ 11,228

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

For the three months ending December 31, 2013	\$ 3,164
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 NINE MONTHS ENDED SEPTEMBER 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):**

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Commitments to extend credit for loans (excluding credit card loans)	\$ 2,615,370	\$ 2,458,444
Commitments to extend credit under credit card loans	2,170,484	2,184,415
Commercial letters of credit	15,786	1,041
Standby letters of credit	357,790	343,503
Futures contracts	19,500	7,500
Forward foreign exchange contracts	12,849	2,005
Spot foreign exchange contracts	594	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 reporting system are evaluated regularly by senior executive officers 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 how executive management responsibilities were changed for each of the core businesses, the products and services provided and the types of customers served, and how financial information is evaluated by management. The management reporting system assigns balance sheet and income statement items to each business segment using methodologies that are refined on an ongoing basis. For comparability purposes, amounts in all periods presented are based on methodologies in effect at September 30, 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 NINE MONTHS ENDED SEPTEMBER 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 September 30, 2013				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income (loss)	\$ 73,419	\$ 11,587	\$ (11)	\$ 550	\$ 85,545
Provision for loan losses	1,833	4,667			6,500
Noninterest income	48,951	18,409	33,836	20,429	121,625
Noninterest expense	93,199	21,566	21,097	17,201	153,063
Income before income taxes	27,338	3,763	12,728	3,778	47,607
Income tax expense	6,895	1,311	3,501	1,468	13,175
Net income	\$ 20,443	\$ 2,452	\$ 9,227	\$ 2,310	\$ 34,432
Average assets	\$ 11,129,000	\$ 1,726,000	\$ 76,000	\$ 1,993,000	\$ 14,924,000

	Three Months Ended September 30, 2012				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income (loss)	\$ 69,051	\$ 10,843	\$ (1)	\$ 472	\$ 80,365
Provision for loan losses	2,930	1,570			4,500
Noninterest income	47,151	16,081	24,789	18,300	106,321
Noninterest expense	93,683	17,764	17,316	17,142	145,905
Income before income taxes	19,589	7,590	7,472	1,630	36,281
Income tax expense	5,426	2,024	2,098	608	10,156
Net income	\$ 14,163	\$ 5,566	\$ 5,374	\$ 1,022	\$ 26,125

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Average assets	\$ 10,681,000	\$ 849,000	\$ 80,000	\$ 1,562,000	\$ 13,172,000
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**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

	Nine Months Ended September 30, 2013					Total
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing		
Net interest income (loss)	\$ 211,238	\$ 34,327	\$ (22)	\$ 1,812	\$ 247,355	
Provision for loan losses	3,772	9,728			13,500	
Noninterest income	148,136	56,486	91,543	60,061	356,226	
Noninterest expense	277,253	63,502	58,850	54,147	453,752	
Income before income taxes	78,349	17,583	32,671	7,726	136,329	
Income tax expense	19,608	5,496	8,864	3,059	37,027	
Net income	\$ 58,741	\$ 12,087	\$ 23,807	\$ 4,667	\$ 99,302	
Average assets	\$ 11,146,000	\$ 1,769,000	\$ 79,000	\$ 1,867,000	\$ 14,861,000	

	Nine Months Ended September 30, 2012					Total
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing		
Net interest income (loss)	\$ 206,374	\$ 32,124	\$ 2	\$ 1,327	\$ 239,827	
Provision for loan losses	6,987	6,513			13,500	
Noninterest income	166,795	50,285	74,540	57,228	348,848	
Noninterest expense	281,091	49,192	50,983	51,229	432,495	
Income before income taxes	85,091	26,704	23,559	7,326	142,680	
Income tax expense	23,441	7,733	6,874	2,975	41,023	
Net income	\$ 61,650	\$ 18,971	\$ 16,685	\$ 4,351	\$ 101,657	
Average assets	\$ 10,850,000	\$ 855,000	\$ 82,000	\$ 1,437,000	\$ 13,224,000	

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 September 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 September 30, 2013 and December 31, 2012 (in thousands):

Fair value	Asset Derivatives		Liability Derivatives	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Derivatives not designated as hedging instruments				
Interest rate products	\$ 2,075	\$ 3,503	\$ 2,083	\$ 3,625
<b>Total</b>	<b>\$ 2,075</b>	<b>\$ 3,503</b>	<b>\$ 2,083</b>	<b>\$ 3,625</b>

**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 September 30, 2013, the Company had twenty interest rate swaps with an aggregate notional amount of \$189.3 million related to this program. During the three and nine months ended September 30, 2013, the Company recognized net losses of \$40 thousand and net gains of \$114 thousand, respectively, related to changes in fair value of these swaps. During the three and nine months ended September 30, 2012, the Company recognized net losses of \$36 thousand and \$118 thousand, respectively, related to changes in the fair value of these swaps.

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 income (expense) in the Consolidated Statements of Income related to the Company's derivative asset and liability for the three and nine months ended as of September 30, 2013 and September 30, 2012 (in thousands):

	Amount of Gain (Loss) Recognized			
	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Derivatives not designated as hedging instruments				
Interest rate products	\$ (40)	\$ (36)	\$ 114	\$ (118)
<b>Total</b>	<b>\$ (40)</b>	<b>\$ (36)</b>	<b>\$ 114</b>	<b>\$ (118)</b>

**Credit-risk-related Contingent Features**

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

As of September 30, 2013 the termination value of derivatives in a net liability position, which includes accrued interest, related to these agreements was \$0.5 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 September 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 September 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 NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**Assets measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012 (*in thousands*):

Description	September 30, 2013	Fair Value Measurement at September 30, 2013		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
U.S. Treasury	\$ 400	\$ 400	\$	\$
U.S. Agencies				
Mortgage-backed	28,205		28,205	
State and political subdivisions	5,568		5,568	
Trading other	20,821	20,821		
Trading securities	54,994	21,221	33,773	
U.S. Treasury	101,786	101,786		
U.S. Agencies	1,025,977		1,025,977	
Mortgage-backed	3,060,919		3,060,919	
State and political subdivisions	2,066,095		2,066,095	
Corporates	443,220	443,220		
Commercial paper				
Available for sale securities	6,697,997	545,006	6,152,991	
Company-owned life insurance	18,711		18,711	
Derivatives	2,075		2,075	
<b>Total</b>	<b>\$ 6,773,777</b>	<b>\$ 566,227</b>	<b>\$ 6,207,550</b>	<b>\$</b>
<b>Liabilities</b>				
Deferred compensation	\$ 18,578	\$ 18,578	\$	\$
Contingent consideration liability	39,315			39,315
Derivatives	2,083		2,083	
<b>Total</b>	<b>\$ 59,976</b>	<b>\$ 18,578</b>	<b>\$ 2,083</b>	<b>\$ 39,315</b>

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

Description	Fair Value Measurement at December 31, 2012			
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
U.S. Treasury	\$ 400	\$ 400	\$	\$
U.S. Agencies	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	
<b>Total</b>	<b>\$ 7,007,269</b>	<b>\$ 487,795</b>	<b>\$ 6,519,474</b>	<b>\$</b>
<b>Liabilities</b>				
Deferred compensation	\$ 13,705	\$ 13,705	\$	\$
Contingent consideration liability	51,163			51,163
Derivatives	3,625		3,625	
<b>Total</b>	<b>\$ 68,493</b>	<b>\$ 13,705</b>	<b>\$ 3,625</b>	<b>\$ 51,163</b>

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

	Nine Months Ended September 30,	
	2013	2012
Beginning Balance	\$ 51,163	\$ 72,046
Payment of contingent considerations on acquisitions	(16,172)	(12,260)
Income from fair value adjustments	(138)	(9,656)
Expense from fair value adjustments	4,462	1,957

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Ending Balance	\$ 39,315	\$ 52,087
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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 nine month period ended September 30, 2012.

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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)
<b>Liabilities</b>			
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.



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## UMB FINANCIAL CORPORATION

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

## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)

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

Description	Fair Value Measurement at September 30, 2013				Total Losses Recognized During the Nine Months Ended September 30
	September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 16,063	\$	\$	\$ 16,063	\$ (2,957)
Other real estate owned	285			285	\$ (72)
<b>Total</b>	<b>\$ 16,348</b>	<b>\$</b>	<b>\$</b>	<b>\$ 16,348</b>	<b>\$ (3,029)</b>

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

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

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

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

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

	Fair Value Measurement at September 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
<b>FINANCIAL ASSETS</b>					
Securities held to maturity	\$ 176.0	\$	\$ 189.3	\$	\$ 189.3
Federal Reserve Bank and other stock	31.5		31.5		31.5
Loans (exclusive of allowance for loan loss)	6,509.9		6,559.9		6,559.9
<b>FINANCIAL LIABILITIES</b>					
Time deposits	1,164.6		1,166.0		1,166.0
Long-term debt	5.1		4.4		4.4
<b>OFF-BALANCE SHEET ARRANGEMENTS</b>					
Commitments to extend credit for loans					4.7
Commercial letters of credit					0.1
Standby letters of credit					1.5

	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
<b>FINANCIAL ASSETS</b>					
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
<b>FINANCIAL LIABILITIES</b>					
Time deposits	1,282.3		1,287.9		1,287.9
Long-term debt	5.9		6.1		6.1
<b>OFF-BALANCE SHEET ARRANGEMENTS</b>					
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.



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**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.

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**UMB FINANCIAL CORPORATION**

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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 September 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.

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**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 nine-month periods ended September 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.

**CAUTIONARY NOTICE ABOUT FORWARD-LOOKING STATEMENTS**

From time to time the Company has made, and in the future will make, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as believe, expect, anticipate, intend, estimate, project, outlook, forecast, target, goal, or other words of comparable meaning or future-tense or conditional verbs such as may, will, should, would, or could. Forward-looking statements convey the Company's expectations, intentions, or forecasts about future events, circumstances, results, or aspirations.

This report, including any information incorporated by reference in this report, contains forward-looking statements. The Company also may make forward-looking statements in other documents that are filed or furnished with the SEC. In addition, the Company may make forward-looking statements orally to investors, analysts, members of the media, or others.

All forward-looking statements, by their nature, are subject to assumptions, risks, and uncertainties, which may change over time and many of which are beyond its control. You should not rely on any forward-looking statement as a prediction or guarantee about the future. The actual future objectives, strategies, plans, prospects, performance, condition, or results may differ materially from those set forth in any forward-looking statement. While no list of assumptions, risks, or uncertainties could be complete, some of the factors that may cause actual results or other future events, circumstances, or aspirations to differ from those in forward-looking statements include:

local, regional, national, or international business, economic, or political conditions or events;

changes in laws or the regulatory environment, including as a result of recent financial-services legislation or regulation;

changes in monetary, fiscal, or trade laws or policies, including as a result of actions by central banks or supranational authorities;

changes in accounting standards or policies;

shifts in investor sentiment or behavior in the securities, capital, or other financial markets, including changes in market liquidity or volatility or changes in interest or currency rates;

changes in spending, borrowing, or saving by businesses or households;

the Company's ability to effectively manage capital or liquidity or to effectively attract or deploy deposits;

changes in any credit rating assigned to the Company or its affiliates;

adverse publicity or other reputational harm;

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

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the Company's ability to innovate, develop, maintain, or market products or services or to absorb unanticipated costs or liabilities associated with those products or services;

the Company's ability to anticipate the needs of current or future customers, to successfully compete in its chosen business lines, to increase or hold market share in changing competitive environments, or to deal with pricing or other competitive pressures;

changes in the credit, liquidity, or other condition of its customers, counterparties, or competitors;

the Company's ability to effectively deal with economic, business, or market slowdowns or disruptions;

judicial, regulatory, or administrative investigations, proceedings, disputes, or rulings that create uncertainty for or are adverse to the Company or its industry;

the Company's ability to address stricter or heightened regulatory or other governmental supervision or requirements;

the Company's ability to maintain secure and functional financial, accounting, technology, data processing, or other operating systems or facilities, including its capacity to withstand cyber-attacks;

the adequacy of the Company's corporate governance, risk-management framework, compliance programs, or internal controls, including its ability to control lapses or deficiencies in financial reporting or to effectively mitigate or manage operational risk;

the efficacy of its methods or models in assessing business strategies or opportunities or in valuing, measuring, monitoring, or managing positions or risk;

the Company's ability to keep pace with changes in technology that affect the Company or its customers, counterparties, or competitors;

mergers or acquisitions, including its ability to integrate acquisitions;

the Company's ability to grow revenue, to control expenses, or to attract or retain qualified employees;

natural or man-made disasters, calamities, or conflicts, including terrorist events; or

other assumptions, risks, or uncertainties described in the management discussions and analyses or the risk factors in any of the Company's annual, quarterly, or current reports.

Any forward-looking statement made by the Company or on its behalf speaks only as of the date that it was made. The Company does not undertake to update any forward-looking statement to reflect the impact of events, circumstances, or results that arise after the date that the statement was made. You, however, should consult further disclosures (including disclosures of a forward-looking nature) that the Company may make in any subsequent Quarterly Report on Form 10-Q or Current Report on Form 8-K.

**Overview**

The Company focuses on the following four core strategies. Management believes these strategies will guide its efforts to achieving its vision, to deliver *the* Unparalleled Customer Experience, all the 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 September 30, 2013, the Company's nonperforming assets as a percentage of total assets was 0.20 percent. As a percentage of loans, nonperforming loans decreased to 0.48 percent compared to 0.51 percent on September 30, 2012. These credit quality ratios were achieved while maintaining positive directional growth in average earning assets, which increased 14.1 percent from September 30, 2012, driven by a 13.5 percent increase in average total deposits compared to September 30, 2012.

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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 \$12.2 million, or 21.6 percent, for the three months ended September 30, 2013 compared to the same period in 2012. The increase in trust and securities processing income was primarily due to a \$6.3 million, or 34.1 percent increase, in advisory fee income from the Scout Funds, a \$3.6 million, or 20.9 percent, increase in fees related to institutional and personal investment management services and a \$2.0 million, or 11.2 percent, increase in fee income from fund administration and custody 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 September 30, 2013 average loans increased \$1.1 billion, or 21.3 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 third quarter of 2013, noninterest income increased \$15.3 million, or 14.4 percent, compared to the same period of 2012. The Company continues to emphasize its asset management, bankcard services, health care services, and treasury management businesses. In particular, during the third quarter of 2013, this favorable change in noninterest income is primarily attributable to increased trust and securities processing income. At September 30, 2013, noninterest income represented 58.7 percent of total revenues, compared to 57.0 percent at September 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 September 30, 2013, the Company had \$1.5 billion in total shareholders' equity. This is an increase of \$169.5 million, or 13.1 percent, compared to total shareholders' equity at September 30, 2012. On September 16, 2013, the Company completed the issuance of 3.9 million shares of common stock with net proceeds of \$201.2 million to be used for strategic growth purposes. At September 30, 2013, the Company had a total risk-based capital ratio of 13.74 percent, which is greater than the 10 percent regulatory minimum to be considered well-capitalized. The Company repurchased 13,409 shares at an average price of \$59.75 per share during the third quarter of 2013.

**Earnings Summary**

The Company recorded consolidated net income of \$34.4 million for the three-month period ended September 30, 2013, compared to \$26.1 million for the same period a year earlier. This represents a 31.8 percent increase over the three-month period ended September 30, 2012. Basic earnings per share for the third quarter of 2013 were \$0.85 per share (\$0.83 per share fully-diluted) compared to \$0.65 per share (\$0.64 per share fully-diluted) for the third quarter of 2012. Return on average assets and return on average common shareholders' equity for the three-month period ended September 30, 2013 were 0.92 and 10.84 percent, respectively, compared to 0.79 and 8.12 percent for the three-month period ended September 30, 2012.

The Company recorded consolidated net income of \$99.3 million for the nine-month period ended September 30, 2013, compared to \$101.7 million for the same period a year earlier. This represents a 2.3 percent decrease over the nine-month period ended September 30, 2012. Basic earnings per share for the nine-month period ended September 30, 2013 were \$2.47 per share (\$2.44 per share fully-diluted) compared to \$2.54 per share (\$2.51 per share fully-diluted) for the period in 2012. Return on average assets and return on average common shareholders' equity for the nine-month period ended September 30, 2013 were 0.89 and 10.39 percent, respectively, compared to 1.03 and 10.90 percent for the same period in 2012.

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Net interest income for the three and nine-month periods ended September 30, 2013 increased \$5.2 million, or 6.4 percent, and \$7.5 million, or 3.1 percent, respectively, compared to the same period in 2012. These increases are primarily due to the reduced level of interest expense on deposits, coupled with an increased level of interest income. For the three-month period ended September 30, 2013, average earning assets increased by \$1.7 billion, or 14.1 percent, and for the nine-month period ended September 30, 2013, they increased by \$1.6 billion, or 13.0 percent, compared to the same periods in 2012. Net interest margin, on a tax-equivalent basis, decreased to 2.61 percent and 2.56 percent for the three and nine-months periods ended September 30, 2013, compared to 2.80 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 \$2.0 million for three-month period and remained flat for the nine-month period ended September 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 17 basis points to 1.15 percent as of September 30, 2013, compared to September 30, 2012 and decreased 11 basis points compared to December 31, 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 \$15.3 million, or 14.4 percent, for the three-month period ended September 30, 2013 and increased by \$7.4 million, or 2.1 percent, for the nine-month period ended September 30, 2013, compared to the same periods one year ago. These increases are discussed in greater detail below under Noninterest Income.

Noninterest expense increased by \$7.2 million, or 4.9 percent, for the three-month period ended September 30, 2013, and increased by \$21.3 million, or 4.9 percent, for the nine-month period ended September 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 September 30, 2013, net interest income increased \$5.2 million, or 6.4 percent, compared to the same period in 2012. For the nine-month period ended September 30, 2013, net interest income increased \$7.5 million, or 3.1 percent, compared to the same period 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. As illustrated in this table, net interest spread for the three months ended September 30, 2013 decreased by 15 basis points and net interest margin decreased by 19 basis points compared to the same period in 2012. Net interest spread for the nine months ended September 30, 2013 decreased by 20 basis points and net interest margin decreased by 23 basis points compared to the same period in 2012. These results are primarily due to a favorable volume variance, offset by an unfavorable rate variance on earning assets. The combined impact of these variances coupled with a favorable rate variance on interest-bearing liabilities has led to decreases in interest expense and increases in interest income, or an increase in the Company's net interest income compared to results one year ago.

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 of this section. Table 2 also illustrates how the changes in volume and rates have resulted in an increase in net interest income.



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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 2.55 percent for the three-month period ended September 30, 2013 and 2.78 percent for the same period in 2012. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.51 percent for the nine-month period ended September 30, 2013 and 2.79 percent for the same period in 2012.

	Three Months Ended September 30,			
	2013	Average Yield/Rate	2012	Average Yield/Rate
	Average Balance		Average Balance	
<b>Assets</b>				
Loans, net of unearned interest	\$ 6,418,368	3.65%	\$ 5,292,970	4.10%
Securities:				
Taxable	4,835,235	1.56	4,617,059	1.75
Tax-exempt	2,150,108	2.95	1,903,490	3.05
Total securities	6,985,343	1.99	6,520,549	2.13
Federal funds and resell agreements	46,593	0.53	38,498	0.50
Interest-bearing due from banks	342,307	0.32	248,290	0.36
Trading	63,302	1.85	47,269	1.86
Total earning assets	13,855,913	2.71	12,147,576	2.94
Allowance for loan losses	(72,792)		(72,909)	
Other assets	1,140,648		1,097,489	
Total assets	\$ 14,923,769		\$ 13,172,156	
<b>Liabilities and Shareholders Equity</b>				
Interest-bearing deposits	\$ 7,117,927	0.17%	\$ 6,183,598	0.26%
Federal funds and repurchase agreements	1,764,082	0.09	1,315,729	0.14
Borrowed funds	4,688	5.84	7,962	4.05
Total interest-bearing liabilities	8,886,697	0.16	7,507,289	0.24
Noninterest-bearing demand deposits	4,669,742		4,199,085	
Other liabilities	107,000		186,612	
Shareholders equity	1,260,330		1,279,170	
Total liabilities and shareholders equity	\$ 14,923,769		\$ 13,172,156	
Net interest spread		2.55%		2.70%
Net interest margin		2.61		2.80

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	Nine Months Ended September 30,			
	2013		2012	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
<b>Assets</b>				
Loans, net of unearned interest	\$ 6,132,892	3.72%	\$ 5,187,756	4.19%
<b>Securities:</b>				
Taxable	4,894,956	1.54	4,525,462	1.82
Tax-exempt	2,086,482	2.99	1,833,229	3.15
Total securities	6,981,438	1.97	6,358,691	2.20
Federal funds and resell agreements	31,519	0.53	27,686	0.42
Interest-bearing due from banks	580,309	0.29	573,474	0.33
Trading	62,470	1.89	49,741	2.44
Total earning assets	13,788,628	2.67	12,197,348	2.95
Allowance for loan losses	(71,438)		(73,246)	
Other assets	1,144,064		1,099,748	
Total assets	\$ 14,861,254		\$ 13,223,850	
<b>Liabilities and Shareholders' Equity</b>				
Interest-bearing deposits	\$ 7,026,963	0.19%	\$ 6,231,448	0.29%
Federal funds and repurchase agreements	1,762,087	0.11	1,445,701	0.13
Borrowed funds	4,888	5.20	13,384	3.89
Total interest-bearing liabilities	8,793,938	0.18	7,690,533	0.26
Noninterest-bearing demand deposits	4,644,338		4,103,786	
Other liabilities	145,533		183,447	
Shareholders' equity	1,277,445		1,246,084	
Total liabilities and shareholders' equity	\$ 14,861,254		\$ 13,223,850	
Net interest spread		2.49%		2.69%
Net interest margin		2.56		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 average interest-free funds (total earning assets less interest-bearing liabilities) increased \$328.9 million for the three-month period ended September 30, 2013 compared to the same period in 2012 and increased \$487.9 million for the nine-month period ended September 30, 2013 compared to the same period in 2012, the benefit from interest free funds declined by 5 basis points from the three months ended September 30, 2012, and declined by 3 basis points from the nine months ended September 30, 2012, due to decreases in interest rates.

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Table 2

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

	Three Months Ended September 30, 2013 vs 2012			Nine Months Ended September 30, 2013 vs 2012		
	Volume	Rate	Total	Volume	Rate	Total
Change in interest earned on:						
Loans	\$ 10,494	\$ (5,927)	\$ 4,567	\$ 26,266	\$ (18,420)	\$ 7,846
Securities:						
Taxable	873	(2,201)	(1,328)	4,234	(9,561)	(5,327)
Tax-exempt	1,361	(625)	736	4,425	(2,654)	1,771
Federal funds sold and resell agreements	11	3	14	15	23	38
Interest-bearing due from banks	76	(25)	51	15	(161)	(146)
Trading	78	(1)	77	86	(118)	(32)
Interest income	12,893	(8,776)	4,117	35,041	(30,891)	4,150
Change in interest incurred on:						
Interest-bearing deposits	409	(1,391)	(982)	1,154	(4,375)	(3,221)
Federal funds purchased and repurchase agreements	98	(167)	(69)	258	(217)	41
Borrowed funds	(48)	36	(12)	(331)	131	(200)
Interest expense	459	(1,522)	(1,063)	1,081	(4,461)	(3,380)
Net interest income	\$ 12,434	\$ (7,254)	\$ 5,180	\$ 33,960	\$ (26,430)	7,530

**ANALYSIS OF NET INTEREST MARGIN**

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Change	2013	2012	Change
Average earning assets	\$ 13,855,913	\$ 12,147,576	\$ 1,708,337	\$ 13,788,628	\$ 12,197,348	\$ 1,591,280
Average interest-bearing liabilities	8,886,697	7,507,289	1,379,408	8,793,938	7,690,533	1,103,405
Average interest free funds	\$ 4,969,216	\$ 4,640,287	\$ 328,929	\$ 4,994,690	\$ 4,506,815	\$ 487,875
Free funds ratio (free funds to earning assets)	35.86%	38.20%	(2.34)%	36.22%	36.95%	(0.73)%
Tax-equivalent yield on earning assets	2.71	2.94	(0.23)%	2.67%	2.95%	(0.28)%
Cost of interest-bearing liabilities	0.16	0.24	(0.08)	0.18	0.26	(0.08)
Net interest spread	2.55%	2.70%	(0.15)%	2.49%	2.69%	(0.20)%
Benefit of interest-free funds	0.06	0.10	(0.04)	0.07	0.10	(0.03)
Net interest margin	2.61%	2.80%	(0.19)%	2.56%	2.79%	(0.23)%



**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 \$6.5 million and \$13.5 million related to the provision for loan losses for the three and nine-month periods ended September 30, 2013, compared to \$4.5 million and \$13.5 million for the same periods in 2012. As illustrated in Table 3 below, the ALL decreased to 1.15 percent of total loans as of September 30, 2013, compared to 1.32 percent of total loans as of the same period in 2012.

Table 3 presents a summary of the Company's ALL for the nine months ended September 30, 2013 and 2012 and for the year ended December 31, 2012. Net charge-offs were \$10.0 million for the first nine months of 2013, compared to \$14.1 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)

	Nine Months Ended September 30,		Year Ended December 31,
	2013	2012	2012
Allowance-January 1	\$ 71,426	\$ 72,017	\$ 72,017
Provision for loan losses	13,500	13,500	17,500
Charge-offs:			
Commercial	(3,015)	(6,385)	(8,446)
Consumer:			
Bankcard	(8,079)	(8,437)	(11,148)
Other	(1,186)	(1,237)	(1,530)
Real estate	(533)	(724)	(932)
Total charge-offs	(12,813)	(16,783)	(22,056)
Recoveries:			
Commercial	761	401	1,136
Consumer:			
Bankcard	1,349	1,383	1,766
Other	678	825	1,035
Real estate	37	25	28
Total recoveries	2,825	2,634	3,965
Net charge-offs	(9,988)	(14,149)	(18,091)
Allowance-end of period	74,938	71,368	71,426
Average loans, net of unearned interest	\$ 6,128,029	\$ 5,179,791	\$ 5,243,264
Loans at end of period, net of unearned interest	6,506,902	5,389,763	5,686,749
Allowance to loans at end of period	1.15%	1.32%	1.26%

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Allowance as a multiple of net charge-offs	5.61x	3.78x	3.95x
Net charge-offs to:			
Provision for loan losses	73.99%	104.81%	103.38%
Average loans	0.22	0.36	0.35

**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 services 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 September 30,		Dollar Change 13-12	Percent Change 13-12
	2013	2012		
Trust and securities processing	\$ 68,465	\$ 56,291	\$ 12,174	21.63%
Trading and investment banking	3,792	7,120	(3,328)	(46.74)
Service charges on deposit accounts	21,036	19,171	1,865	9.73
Insurance fees and commissions	869	1,028	(159)	(15.47)
Brokerage fees	2,895	3,104	(209)	(6.73)
Bankcard fees	15,196	14,466	730	5.05
Gains on sales of securities available for sale, net	1,140	259	881	>100.0
Other	8,232	4,882	3,350	68.62
<b>Total noninterest income</b>	<b>\$ 121,625</b>	<b>\$ 106,321</b>	<b>\$ 15,304</b>	<b>14.39%</b>

  

	Nine Months Ended September 30,		Dollar Change 13-12	Percent Change 13-12
	2013	2012		
Trust and securities processing	\$ 194,263	\$ 166,756	\$ 27,507	16.50%
Trading and investment banking	16,324	23,938	(7,614)	(31.81)
Service charges on deposits	63,441	58,191	5,250	9.02
Insurance fees and commissions	3,066	2,949	117	3.97
Brokerage fees	8,727	8,324	403	4.84
Bankcard fees	47,666	46,031	1,635	3.55
Gains on sales of securities available for sale, net	8,552	20,022	(11,470)	(57.29)
Other	14,187	22,637	(8,450)	(37.33)
<b>Total noninterest income</b>	<b>\$ 356,226</b>	<b>\$ 348,848</b>	<b>\$ 7,378</b>	<b>2.11%</b>

Fee-based, or noninterest income (summarized in Table 4), increased by \$15.3 million, or 14.4 percent, during the three months ended September 30, 2013, and increased by \$7.4 million, or 2.1 percent, during the nine months ended September 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 investment management services, and servicing of mutual fund assets. The increase in these fees for the three and nine-month periods compared to the same periods last year was primarily due to changes in the following categories of income: advisory fee income from the Scout Funds, institutional and personal investment management services, and fund administration and custody services. Advisory fee income from the Scout Funds increased by \$6.3 million, or 34.1 percent, during the three months ended September 30, 2013, and increased by \$15.4 million, or 29.2 percent, during the nine months ended September 30, 2013, compared to the





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same periods in 2012. Institutional and personal investment management services increased by \$3.6 million, or 20.9 percent, during the three months ended September 30, 2013, and increased by \$8.1 million, or 15.6 percent, during the nine months ended September 30, 2013, compared to the same periods in 2012. Fund administration and custody services increased by \$2.0 million, or 11.2 percent, during the three months ended September 30, 2013, and increased by \$3.3 million, or 6.0 percent, during the nine months ended September 30, 2013, compared to the same periods in 2012. Trust and securities processing fees are 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, which lead to increased inflows into the Scout Funds.

During the three and nine-month periods ended September 30, 2013, \$1.1 million and \$8.6 million in pre-tax gains were recognized on the sales of securities available for sale, compared to \$0.3 million and \$20.0 million in the same periods one year ago. The investment portfolio is continually evaluated for opportunities to improve its performance and risk profile relative to market conditions and the Company's interest rate expectations. This can result in differences from quarter to quarter in the amount of realized gains.

**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 September 30,		Dollar Change 13-12	Percent Change 13-12
	2013	2012		
Salaries and employee benefits	\$ 83,733	\$ 78,813	\$ 4,920	6.24%
Occupancy, net	10,016	9,870	146	1.48
Equipment	12,205	10,330	1,875	18.15
Supplies and services	4,761	4,995	(234)	(4.68)
Marketing and business development	5,536	7,368	(1,832)	(24.86)
Processing fees	14,471	12,964	1,507	11.62
Legal and consulting	4,433	4,311	122	2.83
Bankcard	4,561	4,700	(139)	(2.96)
Amortization of other intangible assets	3,245	3,643	(398)	(10.93)
Regulatory fees	2,670	2,363	307	12.99
Other	7,432	6,548	884	13.50
Total noninterest expense	\$ 153,063	\$ 145,905	\$ 7,158	4.91%

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	Nine Months Ended		Dollar Change 13-12	Percent Change 13-12
	September 30, 2013	September 30, 2012		
Salaries and employee benefits	\$ 251,000	\$ 236,728	\$ 14,272	6.03%
Occupancy, net	29,175	28,359	816	2.88
Equipment	36,012	31,999	4,013	12.54
Supplies and services	14,611	15,256	(645)	(4.23)
Marketing and business development	15,514	17,615	(2,101)	(11.93)
Processing fees	42,854	38,372	4,482	11.68
Legal and consulting	12,877	11,838	1,039	8.78
Bankcard	13,817	13,572	245	1.81
Amortization of other intangible assets	10,054	11,228	(1,174)	(10.46)
Regulatory fees	7,066	7,096	(30)	(0.42)
Other	20,772	20,432	340	1.66
<b>Total noninterest expense</b>	<b>\$ 453,752</b>	<b>\$ 432,495</b>	<b>\$ 21,257</b>	<b>4.91%</b>

Noninterest expense increased by \$7.2 million, or 4.9 percent, for the three months ended September 30, 2013, and increased by \$21.3 million, or 4.9 percent, for the nine months ended September 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 \$4.9 million, or 6.2 percent, for the three months ended September 30, 2013, and by \$14.3 million, or 6.0 percent, for the nine months ended September 30, 2013, compared to the same period in 2012. These increases are primarily due to higher base salary and benefits expense. Salaries increased by \$3.2 million, or 6.3 percent, and \$7.8 million, or 5.3 percent, for the three and nine months ended September 30, 2013, compared to the same periods in 2012. Employee benefits expense increased by \$1.5 million, or 11.8 percent, and \$3.8 million, or 9.3 percent, for the three and nine months ended September 30, 2013, compared to the same periods in 2012.

Equipment expense increased by \$1.9 million, or 18.2 percent, and \$4.0 million, or 12.5 percent, for the three and nine months ended September 30, 2013, compared to the same periods in 2012. These increases are primarily due to computer depreciation expense and software maintenance and amortization expense.

Marketing and business development decreased by \$1.8 million, or 24.9 percent, and \$2.1 million, or 11.9 percent, for the three and nine months ended September 30, 2013, compared to the same periods in 2012.

Processing fees increased by \$1.5 million, or 11.6 percent, and \$4.5 million, or 11.7 percent, for the three and nine months ended September 30, 2013, compared to the same periods in 2012. These increases are due primarily to fees paid by the advisor to third-party distributors of the Scout Funds.

**Income Tax Expense**

The effective tax rate is 27.2 percent for the nine months ended September 30, 2013, compared to 28.8 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 September 30,		Dollar Change 13-12	Percent Change 13-12
	2013	2012		
Net interest income	\$ 73,419	\$ 69,051	\$ 4,368	6.33%
Provision for loan losses	1,833	2,930	(1,097)	(37.44)
Noninterest income	48,951	47,151	1,800	3.82
Noninterest expense	93,199	93,683	(484)	(0.52)
Income before taxes	27,338	19,589	7,749	39.56
Income tax expense	6,895	5,426	1,469	27.07
Net income	\$ 20,443	\$ 14,163	\$ 6,280	44.34%

	Nine Months Ended September 30,		Dollar Change 13-12	Percent Change 13-12
	2013	2012		
Net interest income	\$ 211,238	\$ 206,374	\$ 4,864	2.36%
Provision for loan losses	3,772	6,987	(3,215)	(46.01)
Noninterest income	148,136	166,795	(18,659)	(11.19)
Noninterest expense	277,253	281,091	(3,838)	(1.37)
Income before taxes	78,349	85,091	(6,742)	(7.92)
Income tax expense	19,608	23,441	(3,833)	(16.35)
Net income	\$ 58,741	\$ 61,650	\$ (2,909)	(4.72)%

Bank net income decreased by \$2.9 million, or 4.7 percent, to \$58.7 million compared to the prior nine-month period ended September 30, 2012. Noninterest income decreased \$18.7 million, or 11.2 percent, over the same period in 2012. This decrease was driven by decreased securities gains of \$11.5 million, decreased bond trading income of \$7.7 million, and decreased miscellaneous income of \$4.6 million, offset by an increase in trust and securities processing income of \$3.8 million and an increase in bankcard income of \$1.9 million. The decrease in miscellaneous income is primarily driven by a \$3.8 million decrease in fair value adjustments on interest rate swap transactions. Provision decreased by \$3.2 million due to improvements in the credit characteristics of the loan portfolio in this segment. Noninterest expense decreased \$3.8 million, or 1.4 percent, to \$277.3 million as compared to 2012, which was driven by a decrease in fair value adjustments on interest rate swap transactions of \$3.3 million.

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Table 7

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

	Three Months Ended September 30,		Dollar Change 13-12	Percent Change 13-12
	2013	2012		
Net interest income	\$ 11,587	\$ 10,843	\$ 744	6.86%
Provision for loan losses	4,667	1,570	3,097	>100.0
Noninterest income	18,409	16,081	2,328	14.48
Noninterest expense	21,566	17,764	3,802	21.40
Income before taxes	3,763	7,590	(3,827)	(50.42)
Income tax expense	1,311	2,024	(713)	(35.23)
Net income	\$ 2,452	\$ 5,566	\$ (3,114)	(55.95)%
	Nine Months Ended September 30,		Dollar Change 13-12	Percent Change 13-12
	2013	2012		
Net interest income	\$ 34,327	\$ 32,124	\$ 2,203	6.86%
Provision for loan losses	9,728	6,513	3,215	49.36
Noninterest income	56,486	50,285	6,201	12.33
Noninterest expense	63,502	49,192	14,310	29.09
Income before taxes	17,583	26,704	(9,121)	(34.16)
Income tax expense	5,496	7,733	(2,237)	(28.93)
Net income	\$ 12,087	\$ 18,971	\$ (6,884)	(36.29)%

Payments Solutions net income after taxes decreased \$6.9 million, or 36.3 percent, to \$12.1 million compared to the nine-month period ended September 30, 2012. Net interest margin increased by \$2.2 million, or 6.9 percent, due to growth in earning assets and deposits, but offset with a reduction in funds transfer pricing credit on deposits. Provision expense increased by \$3.2 million, or 49.4 percent. Noninterest income increased \$6.2 million, or 12.3 percent, driven by an increase in deposit service charge income from institutional banking and investor services and healthcare services customers as well as an increase in bankcard income for healthcare services. Noninterest expense increased by \$14.3 million, primarily from increased staffing, consulting fees, and bankcard processing fees associated with the increase in sales volume.

Table 8

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

	Three Months Ended September 30,		Dollar Change 13-12	Percent Change 13-12
	2013	2012		
Net interest income	\$ (11)	\$ (1)	\$ (10)	>(100.0)%
Provision for loan losses				
Noninterest income	33,836	24,789	9,047	36.50
Noninterest expense	21,097	17,316	3,781	21.84
Income before taxes	12,728	7,472	5,256	70.34
Income tax expense	3,501	2,098	1,403	66.87

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Net income	\$ 9,227	\$ 5,374	\$ 3,853	71.70%
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	Nine Months Ended September 30,		Dollar Change	Percent Change
	2013	2012	13-12	13-12
Net interest income	\$ (22)	\$ 2	\$ (24)	>(100.0)%
Provision for loan losses				
Noninterest income	91,543	74,540	17,003	22.81
Noninterest expense	58,850	50,983	7,867	15.43
Income before taxes	32,671	23,559	9,112	38.68
Income tax expense	8,864	6,874	1,990	28.95
Net income	\$ 23,807	\$ 16,685	\$ 7,122	42.69%

Institutional Investment Management net income increased \$7.1 million, or 42.7 percent, to \$23.8 million compared to the prior nine-month period ended September 30, 2012. This increase was primarily driven by an increase of \$17.0 million, or 22.8 percent, in noninterest income offset by a \$7.9 million, or 15.4 percent, increase in noninterest expense and a \$2.0 million, or 29.0 percent, increase in income tax expense. The increase in noninterest income is due to a \$15.4 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 \$5.0 million increase in fees related to institutional and personal investment management services. This increase was offset by a \$4.3 million decrease related to fair value adjustments to the contingent consideration liabilities on acquisitions. The increase in noninterest expense was due to a \$4.0 million increase in third party distribution expense and a \$3.9 million increase in salaries and benefits.

Table 9

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

	Three Months Ended September 30,		Dollar Change	Percent Change
	2013	2012	13-12	13-12
Net interest income	\$ 550	\$ 472	\$ 78	16.53%
Provision for loan losses				
Noninterest income	20,429	18,300	2,129	11.63
Noninterest expense	17,201	17,142	59	0.34
Income before taxes	3,778	1,630	2,148	>100.0
Income tax expense	1,468	608	860	>100.0
Net income	\$ 2,310	\$ 1,022	\$ 1,288	>100.0%

	Nine Months Ended September 30,		Dollar Change	Percent Change
	2013	2012	13-12	13-12
Net interest income	\$ 1,812	\$ 1,327	\$ 485	36.55%
Provision for loan losses				
Noninterest income	60,061	57,228	2,833	4.95
Noninterest expense	54,147	51,229	2,918	5.70
Income before taxes	7,726	7,326	400	5.46
Income tax expense	3,059	2,975	84	2.82
Net income	\$ 4,667	\$ 4,351	\$ 316	7.26%



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Asset Servicing net income increased \$0.3 million, or 7.3 percent, to \$4.67 million compared to the nine-month period ended September 30, 2012. Net interest margin increased by \$0.5 million, or 36.6 percent, due to deposit growth within this segment. Noninterest income increased \$2.8 million, or 5.0 percent, resulting from a \$3.4 million increase in fee income from business added in transfer agent, alternative investment, and fund administration services, increases from asset based fees, fund growth 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 compared to same period last year. Noninterest expense increased \$2.9 million, or 5.7 percent, due primarily to a \$2.2 million increase in fair value adjustments to the contingent consideration liabilities on acquisitions. Salary and benefit expense increased \$1.3 million, or 5.6 percent, compared to the prior year, reflecting costs of staffing added to support new business. Increases were offset by declines in processing fees of \$0.6 million and intangible amortization expense of \$0.3 million compared to the same period last year.

**Balance Sheet Analysis**

Total assets of the Company as of September 30, 2013 increased \$2.9 billion, or 21.8 percent, compared to September 30, 2012. The increase in total assets is a result of an increase in loans of \$1.1 billion, or 20.7 percent, and an increase in due from Federal Reserve balances of \$1.2 billion, or 826.6 percent. The increase in total assets is directly correlated to an increase in deposit balances of \$2.4 billion, or 22.9 percent, and an increase in federal funds purchased and securities sold under agreement to repurchase of \$363.8 million, or 31.3 percent.

Total assets as of September 30, 2013 increased \$1.3 billion, or 8.4 percent, compared to December 31, 2012. The increase is primarily a result of an increase in loans of \$820.2 million, or 14.4 percent, and an increase in due from Federal Reserve balances of \$637.0 million, or 91.2 percent. The increase in total assets is due to an increase in deposit balances of \$1.4 billion, or 11.9 percent, offset by a decrease in federal funds purchased and securities sold under agreement to repurchase of \$259.3 million, or 14.5 percent.

Table 10

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

	September 30,		December 31,
	2013	2012	2012
Total assets	\$ 16,184,233	\$ 13,285,845	\$ 14,927,196
Loans, net of unearned interest	6,506,902	5,389,763	5,686,749
Total investment securities	6,960,462	6,651,048	7,134,316
Interest-bearing due from banks	1,357,881	174,012	720,500
Total earning assets	14,807,774	12,198,526	13,563,884
Total deposits	13,041,044	10,612,780	11,653,365
Total borrowed funds	1,533,305	1,169,831	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 \$820.2 million, or 14.4 percent, compared to December 31, 2012 and increased \$1.1 billion, or 20.7 percent, at September 30, 2013 compared to September 30, 2012. The increase from December 31, 2012 is primarily a result of a \$502.7 million, or 17.5 percent, increase in commercial loans and a \$199.4 million, or 13.9 percent, increase in commercial real estate loans. Compared to September 30, 2012, commercial loans increased \$685.2 million, or 25.5 percent, and commercial real estate loans increased \$293.1 million, or 21.8 percent.



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

**Investment Securities**

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

Investment securities totaled \$7.0 billion at September 30, 2013, compared to \$7.1 billion at December 31, 2012, and \$6.7 billion at September 30, 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 47.0 percent, 52.6 percent, and 54.5 percent, respectively, of the earning assets as of September 30, 2013, December 31, 2012, and September 30, 2012. There were \$5.0 billion of these securities pledged to secure U.S. Government deposits, other public deposits, securities sold under repurchase agreements, and certain trust deposits as required by law at September 30, 2013.

Investment securities had an average tax-equivalent yield of 1.97 percent for the first nine months of 2013 compared to 2.20 percent for the same period in 2012, or a decrease of 23 basis points. The average life of the securities portfolio was 49.4 months at September 30, 2013 compared to 40.0 months at December 31, 2012 and 42.6 months at September 30, 2012. The increase in average life from prior periods was primarily related to an increase in tenor in investment purchases during the first half of 2013 combined with a tenor lengthening related to mortgage-backed securities prepayment speeds slowing reflecting the rise in longer term interest rates in 2013.

**Deposits and Borrowed Funds**

Deposits increased \$1.4 billion, or 11.9 percent, from December 31, 2012 to September 30, 2013. Interest-bearing deposits increased \$680.0 million and noninterest-bearing deposits increased \$707.7 million from December 31, 2012. From September 30, 2012 to September 30, 2013, deposits increased \$2.4 billion, or 22.9 percent. Noninterest-bearing deposits increased \$1.2 billion and interest-bearing deposits increased \$1.2 billion from September 30, 2012. The increase in noninterest-bearing deposits from September 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 September 30, 2012 is primarily related to increases in money market accounts. As previously announced, a single Asset Servicing client is expected to migrate its deposits to another institution. As of September 30, 2013, this client's deposits totaling \$1.1 billion remained on the balance sheet.

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 decreased \$259.8 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 \$363.5 million from September 30, 2012.

Federal funds purchased and securities sold under agreement to repurchase totaled \$1.5 billion at September 30, 2013, compared to \$1.8 billion at December 31, 2012 and \$1.2 billion at September 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.

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### **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 \$1.5 billion at September 30, 2013, a \$184.3 million increase compared to December 31, 2012. On September 16, 2013, the Company completed the issuance of 3.9 million shares of common stock with net proceeds of \$201.2 million to be used for strategic growth purposes. The Company's Board of Directors authorized, at its April 23, 2013, April 24, 2012, and April 26, 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 nine months ended September 30, 2013 and 2012, the Company acquired 51,257 shares and 136,213 shares, respectively, of its common stock under these plans. The Company has not made any purchases other than through these plans.

On October 22, 2013, the Board of Directors declared a dividend of \$0.225 per share. The dividend will be paid on January 2, 2014 to shareholders of record on December 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 12.93 percent and total capital ratio of 13.74 percent substantially exceed the regulatory minimums.

The Company is also required to maintain a leverage ratio equal to or greater than 4 percent. The leverage ratio is Tier 1 core capital to total average assets less goodwill and intangibles. The Company's leverage ratio of 8.34 percent as of September 30, 2013 substantially exceeds the regulatory minimum.

In July 2013 the Federal Reserve approved a final rule to implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. The final rule increases minimum requirements for both the quantity and quality of capital held by banking organizations. The rule includes a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5% and a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rule also adjusted the methodology for calculating risk-weighted assets to enhance risk sensitivity. Beginning January 1, 2015, the Company must be compliant with revised minimum regulatory capital ratios and will begin the transitional period for definitions of regulatory capital and regulatory capital adjustments and deductions established under the final rule. Compliance with the risk-weighted asset calculations will be required on January 1, 2015. The Company believes its current capital ratios are higher than those required in the final rule.

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Table 11

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

RATIOS	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Return on average assets	0.92%	0.79%	0.89%	1.03%
Return on average equity	10.84	8.12	10.39	10.90
Average equity to assets	8.45	9.71	8.60	9.42
Tier 1 risk-based capital ratio	12.93	11.69	12.93	11.69
Total risk-based capital ratio	13.74	12.62	13.74	12.62
Leverage ratio	8.34	7.15	8.34	7.15

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

Per Share Data	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Earnings basic	\$ 0.85	\$ 0.65	\$ 2.47	\$ 2.54
Earnings diluted	0.83	0.64	2.44	2.51
Cash dividends	0.215	0.205	0.645	0.615
Dividend payout ratio	25.29%	31.54%	26.11%	24.21%
Book value	\$ 32.85	\$ 31.88	\$ 32.85	\$ 31.88

**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 September 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)	September 30, 2013 Amount of change	September 30, 2012 Amount of change
300	\$10,378	\$14,253
200	6,371	9,448
100	2,234	4,133
Static		
(100)	N/A	N/A



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At September 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 \$55.0 million as of September 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 8 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 bank. This review team performs periodic examinations of the bank's loans for credit quality, documentation and loan administration. The regulatory authority of the bank also reviews loan portfolios.

A primary indicator of credit quality and risk management is the level of nonperforming loans. Nonperforming loans include both nonaccrual loans and restructured loans. The Company's nonperforming loans increased \$3.9 million to \$31.3 million at September 30, 2013, compared to September 30, 2012 and increased \$3.2 million, compared to December 31, 2012.

The Company had \$1.4 million and \$5.6 million of other real estate owned as of September 30, 2013 and 2012 respectively, compared to \$3.5 million as of December 31, 2012. Loans past due more than 90 days totaled \$3.8 million as of September 30, 2013, compared to \$4.2 million at September 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.

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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 \$13.5 million of restructured loans at September 30, 2013, \$8.4 million at September 30, 2012 and \$12.5 million at December 31, 2012.

Table 13

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

	September 30,		December 31,
	2013	2012	2012
Nonaccrual loans	\$ 19,087	\$ 22,246	\$ 16,376
Restructured loans on non-accrual	12,173	5,143	11,727
<b>Total nonperforming loans</b>	<b>31,260</b>	<b>27,389</b>	<b>28,103</b>
Other real estate owned	1,441	5,567	3,524
<b>Total nonperforming assets</b>	<b>\$ 32,701</b>	<b>\$ 32,956</b>	<b>\$ 31,627</b>
Loans past due 90 days or more	\$ 3,780	\$ 4,160	\$ 3,554
Restructured loans accruing	1,294	3,209	752
Allowance for Loan Losses	74,938	71,368	71,426
<b>Ratios</b>			
Nonperforming loans as a percent of loans	0.48%	0.51%	0.49%
Nonperforming assets as a percent of loans plus other real estate owned	0.50	0.61	0.56
Nonperforming assets as a percent of total assets	0.20	0.25	0.21
Loans past due 90 days or more as a percent of loans	0.06	0.08	0.06
Allowance for loan losses as a percent of loans	1.15	1.32	1.26
Allowance for loan losses as a multiple of nonperforming loans	2.40x	2.61x	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 \$6.7 billion of high-quality securities available for sale. Investment securities with a market value of \$5.0 billion at September 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 bank is also enhanced by its activity in the federal funds market and by its core deposits. Neither the Company nor its subsidiaries are active in the debt market. The traditional funding source for the Company's subsidiary bank has been core deposits. On September 16, 2013, the Company completed the issuance of 3.9 million shares of common stock with net proceeds of \$201.2 million to be used for strategic growth purposes. Management believes it can raise debt or equity capital on favorable terms in the future, 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 September 30, 2013 was \$5.2 billion. As of September 30, 2013, the utilization rate of the total outstanding commitments was 25.7 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





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future. The affiliate bank is subject to various rules regarding payment of dividends to the Company. For the most part, the bank can pay dividends at least equal to its current year's earnings without seeking prior regulatory approval. The Company also uses cash to inject capital in its bank and non-bank subsidiaries to maintain adequate capital as well as fund strategic initiatives.

To enhance general working capital needs, the Company has a revolving line of credit with Wells Fargo, N.A. which allows the Company to borrow up to \$25.0 million for general working capital purposes. The interest rate applied to borrowed balances will be at the Company's option either 1.00 percent above LIBOR or 1.75 percent below Prime on the date of an advance. The Company will also pay a 0.2 percent unused commitment fee for unused portions of the line of credit. The Company had no advances outstanding at September 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 the Chief Executive Officer and the Chief Financial Officer to make certain certifications with respect to this report and to the Company's disclosure controls and procedures and internal control over financial reporting. The Company has a Code of Ethics that expresses the values that drive employee behavior and maintains the Company's commitment to the highest standards of ethics.

### **Disclosure Controls and Procedures**

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

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**Internal Control Over Financial Reporting**

There has been no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the three months ended September 30, 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 legal proceedings. In the opinion of management, after consultation with legal counsel, none of these proceedings 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 September 30, 2013.

**ISSUER PURCHASE OF EQUITY SECURITIES**

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
July 1-July 31, 2013	12,247	\$ 59.71	12,247	1,986,920
August 1-August 31, 2013	1,161	60.19	1,161	1,985,759
September 1-September 30, 2013	1	45.86	1	1,985,758
<b>Total</b>	<b>13,409</b>	<b>\$ 59.75</b>	<b>13,409</b>	

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

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

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**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 22, 2013 and filed with the Commission on October 31, 2013.
- 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

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**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: October 31, 2013