UMB FINANCIAL CORP
Form 10-Q
May 03, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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 000-04887

UMB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

As of April 26, 2016, UMB Financial Corporation had 49,481,352 shares of common stock outstanding.

Table of Contents

UMB FINANCIAL CORPORATION

FORM 10-Q

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UMB FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

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

	March 31, 2016	December 31, 2015
ASSETS		
Loans:	$ 9,699,631	$ 9,430,761
Allowance for loan losses	(80,398)	(81,143)
Net loans	9,619,233	9,349,618
Loans held for sale	4,830	589
Investment securities:		
Available for sale	6,883,312	6,806,949
Held to maturity (fair value of $859,328 and $691,379, respectively)	804,652	667,106
Trading securities	26,779	29,617
Other securities	64,591	65,198
Total investment securities	7,779,334	7,568,870
Federal funds sold and securities purchased under agreements to resell	170,824	173,627
Interest-bearing due from banks	401,961	522,877
Cash and due from banks	325,446	458,217
Premises and equipment, net	279,079	281,471
Accrued income	90,002	90,127
Goodwill	228,396	228,346
Other intangibles, net	43,556	46,782
Other assets	360,252	373,721
Total assets	$ 19,302,913	$ 19,094,245
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 6,202,026	$ 6,306,895
Interest-bearing demand and savings	8,178,712	7,529,972
Time deposits under $250,000	727,709	771,973
Time deposits of $250,000 or more	309,926	483,912
Total deposits	15,418,373	15,092,752
Federal funds purchased and repurchase agreements	1,681,723	1,818,062

Short-term debt	5,006	5,009
Long-term debt	85,238	86,070
Accrued expenses and taxes	116,408	161,245
Other liabilities	48,206	37,413
Total liabilities	17,354,954	17,200,551
SHAREHOLDERS EQUITY		
Common stock, $1.00 par value; 80,000,000 shares authorized, 55,056,730 shares issued, and 49,467,214 and 49,396,366 shares outstanding, respectively	55,057	55,057
Capital surplus	1,017,420	1,019,889
Retained earnings	1,058,131	1,033,990
Accumulated other comprehensive income (loss), net	32,468	(3,718)
Treasury stock, 5,589,516 and 5,660,364 shares, at cost, respectively	(215,117)	(211,524)
Total shareholders equity	1,947,959	1,893,694
Total liabilities and shareholders equity	$ 19,302,913	$ 19,094,245

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended March 31,	
	2016	**2015**
INTEREST INCOME		
Loans	$ 90,544	$ 64,232
Securities:		
Taxable interest	19,357	18,808
Tax-exempt interest	12,735	9,915
Total securities income	32,092	28,723
Federal funds and resell agreements	507	51
Interest-bearing due from banks	891	852
Trading securities	52	95
Total interest income	124,086	93,953
INTEREST EXPENSE		
Deposits	4,055	3,048
Federal funds and repurchase agreements	1,230	492
Other	909	55
Total interest expense	6,194	3,595
Net interest income	117,892	90,358
Provision for loan losses	5,000	3,000
Net interest income after provision for loan losses	112,892	87,358
NONINTEREST INCOME		
Trust and securities processing	59,485	67,299
Trading and investment banking	4,630	6,122
Service charges on deposit accounts	21,461	21,541
Insurance fees and commissions	1,497	570
Brokerage fees	4,185	2,854
Bankcard fees	18,016	16,183
Gain on sales of securities available for sale, net	2,933	7,336
Equity losses on alternative investments	(381)	(842)
Other	4,524	4,144
Total noninterest income	116,350	125,207

NONINTEREST EXPENSE		
Salaries and employee benefits	107,150	98,537
Occupancy, net	10,972	10,010
Equipment	16,282	14,172
Supplies and services	4,949	4,325
Marketing and business development	4,441	4,618
Processing fees	11,462	12,783
Legal and consulting	4,799	4,378
Bankcard	5,815	4,768
Amortization of other intangible assets	3,226	2,755
Regulatory fees	3,429	2,756
Other	8,219	5,311
Total noninterest expense	180,744	164,413
Income before income taxes	48,498	48,152
Income tax expense	12,253	14,387
NET INCOME	$ 36,245	$ 33,765
PER SHARE DATA		
Net income basic	$ 0.74	$ 0.75
Net income diluted	0.74	0.74
Dividends	0.245	0.235
Weighted average shares outstanding basic	48,756,433	45,000,831
Weighted average shares outstanding diluted	49,090,232	45,437,654

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, dollars in thousands)

	Three Months Ended March 31, 2016	2015
Net income	$ 36,245	$ 33,765
Other comprehensive income, net of tax:		
Unrealized gains on securities:		
Change in unrealized holding gains, net	65,312	32,676
Less: Reclassifications adjustment for gains included in net income	(2,933)	(7,336)
Change in unrealized gains on securities during the period	62,379	25,340
Change in unrealized losses on derivative hedges	(4,140)	
Income tax expense	(22,053)	(9,536)
Other comprehensive income	36,186	15,804
Comprehensive income	$ 72,431	$ 49,569

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance - January 1, 2015	$ 55,057	$ 894,602	$ 963,911	$ 11,006	$ (280,818)	$ 1,643,758
Total comprehensive income			33,765	15,804		49,569
Dividends ($0.235 per share)			(10,753)			(10,753)
Purchase of treasury stock					(5,309)	(5,309)
Issuance of equity awards		(5,848)			6,308	460
Recognition of equity based compensation		2,609				2,609
Net tax benefit related to equity compensation plans		585				585
Sale of treasury stock		141			94	235
Exercise of stock options		569			653	1,222
Balance March 31, 2015	$ 55,057	$ 892,658	$ 986,923	$ 26,810	$ (279,072)	$ 1,682,376
Balance - January 1, 2016	$ 55,057	$ 1,019,889	$ 1,033,990	$ (3,718)	$ (211,524)	$ 1,893,694
Total comprehensive income			36,245	36,186		72,431
Dividends ($0.245 per share)			(12,104)			(12,104)
Purchase of treasury stock					(12,880)	(12,880)
Issuance of equity awards		(6,199)			6,628	429
Recognition of equity based compensation		2,347				2,347
Net tax deficiency related to equity compensation plans		(34)				(34)
Sale of treasury stock		123			140	263
Exercise of stock options		1,294			2,519	3,813
Balance March 31, 2016	$ 55,057	$ 1,017,420	$ 1,058,131	$ 32,468	$ (215,117)	$ 1,947,959

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	Three Months Ended March 31, 2016	2015
Operating Activities		
Net income	$ 36,245	$ 33,765
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,000	3,000
Net accretion of premiums and discounts from acquisition	(604)	
Depreciation and amortization	13,705	11,792
Deferred income tax benefit	(1,417)	(1,523)
Net decrease (increase) in trading securities and other earning assets	3,219	(1,335)
Gains on sales of securities available for sale	(2,933)	(7,336)
(Gains) losses on sales of assets	(268)	81
Amortization of securities premiums, net of discount accretion	14,553	13,547
Originations of loans held for sale	(14,345)	(25,586)
Net gains on sales of loans held for sale	(199)	(342)
Proceeds from sales of loans held for sale	10,303	23,411
Equity based compensation	2,776	3,069
Changes in:		
Accrued income	125	(786)
Accrued expenses and taxes	(40,439)	(25,614)
Other assets and liabilities, net	2,025	(3,834)
Net cash provided by operating activities	27,746	22,309
Investing Activities		
Proceeds from maturities of securities held to maturity	8,672	15,712
Proceeds from sales of securities available for sale	282,031	466,422
Proceeds from maturities of securities available for sale	391,494	338,956
Purchases of securities held to maturity	(146,670)	(84,631)
Purchases of securities available for sale	(702,529)	(768,272)
Net increase in loans	(274,053)	(33,928)
Net decrease in fed funds sold and resell agreements	2,803	93,726
Net decrease in interest bearing balances due from other financial institutions	33,693	12,691
Purchases of premises and equipment	(8,499)	(14,854)
Proceeds from sales of premises and equipment	680	29
Net cash (used in) provided by investing activities	(412,378)	25,851
Financing Activities		

Net increase (decrease) in demand and savings deposits	543,871	(66,491)
Net decrease in time deposits	(217,851)	(394,080)
Net increase in fed funds purchased and repurchase agreements	(136,339)	(306,052)
Repayment of long-term debt	(1,092)	(1,210)
Payment of contingent consideration on acquisitions	(3,031)	(18,702)
Cash dividends paid	(12,082)	(10,716)
Net tax (deficiency) benefit related to equity compensation plans	(34)	585
Proceeds from exercise of stock options and sales of treasury shares	4,076	1,457
Purchases of treasury stock	(12,880)	(5,309)
Net cash provided by (used in) financing activities	164,638	(800,518)
Decrease in cash and cash equivalents	(219,994)	(752,358)
Cash and cash equivalents at beginning of period	819,112	1,787,230
Cash and cash equivalents at end of period	$ 599,118	$ 1,034,872
Supplemental Disclosures:		
Income taxes paid	$ 12,146	$ 14,469
Total interest paid	6,539	3,668

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (UNAUDITED)

1. Financial Statement Presentation

The consolidated financial statements include the accounts of UMB Financial Corporation and its subsidiaries (collectively, the Company) after elimination of all intercompany transactions. In the opinion of management of the Company, all adjustments, which were of a normal recurring nature and necessary for a fair presentation of the financial position and results of operations have been made. The results of operations and cash flows for the interim periods presented may not be indicative of the results of the full year. The financial statements should be read in conjunction with Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations within this Quarterly Report on Form 10-Q and in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the Securities and Exchange Commission (SEC) on February 25, 2016 (the Form 10-K).

2. Summary of Significant Accounting Policies

The Company is a financial holding company, which offers a wide range of banking and other financial services to its customers through its branches and offices in the states of Missouri, Kansas, Colorado, Illinois, Oklahoma, Texas, Arizona, Nebraska, Pennsylvania, South Dakota, Indiana, Utah, Minnesota, California, and Wisconsin. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 provided in the Notes to Consolidated Financial Statements in the Form 10-K.

Cash and cash equivalents

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

This table provides a summary of cash and cash equivalents as presented on the Consolidated Statement of Cash Flows as of March 31, 2016 and March 31, 2015 *(in thousands)*:

	March 31,	
	2016	**2015**
Due from the Federal Reserve	$ 273,672	$ 585,557
Cash and due from banks	325,446	449,315

Cash and cash equivalents at end of period	$ 599,118	$ 1,034,872

Also included in the Interest-bearing due from banks line, but not considered cash and cash equivalents are interest-bearing accounts held at other financial institutions, which totaled $128.3 million and $180.8 million at March 31, 2016 and March 31, 2015, respectively.

Per Share Data

Basic income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted income per share includes the dilutive effect of 333,799 and 436,823 shares of common stock issuable upon the exercise of outstanding stock options at March 31, 2016 and 2015, respectively.

Options issued under employee benefit plans to purchase 660,802 and 498,488 shares of common stock were outstanding at March 31, 2016 and 2015, respectively, but were not included in the computation of diluted income per share because the options were anti-dilutive.

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (UNAUDITED)

3. New Accounting Pronouncements

Revenue Recognition In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. The issuance is part of a joint effort by the FASB and the International Accounting Standards Board (IASB) to enhance financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards (IFRS) and, thereby, improving the consistency of requirements, comparability of practices and usefulness of disclosures. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of ASU No. 2014-09 to annual reporting periods that begin after December 15, 2017. In March 2016, the FASB issued ASU No. 2016-08, which intends to improve the operability and understandability of the implementation guidance on principal versus agent considerations within ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10, which clarifies guidance related to identifying performance obligations and licensing implementation within ASU No. 2014-09. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the effect that these standards will have on its Consolidated Financial Statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Stock Compensation In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target could be Achieved after the Requisite Service Period. The amendment is intended to reduce diversity in practice by clarifying that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this update were effective for interim and annual periods beginning after December 15, 2015. The adoption of this accounting pronouncement had no impact on the Company s Consolidated Financial Statements.

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

Derivatives and Hedging In November 2014, the FASB issued ASU No. 2014-16, Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity. The amendment is intended to address how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. The amendments in this update were effective for interim and annual periods beginning after December 15, 2015. The adoption of this accounting pronouncement had no impact on the Company s Consolidated Financial Statements.

Consolidation In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis. The amendment substantially changes the way reporting entities are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the new amendment. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, eliminate the presumption that a general partner should consolidate a limited partnership, and affect the consolidation analysis of reporting entities that are involved with VIEs. The amendments in this update were effective for interim and annual periods beginning after December 15, 2015. The standard permits the use of either the retrospective or cumulative effect transition method. The adoption of this accounting pronouncement had no impact on the Company s Consolidated Financial Statements.

Financial Instruments In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendment is intended to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update are effective for interim and annual periods beginning after December 15, 2017. Except for certain provisions, early adoption is not permitted. The Company is currently evaluating the impact this will have on the Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (UNAUDITED)

Leases In February 2016, the FASB issued ASU No. 2016-02, Leases. The amendment changes the accounting treatment of leases, in that lessees will recognize most leases on-balance sheet. This will increase reported assets and liabilities, as lessees will be required to recognize a right-of-use asset along with a lease liability, measured on a discounted basis. Lessees are allowed to account for short-term leases (those with a term of twelve months or less) off-balance sheet. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact this will have on the Consolidated Financial Statements.

Extinguishments of Liabilities In March 2016, the FASB issued ASU No. 2016-04, Recognition of Breakage for Certain Prepaid Stored-Value Products. The amendment is intended to reduce the diversity in practice related to the recognition of breakage. Breakage refers to the portion of a prepaid stored-value product, such as a gift card, that goes unused wholly or partially for an indefinite period of time. This amendment requires that breakage be accounted for consistent with the breakage guidance within ASU No. 2014-09, Revenue from Contracts with Customers. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The standard permits the use of either the retrospective or cumulative effect transition method. Early adoption is permitted. The Company is currently evaluating the effect that ASU No. 2016-04 will have on its Consolidated Financial Statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting. The Company will adopt ASU No. 2016-04 in conjunction with its adoption of ASU No. 2014-09.

Derivatives and Hedging In March 2016, the FASB issued ASU No. 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The amendment is intended to clarify that the novation of a derivative contract that has been designated to be in a hedging relationship under Accounting Standards Codification (ASC) Topic 815 does not, in and of itself, represent a termination event for the derivative and does not require dedesignation of the hedging relationship. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendment permits the use of either a prospective or modified retrospective transition method. Early adoption is permitted. The adoption of this accounting pronouncement will have no impact on the Company s Consolidated Financial Statements.

Stock Compensation In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. The amendment is part of the FASB s simplification initiative and is intended to simplify the accounting around share-based payment award transactions. The amendments include changing the recording of excess tax benefits from being recognized as a part of paid-in capital to being charged directly to the income statement, changing the classification of excess tax benefits within the statement of cash flows, and allowing companies to account for forfeitures on an actual basis, as well as tax withholding changes. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendment permits the use of either a prospective or retrospective transition method. Early adoption is permitted. The Company is currently evaluating the impact this will have on the Consolidated Financial Statements.

10

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (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. Authority levels are established for the extension of credit to ensure consistency throughout the Company. It is necessary that policies, processes and practices implemented to control the risks of individual credit transactions and portfolio segments are sound and adhered to. 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.

Asset-based loans are offered primarily in the form of revolving lines of credit to commercial borrowers that do not generally qualify for traditional bank financing. Asset-based loans are underwritten based primarily upon the value of the collateral pledged to secure the loan, rather than on the borrower s general financial condition as traditionally reflected by cash flow, balance sheet strength, operating results, and credit bureau ratings. The Company utilizes pre-loan due diligence techniques, monitoring disciplines, and loan management practices common within the asset-based lending industry to underwrite loans to these borrowers.

Factoring loans provide working capital through the purchase and/or financing of accounts receivable to borrowers in the transportation industry and to commercial borrowers that do not generally qualify for traditional bank financing.

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 that an appraisal of the collateral be made at origination and on an as-needed basis, in conformity with current market conditions and regulatory requirements. The underwriting standards address both owner and non-owner occupied real estate.

Construction loans are underwritten using feasibility studies, independent appraisal reviews, sensitivity analysis or absorption and lease rates and financial analysis of the developers and property owners. Construction loans are based upon estimates of costs and value associated with the complete project. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans, 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.

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (UNAUDITED)

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.

Credit risk is a potential loss resulting from nonpayment of either the primary or secondary exposure. Credit risk is mitigated with formal risk management practices and a thorough initial credit-granting process including consistent underwriting standards and approval process. Control factors or techniques to minimize credit risk include knowing the client, understanding total exposure, analyzing the client and debtor s financial capacity, and monitoring the client s activities. Credit risk and portions of the portfolio risk are managed through concentration considerations, average risk ratings, and other aggregate characteristics.

The loan portfolio is comprised of loans originated by the Company and loans purchased in connection with the Company s acquisition of Marquette Financial Companies (Marquette) on May 31, 2015 (the Acquisition Date). The purchased loans were recorded at estimated fair value at the Acquisition Date with no carryover of the related allowance. The purchased loans were segregated between those considered to be performing, non-purchased credit impaired loans (Non-PCI), and those with evidence of credit deterioration, purchased credit impaired loans (PCI). Purchased loans are considered impaired if there is evidence of credit deterioration and if it is probable, at acquisition, that all contractually required payments will not be collected.

At the Acquisition Date, gross loans from the Marquette acquisition had a fair value of $980.4 million split between Non-PCI loans totaling $972.6 million and PCI loans totaling $7.8 million. The gross contractually required principal and interest payments receivable for the Non-PCI loans and PCI loans totaled $983.9 million and $9.3 million, respectively.

The fair value estimates for purchased loans are based on expected prepayments and the amount and timing of discounted expected principal, interest and other cash flows. Credit discounts representing the principal losses expected over the life of the loan are also a component of the initial fair value. In determining the Acquisition Date fair value of PCI loans, and in subsequent accounting, the Company generally aggregated purchased commercial, real estate, and consumer loans into pools of loans with common risk characteristics.

The difference between the fair value of Non-PCI loans and contractual amounts due at the Acquisition Date is accreted into income over the estimated life of the loans. Contractual amounts due represent the total undiscounted amount of all uncollected principal and interest payments.

Loans accounted for under ASC Topic 310-30

The excess of PCI loans contractual amounts due over the amount of undiscounted cash flows expected to be collected is referred to as the non-accretable difference. The non-accretable difference, which is neither accreted into income nor recorded on the consolidated balance sheet, reflects estimated future credit losses and uncollectible contractual interest expected to be incurred over the life of the PCI loans. The excess cash flows expected to be collected over the carrying amount of PCI loans is referred to as the accretable yield. This amount is accreted into interest income over the remaining life of the purchased loans or pools using the level yield method. The accretable yield is affected by changes in interest rate indices for variable rate loans, changes in prepayment speed assumptions, and changes in expected principal and interest payments over the estimated lives of the PCI loans.

Each quarter the Company evaluates the remaining contractual amounts due and estimates cash flows expected to be collected over the life of the PCI loans. Contractual amounts due may increase or decrease for a variety of reasons, for example, when the contractual terms of the loan agreement are modified, when interest rates on variable rate loans change, or when principal and/or interest payments are received. Cash flows expected to be collected on PCI loans are estimated by incorporating several key assumptions similar to the initial estimate of fair

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (UNAUDITED)

value. These key assumptions include probability of default, loss given default, and the amount of actual prepayments after the Acquisition Date. Prepayments affect the estimated lives of loans and could change the amount of interest income, and possibly principal, expected to be collected. In re-forecasting future estimated cash flows, credit loss expectations are adjusted as necessary. The adjustments are based, in part, on actual loss severities recognized for each loan type, as well as changes in the probability of default. For periods in which estimated cash flows are not reforecasted, the prior reporting period s estimated cash flows are adjusted to reflect the actual cash received and credit events that transpired during the current reporting period.

Increases in expected cash flows of PCI loans subsequent to the Acquisition Date are recognized prospectively through adjustments of the yield on the loans or pools over their remaining lives, while decreases in expected cash flows are recognized as impairment through a provision for loan losses and an increase in the allowance.

The PCI loans are accounted for in accordance with ASC Topic 310-30, *Loans and Debt Securities Purchased with Deteriorated Credit Quality*. At March 31, 2016, the net recorded carrying amount of loans accounted for under ASC 310-30 was $2.5 million and the contractual amount due was $3.3 million.

Below is the composition of the net book value for the PCI loans accounted for under ASC 310-30 at March 31, 2016 *(in thousands)*:

PCI Loans:	At March 31, 2016	
Contractual cash flows	$	3,302
Non-accretable difference		(647)
Accretable yield		(118)
Loans accounted for under ASC 310-30	$	2,537

13

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (UNAUDITED)

Loan Aging Analysis

This table provides a summary of loan classes and an aging of past due loans at March 31, 2016 and December 31, 2015 *(in thousands):*

	March 31, 2016						
	30-89 Days Past Due and Accruing	**Greater than 90 Days Past Due and Accruing**	**Non-Accrual Loans**	**Total Past Due**	**PCI Loans**	**Current**	**Total Loans**
Loans							
Commercial:							
Commercial	$ 20,035	$ 465	$ 39,371	$ 59,871	$	$ 4,287,197	$ 4,347,068
Asset-based						212,669	212,669
Factoring						88,534	88,534
Commercial credit card	333	20	25	378		145,653	146,031
Real estate:							
Real estate construction	1,033	906	232	2,171		495,333	497,504
Real estate commercial	4,234		8,403	12,637	1,023	2,753,573	2,767,233
Real estate residential	2,326		836	3,162		482,560	485,722
Real estate HELOC	1,737		3,094	4,831		719,472	724,303
Consumer:							
Consumer credit card	2,085	1,780	360	4,225		266,333	270,558
Consumer other	6,594	145	2,613	9,352	1,514	106,105	116,971
Leases	49			49		42,989	43,038
Total loans	$ 38,426	$ 3,316	$ 54,934	$ 96,676	$ 2,537	$ 9,600,418	$ 9,699,631

	March 31, 2016			
	30-89 Days Past Due	**Greater than 90 Days Past Due**	**Current**	**Total Loans**
PCI Loans				

Commercial:				
Commercial	$	$	$	$
Asset-based				
Factoring				
Commercial credit card				
Real estate:				
Real estate construction				
Real estate commercial		1,023		1,023
Real estate residential				
Real estate HELOC				
Consumer:				
Consumer credit card				
Consumer other	75	35	1,404	1,514
Leases				
Total PCI loans	$ 75	$ 1,058	$ 1,404	$ 2,537

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (UNAUDITED)

	December 31, 2015						
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	PCI Loans	Current	Total Loans
Loans							
Commercial:							
Commercial	$ 5,821	$ 2,823	$ 43,841	$ 52,485	$	$ 4,153,251	$ 4,205,736
Asset-based						219,244	219,244
Factoring						90,686	90,686
Commercial credit card	614	24	13	651		124,710	125,361
Real estate:							
Real estate construction	1,828	548	331	2,707		413,861	416,568
Real estate commercial	2,125	1,630	9,578	13,333	1,055	2,648,384	2,662,772
Real estate residential	612	35	800	1,447		490,780	492,227
Real estate HELOC	129		3,524	3,653		726,310	729,963
Consumer:							
Consumer credit card	2,256	2,089	468	4,813		286,757	291,570
Consumer other	5,917	175	2,597	8,689	2,001	144,087	154,777
Leases						41,857	41,857
Total loans	$ 19,302	$ 7,324	$ 61,152	$ 87,778	$ 3,056	$ 9,339,927	$ 9,430,761

	December 31, 2015			
	30-89 Days Past Due	Greater than 90 Days Past Due	Current	Total Loans
PCI Loans				
Commercial:				
Commercial	$	$	$	$
Asset-based				
Factoring				
Commercial credit card				
Real estate:				
Real estate construction				

Real estate commercial		1,055		1,055
Real estate residential				
Real estate HELOC				
Consumer:				
Consumer credit card				
Consumer other	58	105	1,838	2,001
Leases				
Total PCI loans	$ 58	$ 1,160	$ 1,838	$ 3,056

The Company sold residential real estate loans with proceeds of $10.3 million and $23.4 million in the secondary market without recourse during the periods ended March 31, 2016 and March 31, 2015, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of $54.9 million and $61.2 million at March 31, 2016 and December 31, 2015, respectively. Restructured loans totaled $46.0 million and $36.6 million at March 31, 2016 and December 31, 2015. Loans 90 days past due and still accruing interest amounted to $3.3 million and $7.3 million at March 31, 2016 and December 31, 2015, respectively. There was an insignificant amount of interest recognized on impaired loans during 2016 and 2015.

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (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. 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 current sound 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 Company 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 is doubtful or remote.

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

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (UNAUDITED)

This table provides an analysis of the credit risk profile of each loan class excluded from ASC 310-30 at March 31, 2016 and December 31, 2015 (in thousands):

Credit Exposure

Credit Risk Profile by Risk Rating

Originated and Non-PCI Loans

	Commercial		Asset-based		Factoring	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Non-watch list	$ 3,968,381	$ 3,880,109	$ 179,027	$ 198,903	$ 88,089	$ 90,449
Watch	147,208	105,539				
Special Mention	40,095	29,397	28,142	18,163	9	237
Substandard	191,384	190,691	5,500	2,178	436	
Total	$ 4,347,068	$ 4,205,736	$ 212,669	$ 219,244	$ 88,534	$ 90,686

	Real estate construction		Real estate commercial	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Non-watch list	$ 488,546	$ 415,258	$ 2,673,502	$ 2,561,401
Watch	4,346	370	37,764	51,774
Special Mention	3,835		19,426	22,544
Substandard	777	940	35,518	25,998
Total	$ 497,504	$ 416,568	$ 2,766,210	$ 2,661,717

Credit Exposure

Credit Risk Profile Based on Payment Activity

Originated and Non-PCI Loans

	Commercial credit card March 31, 2016	Commercial credit card December 31, 2015	Real estate residential March 31, 2016	Real estate residential December 31, 2015	Real estate HELOC March 31, 2016	Real estate HELOC December 31, 2015
Performing	$ 146,006	$ 125,348	$ 484,886	$ 491,427	$ 721,209	$ 726,439
Non-performing	25	13	836	800	3,094	3,524
Total	$ 146,031	$ 125,361	$ 485,722	$ 492,227	$ 724,303	$ 729,963

	Consumer credit card March 31, 2016	Consumer credit card December 31, 2015	Consumer other March 31, 2016	Consumer other December 31, 2015	Leases March 31, 2016	Leases December 31, 2015
Performing	$ 270,198	$ 291,102	$ 114,358	$ 152,180	$ 43,038	$ 41,857
Non-performing	360	468	2,613	2,597		
Total	$ 270,558	$ 291,570	$ 116,971	$ 154,777	$ 43,038	$ 41,857

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (UNAUDITED)

This table provides an analysis of the credit risk profile of each loan class accounted for under ASC 310-30 at March 31, 2016 and December 31, 2015 (in thousands):

Credit Exposure

Credit Risk Profile by Risk Rating

PCI Loans

	Real estate March 31, 2016	commercial December 31, 2015
Non-watch list	$	$
Watch		
Special Mention		
Substandard	1,023	1,055
Total	$ 1,023	$ 1,055

Credit Risk Profile Based on Payment Activity

PCI Loans

	Consumer March 31, 2016	other December 31, 2015
Performing	$ 1,514	$ 2,001
Non-performing		
Total	$ 1,514	$ 2,001

Allowance for Loan Losses

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

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

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

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

General valuation allowances are calculated based on the historical loss experience of specific types of loans including an evaluation of the time span and volume of the actual charge-off. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are updated based on actual charge-off experience. A valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio, time span to charge-off, and the total dollar amount of the loans in the pool. The Company s pools of similar loans include similarly risk-graded groups of commercial loans, commercial real estate loans, commercial credit card, home equity loans, consumer real estate loans and consumer and other loans. The Company

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (UNAUDITED)

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.

Generally, the unsecured portion of a commercial or commercial real estate loan is charged off when, after analyzing the borrower s financial condition, it is determined that the borrower is incapable of servicing the debt, little or no prospect for near term improvement exists, and no realistic and significant strengthening action is pending. For collateral dependent commercial or commercial real estate loans, an analysis is completed regarding the Company s collateral position to determine if the amounts due from the borrower are in excess of the calculated current fair value of the collateral. Specific allocations of the allowance for loan losses are made for any collateral deficiency. If a collateral deficiency is ultimately deemed to be uncollectible, the amount is charged off. Revolving commercial loans (such as commercial credit cards) which are past due 90 cumulative days are classified as a loss and charged off.

Generally, a consumer loan, or a portion thereof, is charged off in accordance with regulatory guidelines which provide that such loans be charged off when the Company becomes aware of the loss, such as from a triggering event that may include, but is not limited to, new information about a borrower s intent and ability to repay the loan, bankruptcy, fraud, or death. However, the charge-off timeframe should not exceed the specified delinquency time frames, which state that closed-end retail loans (such as real estate mortgages, home equity loans and consumer installment loans) that become past due 120 cumulative days and open-end retail loans (such as home equity lines of credit and consumer credit cards) that become past due 180 cumulative days are classified as a loss and charged off.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE MONTHS ENDED MARCH 31, 2016 (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 three months ended March 31, 2016 *(in thousands):*

	Three Months Ended March 31, 2016				
	Commercial	**Real estate**	**Consumer**	**Leases**	**Total**
Allowance for loan losses:					
Beginning balance	$ 63,847	$ 8,220	$ 8,949	$ 127	$ 81,143
Charge-offs	(5,075)	(1,445)	(2,515)		(9,035)
Recoveries	2,489	144	657		3,290
Provision	47	2,990	1,969	(6)	5,000