

UMB FINANCIAL CORP
Form 10-Q
August 02, 2016
Table of Contents

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 June 30, 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
(State or other jurisdiction of incorporation or organization)

43-0903811
(I.R.S. Employer Identification Number)

1010 Grand Boulevard, Kansas City, Missouri
(Address of principal executive offices)

64106
(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 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

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

As of July 28, 2016, UMB Financial Corporation had 49,529,830 shares of common stock outstanding.

Table of Contents

UMB FINANCIAL CORPORATION

FORM 10-Q

INDEX

<u>PART I FINANCIAL INFORMATION</u>	3
ITEM 1. <u>FINANCIAL STATEMENTS (UNAUDITED)</u>	3
<u>CONSOLIDATED BALANCE SHEETS</u>	3
<u>CONSOLIDATED STATEMENTS OF INCOME</u>	4
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u>	5
<u>CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY</u>	6
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	7
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	8
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	42
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	60
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	64
<u>PART II - OTHER INFORMATION</u>	65
ITEM 1. <u>LEGAL PROCEEDINGS</u>	65
ITEM 1A. <u>RISK FACTORS</u>	65
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	65
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	65
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	66
ITEM 5. <u>OTHER INFORMATION</u>	66
ITEM 6. <u>EXHIBITS</u>	66
<u>SIGNATURES</u>	67

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)*

	June 30, 2016	December 31, 2015
<u>ASSETS</u>		
Loans:	\$ 10,083,266	\$ 9,430,761
Allowance for loan losses	(84,666)	(81,143)
Net loans	9,998,600	9,349,618
Loans held for sale	10,495	589
Investment securities:		
Available for sale	6,771,179	6,806,949
Held to maturity (fair value of \$991,715 and \$691,379, respectively)	880,600	667,106
Trading securities	56,311	29,617
Other securities	66,300	65,198
Total investment securities	7,774,390	7,568,870
Federal funds sold and securities purchased under agreements to resell	196,283	173,627
Interest-bearing due from banks	379,611	522,877
Cash and due from banks	355,732	458,217
Premises and equipment, net	277,060	281,471
Accrued income	92,650	90,127
Goodwill	228,396	228,346
Other intangibles, net	40,411	46,782
Other assets	380,448	373,721
Total assets	\$ 19,734,076	\$ 19,094,245
<u>LIABILITIES</u>		
Deposits:		
Noninterest-bearing demand	\$ 6,233,492	\$ 6,306,895
Interest-bearing demand and savings	8,270,416	7,529,972
Time deposits under \$250,000	695,629	771,973
Time deposits of \$250,000 or more	449,156	483,912
Total deposits	15,648,693	15,092,752

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Federal funds purchased and repurchase agreements	1,788,567	1,818,062
Short-term debt	5,003	5,009
Long-term debt	85,320	86,070
Accrued expenses and taxes	149,027	161,245
Other liabilities	54,734	37,413
Total liabilities	17,731,344	17,200,551

SHAREHOLDERS EQUITY

Common stock, \$1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 49,528,986 and 49,396,366 shares outstanding, respectively	55,057	55,057
Capital surplus	1,023,195	1,019,889
Retained earnings	1,083,280	1,033,990
Accumulated other comprehensive income (loss), net	55,295	(3,718)
Treasury stock, 5,527,744 and 5,660,364 shares, at cost, respectively	(214,095)	(211,524)
Total shareholders equity	2,002,732	1,893,694
Total liabilities and shareholders equity	\$ 19,734,076	\$ 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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<u>INTEREST INCOME</u>				
Loans	\$ 93,949	\$ 71,396	\$ 184,493	\$ 135,628
Securities:				
Taxable interest	18,852	19,163	38,209	37,971
Tax-exempt interest	13,845	10,607	26,580	20,522
Total securities income	32,697	29,770	64,789	58,493
Federal funds and resell agreements	642	151	1,149	202
Interest-bearing due from banks	436	434	1,327	1,286
Trading securities	173	133	225	228
Total interest income	127,897	101,884	251,983	195,837
<u>INTEREST EXPENSE</u>				
Deposits	4,136	3,522	8,191	6,570
Federal funds and repurchase agreements	1,626	470	2,856	962
Other	925	532	1,834	587
Total interest expense	6,687	4,524	12,881	8,119
Net interest income	121,210	97,360	239,102	187,718
Provision for loan losses	7,000	5,000	12,000	8,000
Net interest income after provision for loan losses	114,210	92,360	227,102	179,718
<u>NONINTEREST INCOME</u>				
Trust and securities processing	59,745	67,381	119,230	134,680
Trading and investment banking	5,638	5,568	10,268	11,690
Service charges on deposit accounts	22,420	21,625	43,881	43,166
Insurance fees and commissions	1,160	586	2,657	1,156
Brokerage fees	4,262	2,936	8,447	5,790
Bankcard fees	17,534	18,035	35,550	34,218
Gain on sales of securities available for sale, net	2,598	967	5,531	8,303
	978	(1,125)	597	(1,967)

Equity earnings (loss) on alternative investments				
Other	7,112	3,577	11,636	7,721
Total noninterest income	121,447	119,550	237,797	244,757
<u>NONINTEREST EXPENSE</u>				
Salaries and employee benefits	108,897	99,585	216,047	198,122
Occupancy, net	11,139	10,312	22,111	20,322
Equipment	17,032	15,410	33,314	29,582
Supplies and services	4,719	4,603	9,668	8,928
Marketing and business development	6,313	6,530	10,754	11,148
Processing fees	11,464	12,654	22,926	25,437
Legal and consulting	4,937	5,917	9,736	10,295
Bankcard	5,369	4,953	11,184	9,721
Amortization of other intangible assets	3,145	2,569	6,371	5,324
Regulatory fees	3,692	2,873	7,121	5,629
Other	8,536	6,558	16,755	11,869
Total noninterest expense	185,243	171,964	365,987	336,377
Income before income taxes	50,414	39,946	98,912	88,098
Income tax expense	13,117	9,732	25,370	24,119
NET INCOME	\$ 37,297	\$ 30,214	\$ 73,542	\$ 63,979
<u>PER SHARE DATA</u>				
Net income - basic	\$ 0.76	\$ 0.65	\$ 1.51	\$ 1.40
Net income - diluted	0.76	0.65	1.50	1.39
Dividends	0.245	0.235	0.490	0.470
Weighted average shares outstanding - basic	48,770,948	46,240,869	48,763,690	45,624,276
Weighted average shares outstanding - diluted	49,165,686	46,611,096	49,126,207	46,029,978
See Notes to Consolidated Financial Statements.				

Table of Contents

UMB FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, dollars in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net Income	\$ 37,297	\$ 30,214	\$ 73,542	\$ 63,979
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities:				
Change in unrealized holding gains (losses), net	42,273	(45,553)	107,585	(12,877)
Less: Reclassification adjustment for gains included in net income	(2,598)	(967)	(5,531)	(8,303)
Change in unrealized gains (losses) on securities during the period	39,675	(46,520)	102,054	(21,180)
Change in unrealized losses on derivative hedges	(2,894)		(7,034)	
Income tax (expense) benefit	(13,954)	17,569	(36,007)	8,033
Other comprehensive income (loss)	22,827	(28,951)	59,013	(13,147)
Comprehensive income	\$ 60,124	\$ 1,263	\$ 132,555	\$ 50,832

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			63,979	(13,147)		50,832
Dividends (\$0.47 per share)			(22,327)			(22,327)
Purchase of treasury stock					(5,379)	(5,379)
Issuance of equity awards		(5,509)			5,969	460
Recognition of equity-based compensation		5,779				5,779
Net tax benefit related to equity compensation plans		664				664
Sale of treasury stock		306			197	503
Exercise of stock options		1,488			1,541	3,029
Common stock issuance for acquisition		112,635			67,102	179,737
Balance June 30, 2015	\$ 55,057	\$ 1,009,965	\$ 1,005,563	\$ (2,141)	\$(211,388)	\$ 1,857,056
Balance - January 1, 2016	\$ 55,057	\$ 1,019,889	\$ 1,033,990	\$ (3,718)	\$(211,524)	\$ 1,893,694
Total comprehensive income			73,542	59,013		132,555
Dividends (\$0.49 per share)			(24,252)			(24,252)
Purchase of treasury stock					(13,581)	(13,581)
Issuance of equity awards		(4,457)			4,887	430
Recognition of equity-based compensation		5,200				5,200
Net tax benefit related to equity compensation plans		250				250
Sale of treasury stock		260			309	569
Exercise of stock options		2,053			5,814	7,867
Balance June 30, 2016	\$ 55,057	\$ 1,023,195	\$ 1,083,280	\$ 55,295	\$(214,095)	\$ 2,002,732

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	Six Months Ended	
	June 30,	
	2016	2015
Operating Activities		
Net Income	\$ 73,542	\$ 63,979
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	12,000	8,000
Net accretion of premiums and discounts from acquisition	(935)	
Depreciation and amortization	27,405	24,027
Deferred income tax expense (benefit)	2,665	(2,577)
Net increase in trading securities	(27,291)	(7,446)
Gains on sales of securities available for sale, net	(5,531)	(8,303)
(Gains) losses on sales of assets	(720)	5
Amortization of securities premiums, net of discount accretion	29,080	26,465
Originations of loans held for sale	(43,145)	(59,422)
Net gains on sales of loans held for sale	(871)	(827)
Proceeds from sales of loans held for sale	34,110	58,054
Equity based compensation	5,630	6,239
Changes in:		
Accrued income	(2,523)	(1,927)
Accrued expenses and taxes	(11,902)	(13,179)
Other assets and liabilities, net	(9,282)	12,647
Net cash provided by operating activities	82,232	105,735
Investing Activities		
Proceeds from maturities of securities held to maturity	22,539	26,663
Proceeds from sales of securities available for sale	598,740	705,238
Proceeds from maturities of securities available for sale	779,759	645,959
Purchases of securities held to maturity	(238,029)	(198,352)
Purchases of securities available for sale	(1,281,401)	(1,238,323)
Net increase in loans	(660,088)	(473,924)
Net (increase) decrease in fed funds sold and resell agreements	(22,656)	37,111
Net increase in interest bearing balances due from other financial institutions	52,488	19,200
Purchases of premises and equipment	(17,526)	(29,479)
Net cash activity from acquisitions		104,539
Proceeds from sales of premises and equipment	1,623	117
Increase in COLI/BOLI cash surrender value	(4,700)	
Net cash used in investing activities	(769,251)	(401,251)

Financing Activities		
Net increase in demand and savings deposits	667,041	239,367
Net decrease in time deposits	(110,349)	(303,635)
Net decrease in fed funds purchased and repurchase agreements	(29,495)	(250,697)
Net decrease in short-term debt		(112,133)
Repayment of long-term debt	(1,272)	(10,580)
Payment of contingent consideration on acquisitions	(3,031)	(18,702)
Cash dividends paid	(24,243)	(22,295)
Net tax benefit related to equity compensation plans	250	664
Proceeds from exercise of stock options and sales of treasury shares	8,436	3,532
Purchases of treasury stock	(13,581)	(5,379)
 Net cash provided by (used in) financing activities	 493,756	 (479,858)
 Decrease in cash and cash equivalents	 (193,263)	 (775,374)
Cash and cash equivalents at beginning of period	819,112	1,787,230
 Cash and cash equivalents at end of period	 \$ 625,849	 \$ 1,011,856
 Supplemental Disclosures:		
Income taxes paid	\$ 19,295	\$ 25,089
Total interest paid	13,199	7,360
Transactions related to bank acquisitions		
Assets acquired		1,321,322
Liabilities assumed		1,160,044
See Notes to Consolidated Financial Statements.		

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 relating to items that are 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 (the 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 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 Statements of Cash Flows as of June 30, 2016 and June 30, 2015 (*in thousands*):

	June 30,	
	2016	2015
Due from the Federal Reserve Bank	\$ 270,117	\$ 521,685
Cash and due from banks	355,732	490,171
Cash and cash equivalents at end of period	\$ 625,849	\$ 1,011,856

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 \$109.5 million and \$177.3 million at June 30, 2016 and June 30, 2015, respectively.

Per Share Data

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted quarter-to-date net income per share includes the dilutive effect of 394,738 and 370,227 shares issuable upon the exercise of options granted by the Company and outstanding at June 30, 2016 and 2015, respectively. Diluted year-to-date net income per share includes the dilutive effect of 362,517 and 405,702 shares issuable upon the exercise of stock options granted by the Company and outstanding at June 30, 2016 and 2015, respectively.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)**

Options issued under employee benefits plans to purchase 637,331 shares of common stock were outstanding at June 30, 2016, but were not included in the computation of quarter-to-date and year-to-date diluted EPS because the options were anti-dilutive. Options issued under employee benefits plans to purchase 495,366 shares of common stock were outstanding at June 30, 2015, but were not included in the computation of quarter-to-date and year-to-date diluted EPS because the options were anti-dilutive.

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. In May 2016, the FASB issued ASU Nos. 2016-11 and 2016-12, which further clarify guidance and provide practical expedients related to the adoption of 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.

Equity-Based 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.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)**

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. The standard requires the use of the cumulative effect transition method as of the beginning of the year of adoption. Except for certain provisions, early adoption is not permitted. The Company is currently evaluating the impact this will have on its Consolidated Financial Statements.

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. The standard requires the use of the modified retrospective transition method. Early adoption is permitted. The Company is currently evaluating the impact this will have on its 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, 2017, including interim periods within those fiscal years. The standard permits the use of either the modified retrospective or full retrospective 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. 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.

Equity-Based 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 surplus 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 requires different transition methods for various components of the standard. Early adoption is permitted. The Company is currently evaluating the impact this will have on its Consolidated Financial Statements.

Credit Losses In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. This update replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This amendment broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, the update amends the accounting for credit losses for available-for-sale debt securities

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company's loan portfolio. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption in fiscal years beginning after December 15, 2018 is permitted. The amendment requires the use of the modified retrospective approach for adoption. The Company is currently evaluating the impact this will have on its Consolidated Financial Statements.

4. Loans and Allowance for Loan Losses

Loan Origination/Risk Management

The Company has certain lending policies and procedures in place that are designed to minimize the level of risk within the loan portfolio. Diversification of the loan portfolio manages the risk associated with fluctuations in economic conditions. 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

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

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.

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 purchased 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 of loans. 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.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)**

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 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 June 30, 2016, the net recorded carrying amount of loans accounted for under ASC 310-30 was \$2.2 million and the contractual amount due was \$3.0 million.

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

	June 30, 2016
<u>PCI Loans:</u>	
Contractual cash flows	\$ 2,970
Non-accretable difference	(647)
Accretable yield	(101)
Loans accounted for under ASC 310-30	\$ 2,222

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

Loan Aging Analysis

This table provides a summary of loan classes and an aging of past due loans at June 30, 2016 and December 31, 2015 (in thousands):

		June 30, 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		\$ 8,753	\$ 793	\$ 41,828	\$ 51,374	\$	\$ 4,392,763	\$ 4,444,137
Asset-based							223,339	223,339
Factoring							101,327	101,327
Commercial	credit card	424	255	19	698		144,661	145,359
Real estate:								
Real estate	construction	478		311	789		530,987	531,776
Real estate	commercial	4,750		9,375	14,125	992	2,970,077	2,985,194
Real estate	residential	3,143	66	537	3,746		474,892	478,638
Real estate	HELOC	1,089		3,389	4,478		737,225	741,703
Consumer:								
Consumer	credit card	2,079	1,961	313	4,353		266,000	270,353
Consumer	other	8,013	1,625	2,651	12,289	1,230	111,344	124,863
Leases							36,577	36,577
Total loans		\$ 28,729	\$ 4,700	\$ 58,423	\$ 91,852	\$ 2,222	\$ 9,989,192	\$ 10,083,266

June 30, 2016			
30-89 Days Past Due	Greater than 90 Days Past Due	Current	Total Loans

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

<u>PCI Loans</u>				
Commercial:				
Commercial	\$	\$	\$	\$
Asset-based				
Factoring				
Commercial credit card				
Real estate:				
Real estate construction				
Real estate commercial		992		992
Real estate residential				
Real estate HELOC				
Consumer:				
Consumer credit card				
Consumer other	51	27	1,152	1,230
Leases				
Total PCI loans	\$ 51	\$ 1,019	\$ 1,152	\$ 2,222

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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
<u>Loans</u>								
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
<u>PCI Loans</u>				
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 \$34.1 million and \$58.1 million in the secondary market without recourse during the six months ended June 30, 2016 and June 30, 2015, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of \$58.4 million and \$61.2 million at June 30, 2016 and December 31, 2015, respectively. Restructured loans totaled \$42.6 million and \$36.6 million at June 30, 2016 and December 31, 2015, respectively. Loans 90 days past due and still accruing interest amounted to \$4.7 million and \$7.3 million at June 30, 2016 and December 31, 2015, respectively. There was an insignificant amount of interest recognized on impaired loans during 2016 and 2015.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)**

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

Credit Exposure**Credit Risk Profile by Risk Rating****Originated and Non-PCI Loans**

	Commercial		Asset-based		Factoring	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Non-watch list	\$ 4,058,989	\$ 3,880,109	\$ 195,329	\$ 198,903	\$ 100,201	\$ 90,449
Watch	161,686	105,539				
Special Mention	44,302	29,397	22,409	18,163	341	237
Substandard	179,160	190,691	5,601	2,178	785	
Total	\$ 4,444,137	\$ 4,205,736	\$ 223,339	\$ 219,244	\$ 101,327	\$ 90,686

	Real estate	construction	Real estate	commercial
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Non-watch list	\$ 526,469	\$ 415,258	\$ 2,884,897	\$ 2,561,401
Watch	4,897	370	44,388	51,774
Special Mention			11,526	22,544
Substandard	410	940	43,391	25,998
Total	\$ 531,776	\$ 416,568	\$ 2,984,202	\$ 2,661,717

Credit Exposure**Credit Risk Profile Based on Payment Activity****Originated and Non-PCI Loans**

	Commercial credit card		Real estate residential		Real estate HELOC	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Performing	\$ 145,340	\$ 125,348	\$ 478,101	\$ 491,427	\$ 738,314	\$ 726,439
Non-performing	19	13	537	800	3,389	3,524
Total	\$ 145,359	\$ 125,361	\$ 478,638	\$ 492,227	\$ 741,703	\$ 729,963

	Consumer credit card		Consumer other		Leases	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Performing	\$ 270,040	\$ 291,102	\$ 120,982	\$ 152,180	\$ 36,577	\$ 41,857
Non-performing	313	468	2,651	2,597		
Total	\$ 270,353	\$ 291,570	\$ 123,633	\$ 154,777	\$ 36,577	\$ 41,857

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

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

Credit Exposure**Credit Risk Profile by Risk Rating****PCI Loans**

	Real estate June 30, 2016	commercial December 31, 2015
Non-watch list	\$	\$
Watch		
Special Mention		
Substandard	992	1,055
Total	\$ 992	\$ 1,055

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

	Consumer June 30, 2016	other December 31, 2015
Performing	\$ 1,230	\$ 2,001
Non-performing		
Total	\$ 1,230	\$ 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

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

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.

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 AND SIX MONTHS ENDED JUNE 30, 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 the three and six months ended June 30, 2016 (in thousands):

	Three Months Ended June 30, 2016				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 61,308	\$ 9,909	\$ 9,060	\$ 121	\$ 80,398
Charge-offs	(800)	(1,351)	(2,101)		(4,252)
Recoveries	859	187	474		1,520
Provision	3,194	1,938	1,886	(18)	7,000
Ending balance	\$ 64,561	\$ 10,683	\$ 9,319	\$ 103	\$ 84,666
	Six Months Ended June 30, 2016				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 63,847	\$ 8,220	\$ 8,949	\$ 127	\$ 81,143
Charge-offs	(5,875)	(2,796)	(4,616)		(13,287)
Recoveries	3,348	331	1,131		4,810
Provision	3,241	4,928	3,855	(24)	12,000
Ending balance	\$ 64,561	\$ 10,683	\$ 9,319	\$ 103	\$ 84,666
Ending balance: individually evaluated for impairment	\$ 4,714	\$ 26	\$	\$	\$ 4,740
Ending balance: collectively evaluated for impairment	59,847	10,657	9,319	103	79,926
Loans:					
Ending balance: loans	\$ 4,914,162	\$ 4,737,311	\$ 395,216	\$ 36,577	\$ 10,083,266
Ending balance: individually evaluated for impairment	58,270	6,338	2,578		67,186
Ending balance: collectively evaluated for impairment	4,855,892	4,729,981	391,408	36,577	10,013,858
Ending balance: PCI Loans		992	1,230		2,222

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2015 (in thousands):

	Three Months Ended June 30, 2015				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 55,659	\$ 11,912	\$ 9,780	\$ 128	\$ 77,479
Charge-offs	(3,088)	(68)	(2,446)		(5,602)
Recoveries	89	77	678		844
Provision	6,718	(3,029)	1,276	35	5,000
Ending balance	\$ 59,378	\$ 8,892	\$ 9,288	\$ 163	\$ 77,721
	Six Months Ended June 30, 2015				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$ 55,349	\$ 10,725	\$ 9,921	\$ 145	\$ 76,140
Charge-offs	(3,500)	(100)	(5,150)		(8,750)
Recoveries	899	92	1,340		2,331
Provision	6,630	(1,825)	3,177	18	8,000
Ending balance	\$ 59,378	\$ 8,892	\$ 9,288	\$ 163	\$ 77,721
Ending balance: individually evaluated for impairment	\$ 1,266	\$ 295	\$	\$	\$ 1,561
Ending balance: collectively evaluated for impairment	58,112	8,597	9,288	163	76,160
Loans:					
Ending balance: loans	\$ 4,579,611	\$ 3,915,506	\$ 380,938	\$ 40,073	\$ 8,916,128
Ending balance: individually evaluated for impairment	32,818	9,113	1,240		43,171
Ending balance: collectively evaluated for impairment	4,544,303	3,903,880	377,009	40,073	8,865,265
Ending balance: PCI Loans	2,490	2,513	2,689		7,692

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

Impaired Loans

This table provides an analysis of impaired loans by class at June 30, 2016 and December 31, 2015 (in thousands):

	As of June 30, 2016					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	\$ 64,008	\$ 37,994	\$ 20,276	\$ 58,270	\$ 4,714	\$ 64,586
Asset-based						
Factoring						
Commercial credit card						
Real estate:						
Real estate construction	962	311	115	426	26	437
Real estate commercial	7,839	5,630		5,630		5,512
Real estate residential	364	282		282		707
Real estate HELOC						132
Consumer:						
Consumer credit card						
Consumer other	2,578	2,578		2,578		2,582
Leases						
Total	\$ 75,751	\$ 46,795	\$ 20,391	\$ 67,186	\$ 4,740	\$ 73,956

	As of December 31, 2015					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	\$ 72,739	\$ 40,648	\$ 27,356	\$ 68,004	\$ 5,668	\$ 41,394
Asset-based						
Factoring						
Commercial credit card						

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Real estate:							
Real estate	construction	782	331	118	449	42	802
Real estate	commercial	7,117	4,891	1,275	6,166	154	7,768
Real estate	residential	1,054	939		939		1,433
Real estate	HELOC	214	193		193		162
Consumer:							
Consumer	credit card						
Consumer	other	2,574	2,574		2,574		1,795
Leases							
Total		\$ 84,480	\$ 49,576	\$ 28,749	\$ 78,325	\$ 5,864	\$ 53,354

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

Troubled Debt Restructurings

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

Purchased loans restructured after acquisition are not considered or reported as troubled debt restructurings if the loans evidenced credit deterioration as of the Acquisition Date and are accounted for in pools. For the three and six months ended June 30, 2016, no purchased loans were modified as troubled debt restructurings after the Acquisition Date.

The Company had \$18 thousand and \$293 thousand in commitments to lend to borrowers with loan modifications classified as TDRs as of June 30, 2016 and June 30, 2015, respectively. The Company monitors loan payments on an on-going basis to determine if a loan is considered to have a payment default. Determination of payment default involves analyzing the economic conditions that exist for each customer and their ability to generate positive cash flows during the loan term. During the six month period ended June 30, 2015, the Company had one commercial real estate loan classified as a TDR with a payment default totaling \$178 thousand. A specific valuation allowance for the full amount of this loan had previously been established within the Company's allowance for loan losses, and this loan was charged off against the allowance for loan losses during that period.

This table provides a summary of loans restructured by class during the three and six months ended June 30, 2016 (*in thousands*):

	Three Months Ended		Six Months Ended		June 30, 2016	
	Pre-Modification	Post-Modification	Pre-Modification	Post-Modification	Pre-Modification	Post-Modification
	Number of Contracts	Outstanding Investment	Number of Contracts	Outstanding Investment	Number of Contracts	Outstanding Investment
Troubled Debt Restructurings						
Commercial:						
Commercial		\$	2	\$	12,056	\$ 12,056
Asset-based						
Factoring						
Commercial credit card						

Real estate:						
Real estate	construction					
Real estate	commercial					
Real estate	residential					
Real estate	HELOC					
Consumer:						
Consumer	credit card					
Consumer	other					
Leases						
Total		\$	\$	2	\$ 12,056	\$ 12,056

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)**

This table provides a summary of loans restructured by class during the three and six months ended June 30, 2015 (*in thousands*):

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	Pre-Modification Number of Contracts	Post- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Pre-Modification Number of Contracts	Post- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
Commercial:						
Commercial	14	\$ 19,463	\$ 19,463	14	\$ 19,463	\$ 19,463
Asset-based						
Factoring						
Commercial credit card						
Real estate:						
Real estate construction						
Real estate commercial						
Real estate residential	1	121	121	1	121	121
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	15	\$ 19,584	\$ 19,584	15	\$ 19,584	\$ 19,584

5. Securities**Securities Available for Sale**

This table provides detailed information about securities available for sale at June 30, 2016 and December 31, 2015 (*in thousands*):

Gross Gross

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2016				
U.S. Treasury	\$ 362,766	\$ 576	\$ (5)	\$ 363,337
U.S. Agencies	421,149	507	(31)	421,625
Mortgage-backed	3,553,661	53,444	(6,930)	3,600,175
State and political subdivisions	2,257,535	48,687	(243)	2,305,979
Corporates	80,044	85	(66)	80,063
Total	\$ 6,675,155	\$ 103,299	\$ (7,275)	\$ 6,771,179

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
U.S. Treasury	\$ 350,354	\$ 1	\$ (576)	\$ 349,779
U.S. Agencies	667,414	7	(1,032)	666,389
Mortgage-backed	3,598,115	12,420	(38,089)	3,572,446
State and political subdivisions	2,116,543	23,965	(2,095)	2,138,413
Corporates	80,585		(663)	79,922
Total	\$ 6,813,011	\$ 36,393	\$ (42,455)	\$ 6,806,949

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)**

The following table presents contractual maturity information for securities available for sale at June 30, 2016 (*in thousands*):

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 931,783	\$ 932,836
Due after 1 year through 5 years	1,118,929	1,136,979
Due after 5 years through 10 years	861,965	887,760
Due after 10 years	208,817	213,429
Total	3,121,494	3,171,004
Mortgage-backed securities	3,553,661	3,600,175
Total securities available for sale	\$ 6,675,155	\$ 6,771,179

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

For the six months ended June 30, 2016, proceeds from the sales of securities available for sale were \$598.7 million compared to \$705.2 million for the same period in 2015. Securities transactions resulted in gross realized gains of \$5.5 million and \$8.4 million for the six months ended June 30, 2016 and 2015, respectively. The gross realized losses for the six months ended June 30, 2015 were \$48 thousand.

Securities available for sale with a market value of \$5.5 billion at June 30, 2016 and \$5.9 billion at December 31, 2015 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 \$1.5 billion at June 30, 2016 and \$1.6 billion at December 31, 2015 were pledged at the Federal Reserve Discount Window but were unencumbered as of those dates.

The following table shows the Company's available for sale investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2016 and December 31, 2015 (*in thousands*):

June 30, 2016	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	\$ 5,025	\$ (5)	\$	\$	\$ 5,025	\$ (5)
U.S. Agencies	45,635	(24)	3,036	(7)	48,671	(31)
Mortgage-backed	204,221	(744)	312,994	(6,186)	517,215	(6,930)
State and political subdivisions	131,455	(188)	10,155	(55)	141,610	(243)
Corporates	8,748	(2)	39,069	(64)	47,817	(66)
Total temporarily-impaired debt securities available for sale	\$ 395,084	\$ (963)	\$ 365,254	\$ (6,312)	\$ 760,338	\$ (7,275)

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

December 31, 2015	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	\$ 344,556	\$ (576)	\$	\$	\$ 344,556	\$ (576)
U.S. Agencies	615,993	(1,032)			615,993	(1,032)
Mortgage-backed	2,056,316	(21,013)	426,959	(17,076)	2,483,275	(38,089)
State and political subdivisions	479,197	(1,316)	60,324	(779)	539,521	(2,095)
Corporates	29,126	(183)	50,796	(480)	79,922	(663)
Total temporarily-impaired debt securities available for sale	\$ 3,525,188	\$ (24,120)	\$ 538,079	\$ (18,335)	\$ 4,063,267	\$ (42,455)

The unrealized losses in the Company's investments in U.S. treasury obligations, U.S. government agencies, Government Sponsored Entity (GSE) mortgage-backed securities, municipal securities, and corporates were caused by changes in interest rates. The Company does not have the intent to sell these securities and does not believe it is more likely than not that the Company will be required to sell these securities before a recovery of amortized cost. The Company expects to recover its cost basis in the securities and does not consider these investments to be other-than-temporarily impaired at June 30, 2016.

Securities Held to Maturity

The table below provides detailed information for securities held to maturity at June 30, 2016 and December 31, 2015 (in thousands):

	Amortized Cost	Net Unrealized Gains	Fair Value
June 30, 2016			
State and political subdivisions	\$ 880,600	\$ 111,115	\$ 991,715
December 31, 2015			
State and political subdivisions	\$ 667,106	\$ 24,273	\$ 691,379

The following table presents contractual maturity information for securities held to maturity at June 30, 2016 (in thousands):

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 16,268	\$ 18,321
Due after 1 year through 5 years	76,310	85,939
Due after 5 years through 10 years	481,148	541,859
Due after 10 years	306,874	345,596
Total securities held to maturity	\$ 880,600	\$ 991,715

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 six months ended June 30, 2016 or 2015.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

Trading Securities

The net unrealized gains on trading securities at June 30, 2016 and June 30, 2015 were \$93 thousand and \$156 thousand, respectively, and were included in trading and investment banking income on the Consolidated Statements of Income.

Other Securities

The table below provides detailed information for Federal Reserve Bank (FRB) stock and Federal Home Loan Bank (FHLB) stock and other securities at June 30, 2016 and December 31, 2015 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016				
FRB and FHLB stock	\$ 33,667	\$	\$	\$ 33,667
Other securities marketable	4	7,951		7,955
Other securities non-marketable	23,974	730	(26)	24,678
Total Other securities	\$ 57,645	\$ 8,681	\$ (26)	\$ 66,300
December 31, 2015				
FRB and FHLB stock	\$ 33,215	\$	\$	\$ 33,215
Other securities marketable	5	7,159		7,164
Other securities non-marketable	23,855	964		24,819
Total Other securities	\$ 57,075	\$ 8,123	\$	\$ 65,198

Investment in FRB stock is based on the capital structure of the investing bank, and investment in FHLB stock is mainly tied to the level of borrowings from the FHLB. These holdings are carried at cost. Other marketable and non-marketable securities include Prairie Capital Management (PCM) alternative investments in hedge funds and private equity funds, which are accounted for as equity-method investments. The fair value of other marketable securities includes alternative investment securities of \$8.0 million at June 30, 2016 and \$7.2 million at December 31, 2015. The fair value of other non-marketable securities includes alternative investment securities of \$1.9 million at June 30, 2016 and \$2.0 million at December 31, 2015. Unrealized gains or losses on alternative investments are recognized in the Equity earnings on alternative investments line of the Company's Consolidated Statements of Income.

6. Goodwill and Other Intangibles

Changes in the carrying amount of goodwill for the periods ended June 30, 2016 and December 31, 2015 by reportable segment are as follows (*in thousands*):

	Bank	Institutional Investment Management	Asset Servicing	Total
Balances as of January 1, 2016	\$ 161,341	\$ 47,529	\$ 19,476	\$ 228,346
Acquisition of Marquette	50			50
Balances as of June 30, 2016	\$ 161,391	\$ 47,529	\$ 19,476	\$ 228,396
Balances as of January 1, 2015	\$ 142,753	\$ 47,529	\$ 19,476	\$ 209,758
Acquisition of Marquette	18,588			18,588
Balances as of December 31, 2015	\$ 161,341	\$ 47,529	\$ 19,476	\$ 228,346

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

The following table lists the finite-lived intangible assets that continue to be subject to amortization as of June 30, 2016 and December 31, 2015 (*in thousands*):

	As of June 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible assets	\$ 47,527	\$ 37,371	\$ 10,156
Customer relationships	107,460	77,933	29,527
Other intangible assets	4,198	3,470	728
Total intangible assets	\$ 159,185	\$ 118,774	\$ 40,411

	As of December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible assets	\$ 36,497	\$ 33,613	\$ 2,884
Core deposit intangible-Marquette acquisition	11,030	1,838	9,192
Customer relationships	104,560	73,496	31,064
Customer relationship-Marquette acquisition	2,900	338	2,562
Other intangible assets	3,247	2,841	406
Other intangible assets-Marquette acquisition	951	277	674
Total intangible assets	\$ 159,185	\$ 112,403	\$ 46,782

The following table has the aggregate amortization expense recognized in each period (*in thousands*):

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Aggregate amortization expense	\$ 3,145	\$ 2,569	\$ 6,371	\$ 5,324

The following table lists estimated amortization expense of intangible assets in future periods (*in thousands*):

For the six months ending December 31, 2016	\$ 5,920
For the year ending December 31, 2017	10,180
For the year ending December 31, 2018	7,202
For the year ending December 31, 2019	5,822
For the year ending December 31, 2020	4,487
For the year ending December 31, 2021	3,101

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

7. Securities Sold Under Agreements to Repurchase

The Company utilizes repurchase agreements to facilitate the needs of customers and to facilitate secured short-term funding needs. Repurchase agreements are stated at the amount of cash received in connection with the transaction. The Company monitors collateral levels on a continuous basis and may be required to provide additional collateral based on the fair value of the underlying securities. Securities pledged as collateral under repurchase agreements are maintained with the Company's safekeeping agents.

The table below presents the remaining contractual maturities of repurchase agreements outstanding at June 30, 2016, in addition to the various types of marketable securities that have been pledged as collateral for these borrowings (*in thousands*).

	As of June 30, 2016		
	Remaining Contractual Maturities of the Agreements		Total
	Overnight & Continuous	Over 90 Days	
Repurchase agreements, secured by:			
U.S. Treasury	\$ 296,222	\$	\$ 296,222
U.S. Agencies	1,241,328	3,100	1,244,428
Total repurchase agreements	\$ 1,537,550	\$ 3,100	\$ 1,540,650

8. Business Segment Reporting

The Company has strategically aligned its operations into the following three reportable segments (collectively, the Business Segments): Bank, Institutional Investment Management, and Asset Servicing. Senior executive officers regularly evaluate business segment financial results produced by the Company's internal management reporting system in deciding how to allocate resources and assess performance for individual Business Segments. Previously, the Company had the following four Business Segments: Bank, Institutional Investment Management, Asset Servicing, and Payment Solutions. In the first quarter of 2016, the Company merged the Payments Solutions segment into the Bank segment to better reflect how the core businesses, products and services are being evaluated by management currently. The Company's Payment Solutions leadership structure and financial performance assessments are now included in the Bank segment, and accordingly, the reportable segments were realigned to reflect these changes. For comparability purposes, amounts in all periods are based on methodologies in effect at March 31, 2016. 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, consumer and commercial credit and debit card, prepaid debit card solutions, healthcare services, institutional cash management, merchant bankcard, wealth management, brokerage, insurance, capital markets, investment banking, corporate trust, and correspondent banking.

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.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

Business Segment Information

Segment financial results were as follows (in thousands):

	Three Months Ended June 30, 2016			
	Bank	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 118,613	\$	\$ 2,597	\$ 121,210
Provision for loan losses	7,000			7,000
Noninterest income	80,044	19,127	22,276	121,447
Noninterest expense	145,736	18,858	20,649	185,243
Income before taxes	45,921	269	4,224	50,414
Income tax expense	11,939	77	1,101	13,117
Net income	\$ 33,982	\$ 192	\$ 3,123	\$ 37,297
Average assets	\$ 18,170,000	\$ 61,000	\$ 1,205,000	\$ 19,436,000

	Three Months Ended June 30, 2015			
	Bank	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 96,403	\$	\$ 957	\$ 97,360
Provision for loan losses	5,000			5,000
Noninterest income	70,840	25,685	23,025	119,550
Noninterest expense	133,617	18,302	20,045	171,964
Income before taxes	28,626	7,383	3,937	39,946
Income tax expense	7,017	1,747	968	9,732
Net income	\$ 21,609	\$ 5,636	\$ 2,969	\$ 30,214
Average assets	\$ 16,384,000	\$ 71,000	\$ 958,000	\$ 17,413,000

	Six Months Ended June 30, 2016		
Bank		Asset Servicing	Total

	Institutional Investment Management			
Net interest income	\$ 233,885	\$	\$ 5,217	\$ 239,102
Provision for loan losses	12,000			12,000
Noninterest income	155,483	37,542	44,772	237,797
Noninterest expense	289,104	36,088	40,795	365,987
Income before taxes	88,264	1,454	9,194	98,912
Income tax expense	22,643	367	2,360	25,370
Net income	\$ 65,621	\$ 1,087	\$ 6,834	\$ 73,542
Average assets	\$ 18,027,000	\$ 62,000	\$ 1,296,000	\$ 19,385,000

	Six Months Ended June 30, 2015			
	Bank	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 185,764	\$	\$ 1,954	\$ 187,718
Provision for loan losses	8,000			8,000
Noninterest income	145,529	52,769	46,459	244,757
Noninterest expense	258,796	36,262	41,319	336,377
Income before taxes	64,497	16,507	7,094	88,098
Income tax expense	17,732	4,497	1,890	24,119
Net income	\$ 46,765	\$ 12,010	\$ 5,204	\$ 63,979
Average assets	\$ 16,101,000	\$ 73,000	\$ 950,000	\$ 17,124,000

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

9. Acquisition

On May 31, 2015, the Company acquired 100% of the outstanding common shares of Marquette Financial Companies. Marquette was a privately held financial services company with a portfolio of businesses that operated thirteen branches in Arizona and Texas, two national commercial specialty-lending businesses focused on asset-based lending and accounts receivable factoring, and an asset-management firm. As a result of the acquisition, the Company increased its presence in Arizona and Texas and supplemented the Company's commercial-banking services with factoring and asset-based lending businesses. As of the close of trading on the Acquisition Date, the beneficial owners of Marquette received 9.2295 shares of the Company's common stock for each share of Marquette common stock owned at that date (approximately 3.47 million shares total). The market value of the shares of the Company's common stock issued at the effective time of the merger was approximately \$179.7 million, based on the Company's closing stock price of \$51.79 on May 29, 2015. The transaction was accounted for using the purchase method of accounting in accordance with FASB ASC Topic 805, *Business Combinations*. Accordingly, the purchase price was allocated based on the estimated fair market values of the assets and liabilities acquired.

The following table summarizes the net assets acquired (at fair value) and consideration transferred for Marquette (*in thousands, except for per share data*):

	Fair Value May 31, 2015
<u>Assets</u>	
Loans	\$ 980,404
Investment securities	177,694
Cash and due from banks	95,351
Premises and equipment, net	11,508
Identifiable intangible assets	14,881
Other assets	32,336
Total assets acquired	1,312,174
<u>Liabilities</u>	
Noninterest-bearing deposits	226,161
Interest-bearing deposits	708,675
Short-term debt	112,133
Long-term debt	89,971
Other liabilities	14,135
Total liabilities assumed	1,151,075
Net identifiable assets acquired	161,099

Goodwill acquired		18,638
Net assets acquired	\$	179,737
<u>Consideration:</u>		
Company's common shares issued		3,470
Purchase price per share of the Company's common stock	\$	51.79
Fair value of total consideration transferred	\$	179,737

In the acquisition, the Company purchased \$980.4 million of loans at fair value. All non-performing loans and select other classified loan relationships considered by management to be credit impaired are accounted for pursuant to ASC Topic 310-30, as previously discussed within Note 4, Loans and Allowance for Loan Losses.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)**

The Company assumed long-term debt obligations with an aggregate balance of \$103.1 million and an aggregate fair value of \$65.5 million as of the Acquisition Date payable to four unconsolidated trusts (Marquette Capital Trust I, Marquette Capital Trust II, Marquette Capital Trust III, and Marquette Capital Trust IV) that have issued trust preferred securities. Interest rates on trust preferred securities trusts are tied to the three-month LIBOR rate with spreads ranging from 133 basis points to 160 basis points and reset quarterly. The trust preferred securities have maturity dates ranging from January 2036 to September 2036.

The amount of goodwill arising from the acquisition reflects the Company's increased market share and related synergies that are expected to result from combining the operations of UMB and Marquette. All of the goodwill was assigned to the Bank segment. In accordance with ASC 350, *Intangibles-Goodwill and Other*, goodwill will not be amortized but will be subject to at least an annual impairment test. As the Company acquired tax deductible goodwill in excess of the amount reported in the consolidated financial statements, the goodwill is expected to be deductible for tax purposes. The fair value of the acquired identifiable intangible assets of \$14.9 million is comprised of a core deposit intangible of \$11.0 million, customer lists of \$2.9 million and non-compete agreements of \$1.0 million.

The results of operations of Marquette are included in the results of operations of the Company subsequent to the Acquisition Date. For the six months ended June 30, 2016, acquisition expenses recognized in Noninterest expense in the Company's Consolidated Statements of Income totaled \$4.0 million. This total included \$880 thousand of severance in Salaries and employee benefits and \$1.6 million in Legal and consulting fees.

10. Commitments, Contingencies and Guarantees

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

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

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

Contract or Notional Amount (in thousands):

	June 30, 2016	December 31, 2015
Commitments to extend credit for loans (excluding credit card loans)	\$ 6,406,215	\$ 6,671,794
Commitments to extend credit under credit card loans	2,729,837	2,986,581
Commercial letters of credit	6,024	11,541
Standby letters of credit	382,448	360,468
Futures contracts	1,300	
Forward contracts	64,536	75,611
Spot foreign exchange contracts	6,350	10,391

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

11. 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. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to certain fixed rate assets and liabilities. The Company also has interest rate derivatives that 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 Consolidated Balance Sheets

The Company's derivative assets and derivative liabilities are located within Other assets and Other liabilities, respectively, on the Company's Consolidated Balance Sheets. This table provides a summary of the fair value of the Company's derivative assets and liabilities as of June 30, 2016 and December 31, 2015 (*in thousands*):

	Asset Derivatives		Liability Derivatives	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Fair Value				
Interest Rate Products:				
Derivatives not designated as hedging instruments	\$ 23,199	\$ 11,700	\$ 24,212	\$ 11,921
Derivatives designated as hedging instruments	546	603	7,646	337
Total	\$ 23,745	\$ 12,303	\$ 31,858	\$ 12,258

Fair Value Hedges of Interest Rate Risk

The Company is exposed to changes in the fair value of certain of its fixed rate assets and liabilities due to changes in the benchmark interest rate, LIBOR. Interest rate swaps designated as fair value hedges involve either making fixed rate payments to a counterparty in exchange for the Company receiving variable rate payments, or making variable rate payments to a counterparty in exchange for the Company receiving fixed rate payments, over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2016, the Company had two interest rate swaps with a notional amount of \$15.9 million that were designated as fair value hedges of interest rate risk associated with the Company's fixed rate loan assets and brokered time deposits.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives.

Cash Flow Hedges of Interest Rate Risk

The Company is exposed to changes in the fair value of certain of its variable-rate liabilities due to changes in the benchmark interest rate, LIBOR. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of June 30, 2016, the Company had two

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)**

interest rate swaps with a notional amount of \$51.5 million that were designated as cash flow hedges of interest rate risk associated with the Company's variable rate subordinated debentures issued by Marquette Capital Trusts III and IV. For derivatives designated and that qualify as cash flow hedges, the effective portion of changes in fair value is recorded in accumulated other comprehensive income (AOCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly into earnings for the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk. During the three and six months ended June 30, 2016, the Company recognized net losses of \$2.9 million and \$7.0 million, respectively, in AOCI for the effective portion of the change in fair value of these cash flow hedges. During the three and six months ended June 30, 2016, the Company did not record any hedge ineffectiveness in earnings. Amounts reported in AOCI related to derivatives will be reclassified to Interest expense as interest payments are received or paid on the Company's derivatives. The Company does not expect to reclassify any amounts from AOCI to Interest expense during the next 12 months as the Company's derivatives are effective after December 2018. As of June 30, 2016, the Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 20.25 years.

Non-designated Hedges

The remainder of the Company's derivatives are not designated in qualifying hedging relationships. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously offset by interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of June 30, 2016, the Company had 48 interest rate swaps with an aggregate notional amount of \$574.2 million related to this program. During the three and six months ended June 30, 2016, the Company recognized \$440 thousand and \$792 thousand of net losses, respectively, related to changes in fair value of these swaps. During the three and six months ended June 30, 2015, the Company recognized \$20 thousand of net gains and \$86 thousand of net losses, respectively, related to changes in the fair value of these swaps.

Effect of Derivative Instruments on the Consolidated Statements of Income

This table provides a summary of the amount of gain or loss recognized in other noninterest expense in the Consolidated Statements of Income related to the Company's derivative assets and liabilities for the three and six months ended June 30, 2016 and June 30, 2015 (*in thousands*):

Amount of Gain (Loss) Recognized

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest Rate Products				
Derivatives not designated as hedging instruments	\$ (440)	\$ 20	\$ (792)	\$ (86)
Total	\$ (440)	\$ 20	\$ (792)	\$ (86)
Interest Rate Products				
Derivatives designated as hedging instruments:				
Fair value adjustments on derivatives	\$ (138)	\$ 121	\$ (331)	\$ 6
Fair value adjustments on hedged items	137	(114)	329	(4)
Total	\$ (1)	\$ 7	\$ (2)	\$ 2

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

This table provides a summary of the amount of gain or loss recognized in AOCI in the Consolidated Statements of Comprehensive Income related to the Company's derivative assets and liabilities as of June 30, 2016 and June 30, 2015 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in Other Comprehensive Income on Derivatives (Effective Portion)			
	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
Interest rate products				
Derivatives designated as cash flow hedging instruments	\$ (2,894)	\$	\$ (7,034)	\$
Total	\$ (2,894)	\$	\$ (7,034)	\$

Credit-risk-related Contingent Features

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

As of June 30, 2016, the termination value of derivatives in a net liability position, which includes accrued interest, related to these agreements was \$32.1 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has not yet reached its minimum collateral posting threshold under these agreements. If the Company had breached any of these provisions at June 30, 2016, it could have been required to settle its obligations under the agreements at the termination value.

12. Fair Value Measurements

The following table presents information about the Company's assets measured at fair value on a recurring basis as of June 30, 2016, 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)**Assets measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015 (*in thousands*):

Description	Fair Value Measurement at June 30, 2016			
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
U.S. Treasury	\$ 400	\$ 400	\$	\$
U.S. Agencies	2,351		2,351	
Mortgage-backed	6,569		6,569	
State and political subdivisions	19,084		19,084	
Trading - other	27,907	27,790	117	
Trading securities	56,311	28,190	28,121	
U.S. Treasury	363,337	363,337		
U.S. Agencies	421,625		421,625	
Mortgage-backed	3,600,175		3,600,175	
State and political subdivisions	2,305,979		2,305,979	
Corporates	80,063	80,063		
Available for sale securities	6,771,179	443,400	6,327,779	
Company-owned life insurance	36,479		36,479	
Bank-owned life insurance	206,508		206,508	
Derivatives	23,745		23,745	
Total	\$ 7,094,222	\$ 471,590	\$ 6,622,632	\$
Liabilities				
Deferred compensation	\$ 37,715	\$ 37,715	\$	\$
Derivatives	31,858		31,858	
Total	\$ 69,573	\$ 37,715	\$ 31,858	\$

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

Description	Fair Value Measurement at December 31, 2015			
	December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
U.S. Treasury	\$ 400	\$ 400	\$	\$
U.S. Agencies	1,309		1,309	
State and political subdivisions	10,200		10,200	
Trading - other	17,708	17,708		
Trading securities	29,617	18,108	11,509	
U.S. Treasury	349,779	349,779		
U.S. Agencies	666,389		666,389	
Mortgage-backed	3,572,446		3,572,446	
State and political subdivisions	2,138,413		2,138,413	
Corporates	79,922	79,922		
Available for sale securities	6,806,949	429,701	6,377,248	
Company-owned life insurance	31,205		31,205	
Bank-owned life insurance	202,991		202,991	
Derivatives	12,303		12,303	
Total	\$ 7,083,065	\$ 447,809	\$ 6,635,256	\$
Liabilities				
Deferred compensation	\$ 32,937	\$ 32,937	\$	\$
Contingent consideration liability	17,718			17,718
Derivatives	12,258		12,258	
Total	\$ 62,913	\$ 32,937	\$ 12,258	\$ 17,718

The following table reconciles the beginning and ending balances of the contingent consideration liability for the six months ended June 30, 2016 and 2015 (*in thousands*):

	Six Months Ended June 30,	
	2016	2015
Beginning balance	\$ 17,718	\$ 53,411
Payment of contingent consideration on acquisitions	(17,784)	(18,702)
Fair value adjustments	66	(3,418)
Ending balance	\$	\$ 31,291

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:

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.

Securities Available for Sale 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.

Table of Contents**UMB FINANCIAL CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)**

Prices are provided by third-party pricing services and are based on observable market inputs. On an annual basis, the Company compares a sample of these prices to other independent sources for the same securities. Additionally, throughout the year if securities are sold, comparisons are made between the pricing services prices and the market prices at which the securities were sold. Variances are analyzed, and, if appropriate, additional research is conducted with the third-party pricing services. Based on this research, the pricing services may affirm or revise their quoted price. No significant adjustments have been made to the prices provided by the pricing services. The pricing services also provide documentation on an ongoing basis that includes reference data, inputs and methodology by asset class, which is reviewed to ensure that security placement within the fair value hierarchy is appropriate.

Company-owned Life Insurance Fair value is equal to the cash surrender value of the life insurance policies.

Bank-owned Life Insurance Fair value is equal to the cash surrender value of the life insurance policies.

Derivatives Fair values are determined using valuation techniques including discounted cash flow analysis on the expected cash flows from 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.

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 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 expense.

Assets measured at fair value on a non-recurring basis as of June 30, 2016 and December 31, 2015 (*in thousands*):

Fair Value Measurement at June 30, 2016 Using

Description	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) Recognized During the Six Months Ended June 30
Impaired loans	\$ 15,651	\$	\$	\$ 15,651	\$ 1,124
Other real estate owned	194			194	
Total	\$ 15,845	\$	\$	\$ 15,845	\$ 1,124

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

Description	Fair Value Measurement at December 31, 2015 Using				Total Gains (Losses) Recognized During the Twelve Months Ended December 31
	December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 22,885	\$	\$	\$ 22,885	\$ (3,957)
Other real estate owned	3,269			3,269	
Total	\$ 26,154	\$	\$	\$ 26,154	\$ (3,957)

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 write-downs that are based on the external appraised value of the underlying collateral. 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. 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, third-party price opinions, or internally developed pricing methods and those measurements are classified as Level 3.

Goodwill Valuation of goodwill to determine impairment is performed annually, or more frequently if there is an event or circumstance that would indicate impairment may have occurred. The process involves calculations to determine the fair value of each reporting unit on a stand-alone basis. A combination of formulas using current market

multiples, based on recent sales of financial institutions within the Company's geographic marketplace, is used to estimate the fair value of each reporting unit. That fair value is compared to the carrying amount of the reporting unit, including its recorded goodwill. Impairment is considered to have occurred if the fair value of the reporting unit is lower than the carrying amount of the reporting unit. The fair value of the Company's common stock relative to its computed book value per share is also considered as part of the overall evaluation. These measurements are classified as Level 3.

Fair value disclosures require disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The estimated fair value of the Company's financial instruments at June 30, 2016 and December 31, 2015 are as follows (*in millions*):

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

	Fair Value Measurement at June 30, 2016 Using Quoted Prices				
	Carrying Amount	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
FINANCIAL ASSETS					
Cash and short-term investments	\$ 931.6	\$ 744.9	\$ 186.7	\$	\$ 931.6
Securities available for sale	6,771.2	443.4	6,327.8		6,771.2
Securities held to maturity	880.6		991.7		991.7
Trading securities	56.3	28.2	28.1		56.3
Other securities	66.3		66.3		66.3
Loans (exclusive of allowance for loan loss)	10,093.8		10,196.5		10,196.5
Derivatives	23.7		23.7		23.7
FINANCIAL LIABILITIES					
Demand and savings deposits	14,503.9	14,503.9			14,503.9
Time deposits	1,144.8		1,144.8		1,144.8
Other borrowings	1,793.6	247.9	1,545.7		1,793.6
Long-term debt	85.3		85.9		85.9
Derivatives	31.9		31.9		31.9
OFF-BALANCE SHEET ARRANGEMENTS					
Commitments to extend credit for loans					2.8
Commercial letters of credit					0.1
Standby letters of credit					1.2

	Fair Value Measurement at December 31, 2015 Using Quoted Prices				
	Carrying Amount	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
FINANCIAL ASSETS					
Cash and short-term investments	\$ 1,154.7	\$ 997.0	\$ 157.7	\$	\$ 1,154.7
Securities available for sale	6,806.9	429.7	6,377.2		6,806.9

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Securities held to maturity	667.1		691.4	691.4
Trading securities	29.6	18.1	11.5	29.6
Other securities	65.2		65.2	65.2
Loans (exclusive of allowance for loan loss)	9,431.3		9,452.1	9,452.1
Derivatives	12.3		12.3	12.3
FINANCIAL LIABILITIES				
Demand and savings deposits	13,836.9	13,836.9		13,836.9
Time deposits	1,255.9		1,255.9	1,255.9
Other borrowings	1,823.1	66.9	1,756.2	1,823.1
Long-term debt	86.1		86.4	86.4
Derivatives	12.3		12.3	12.3
OFF-BALANCE SHEET ARRANGEMENTS				
Commitments to extend credit for loans				4.9
Commercial letters of credit				0.3
Standby letters of credit				2.6

Cash and short-term investments The carrying amounts of cash and due from banks, federal funds sold and resell agreements are reasonable estimates of their fair values.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

Securities held to maturity Fair value of held-to-maturity securities are estimated by discounting the future cash flows using current market rates.

Other securities Amount consists of FRB and FHLB stock held by the Company, PCM equity-method investments, and other miscellaneous investments. The fair value of FRB and FHLB stock is considered to be the carrying value as no readily determinable market exists for these investments because they can only be redeemed with the FRB or FHLB. The fair value of PCM marketable equity-method investments are based on quoted market prices used to estimate the value of the underlying investment. For non-marketable equity-method investments, the Company's proportionate share of the income or loss is recognized on a one-quarter lag based on the valuation of the underlying investment(s).

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.

Demand and savings deposits The fair value of demand deposits and savings accounts is the amount payable on demand at June 30, 2016 and December 31, 2015.

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.

Other borrowings The carrying amounts of federal funds purchased, repurchase agreements and other short-term debt are reasonable estimates of their fair value because of the short-term nature of their 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.

Table of Contents

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations highlights the material changes in the results of operations and changes in financial condition of the Company for the three-month and six-month periods ended June 30, 2016. It should be read in conjunction with the accompanying consolidated financial statements, notes to consolidated financial statements and other financial statistics appearing elsewhere in this Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2015. 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, trend, plan, goal, or other 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 Securities and Exchange Commission (SEC). In addition, the Company may make forward-looking statements orally or in writing 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 the Company's control. You should not rely on any forward-looking statement as a prediction or guarantee about the future. Actual future objectives, strategies, plans, prospects, performance, conditions, 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 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 to the Company;

Table of Contents

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

the Company's ability to 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 innovate 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 the Company's 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 the financial-services 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 the Company's 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 the Company's ability to integrate acquisitions;

the adequacy of the Company's succession planning for key executives or other personnel;

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

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

other assumptions, risks, or uncertainties described in the Notes to Consolidated Financial Statements (Item 1) and Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2) in this Form 10-Q, in the Risk Factors (Item 1A) in the Form 10-K, or as described in any of the Company's 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 Annual Report on Form 10-K, Quarterly Report on Form 10-Q, or Current Report on Form 8-K.

Table of Contents**Overview**

The Company focuses on the following four core strategic objectives. Management believes these strategies will guide our efforts to achieve our vision to deliver the unparalleled customer experience, all while maintaining a focus to improve net income and strengthen the balance sheet.

The first strategic objective is a focus on improving operating efficiencies. During the second half of 2015, an in-depth review of the organization was completed to identify efficiencies. The Company plans to utilize the results of this review to simplify our organizational and reporting structures, streamline back office functions and take advantage of synergies among various platforms and distribution networks. The Company identified a total of \$32.9 million in annual savings that are expected to be realized in the future as a result of the elimination of certain employee positions and business process improvements. This total does not include the additional cost savings to be recognized related to the Marquette integration, or any ongoing efficiencies identified through our normal course of business. The Company continues to invest in technological advances that will help management drive operating efficiencies in the future through improved data analysis and automation. The Company also continues to evaluate core systems and will invest in enhancements that it believes will yield operating efficiencies.

The second strategic objective is a focus on net interest income through loan and deposit growth. During the second quarter of 2016, the Company continued to make progress on this strategy as illustrated by an increase in net interest income of \$23.9 million, or 24.5 percent, from the same period in 2015. The Company has continued to show increased net interest income in a historically low interest rate environment through the effects of increased volume of average earning assets and a low cost of funds in its Consolidated Balance Sheets. On May 31, 2015, the Marquette acquisition was completed, which added earning assets with an acquired value of \$1.2 billion to the Company's Consolidated Balance Sheets. Average earning assets increased \$2.1 billion, or 13.2 percent from June 30, 2015. The funding for these assets was driven primarily by a 19.4 percent increase in average interest-bearing liabilities and a 4.0 percent increase in average noninterest-bearing demand deposits. Average loan balances increased \$1.8 billion, or 22.5 percent compared to the same period in 2015. Net interest margin, on a tax-equivalent basis, increased 27 basis points compared to the same period in 2015.

The third strategic objective is to grow the Company's fee-based businesses. As the industry continues to experience economic uncertainty, the Company has continued to emphasize its fee-based operations. By maintaining a diverse source of revenues, this strategy has helped reduce the Company's exposure to sustained low interest rates. During the second quarter of 2016, noninterest income increased \$1.9 million, or 1.6 percent, to \$121.4 million for the three months ended June 30, 2016, compared to the same period in 2015. This change is discussed in greater detail below under Noninterest Income. The Company continues to emphasize its asset management, brokerage, bankcard services, healthcare services, and treasury management businesses. At June 30, 2016, noninterest income represented 50.0 percent of total revenues, compared to 55.1 percent at June 30, 2015.

The fourth strategic objective is a focus on capital management. The Company places a significant emphasis on maintaining 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, evaluating acquisition opportunities that complement the strategies, increasing dividends over time, and properly utilizing a share repurchase program. At June 30, 2016, the Company had \$2.0 billion in total shareholders' equity. This is an increase of \$145.7 million, or 7.8 percent, compared to total shareholders' equity at June 30, 2015. At June 30, 2016, the Company had a total risk-based capital ratio of 12.70 percent. The Company repurchased 12,352 shares of common stock at an average price of \$56.75 per share during the second quarter of 2016.

Earnings Summary

The following is a summary regarding the Company's earnings for the second quarter of 2016. The changes identified in the summary are explained in greater detail below. The Company recorded consolidated net income of \$37.3 million for the three-month period ended June 30, 2016, compared to \$30.2 million for the same period a year earlier. This represents a 23.4 percent increase over the three-month period ended June 30, 2015. Basic earnings per share for the second quarter of 2016 were \$0.76 per share (\$0.76 per share fully-diluted)

Table of Contents

compared to \$0.65 per share (\$0.65 per share fully-diluted) for the second quarter of 2015. Return on average assets and return on average common shareholders' equity for the three-month period ended June 30, 2016 were 0.77 and 7.58 percent, respectively, compared to 0.70 and 6.95 percent, respectively, for the three-month period ended June 30, 2015.

The Company recorded consolidated net income of \$73.5 million for the six-month period ended June 30, 2016, compared to \$64.0 million for the same period a year earlier. This represents a 14.9 percent increase over the six-month period ended June 30, 2015. Basic earnings per share for the six-month period ended June 30, 2016 were \$1.51 per share (\$1.50 per share fully-diluted) compared to \$1.40 per share (\$1.39 per share fully-diluted) for the same period in 2015. Return on average assets and return on average common shareholders' equity for the six-month period ended June 30, 2016 were 0.76 and 7.54 percent, respectively, compared to 0.75 and 7.55 percent for the same period in 2015.

Net interest income for the three and six-month periods ended June 30, 2016 increased \$23.9 million, or 24.5 percent, and \$51.4 million, or 27.4 percent, respectively, compared to the same periods in 2015. For the three-month period ended June 30, 2016, average earning assets increased by \$2.1 billion, or 13.2 percent, and for the six-month period ended June 30, 2016, they increased by \$2.2 billion, or 13.7 percent, compared to the same periods in 2015. Net interest margin, on a tax-equivalent basis, increased to 2.86 percent and 2.82 percent for the three and six-month periods ended June 30, 2016, compared to 2.59 percent and 2.53 percent for the same periods in 2015. The Marquette acquisition added earning assets with an acquired value of \$1.2 billion primarily from loan balances with an acquired value of \$980.4 million at May 31, 2015. Marquette also added interest-bearing liabilities with an acquired value of \$910.8 million primarily from interest-bearing deposits of \$708.7 million at May 31, 2015.

The provision for loan losses increased \$2.0 million to \$7.0 million for the three-month period ended June 30, 2016, and increased by \$4.0 million to \$12.0 million for the six-month period ended June 30, 2016, compared to the same periods in 2015. This increase is a 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 to 0.84 percent as of June 30, 2016, compared to 0.87 percent at June 30, 2015. 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 in the Form 10-K.

Noninterest income increased by \$1.9 million, or 1.6 percent, for the three-month period ended June 30, 2016, and decreased by \$7.0 million, or 2.8 percent, for the six-month period ended June 30, 2016, compared to the same periods one year ago. These changes are discussed in greater detail below under Noninterest Income.

Noninterest expense increased by \$13.3 million, or 7.7 percent, for the three-month period ended June 30, 2016, and increased by \$29.6 million, or 8.8 percent, for the six-month period ended June 30, 2016, compared to the same periods in 2015. These changes 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. As noted above, the impacts of the Marquette acquisition are included in these results. For the three-month period ended June 30, 2016, average earning assets increased by \$2.1 billion, or 13.2 percent, and for the six-month period ended June 30, 2016, they increased by \$2.2 billion, or 13.7 percent, compared to the same periods in 2015.

Net interest margin, on a tax-equivalent basis, increased to 2.86 percent and 2.82 percent for the three and six-months periods ended June 30, 2016, compared to 2.59 percent and 2.53 percent for the same periods in 2015.

Table 1 shows the impact of earning asset rate changes compared to changes in the cost of interest-bearing liabilities. As illustrated in this table, net interest spread and margin for the three months ended June 30, 2016 increased by 27 basis points compared to the same period in 2015. Net interest spread and margin for the six months ended June 30, 2016 increased by 28 and 29 basis points, respectively, compared to the same period in 2015. These results are primarily due to favorable volume and rate variances on loans. The combined impact of these

Table of Contents

variances has led to an increase in interest income and an increase in interest expense, or an increase in the Company's net interest income as compared to results for the same periods in 2015. For the impact of the contribution from free funds, see the Analysis of Net Interest Margin within Table 2 below. Table 2 also illustrates how the changes in volume and rates have resulted in an increase in net interest income.

Table 1

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

The following table presents, for the periods indicated, the average earning assets and resulting yields, as well as the average interest-bearing liabilities and resulting yields, expressed in both dollars and rates. All average balances are daily average balances. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.84 percent for the three-month period ended June 30, 2016 and 2.56 percent for the same period in 2015. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.81 percent for the six-month period ended June 30, 2016 and 2.49 percent for the same period in 2015.

	Three Months Ended June 30,			
	2016	2015	2016	2015
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Assets				
Loans, net of unearned interest	\$ 9,887,404	3.82%	\$ 8,071,991	3.55%
Securities:				
Taxable	4,676,230	1.62	4,974,668	1.55
Tax-exempt	2,987,217	2.86	2,407,759	2.72
Total securities	7,663,447	2.11	7,382,427	1.93
Federal funds and resell agreements	181,094	1.43	69,053	0.88
Interest-bearing due from banks	313,427	0.56	414,446	0.42
Other earning assets	40,996	2.09	37,063	1.70
Total earning assets	18,086,368	3.01	15,974,980	2.70
Allowance for loan losses	(81,699)		(77,667)	
Other assets	1,431,600		1,515,687	
Total assets	\$ 19,436,269		\$ 17,413,000	
Liabilities and Shareholders Equity				
Interest-bearing deposits	\$ 9,315,851	0.18%	\$ 7,924,696	0.18%
Federal funds and repurchase agreements	2,163,264	0.30	1,715,836	0.11
Borrowed funds	91,034	4.09	49,827	4.28
Total interest-bearing liabilities	11,570,149	0.23	9,690,359	0.19
Noninterest-bearing demand deposits	5,723,840		5,504,333	
Other liabilities	162,390		473,676	
Shareholders equity	1,979,890		1,744,632	

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Total liabilities and shareholders equity	\$ 19,436,269		\$ 17,413,000
Net interest spread		2.78%	2.51%
Net interest margin		2.86	2.59

Table of Contents

	Six Months Ended June 30,			
	2016		2015	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Assets				
Loans, net of unearned interest	\$ 9,718,848	3.82%	\$ 7,772,709	3.52%
Securities:				
Taxable	4,751,526	1.62	4,921,907	1.56
Tax-exempt	2,896,366	2.84	2,331,422	2.73
Total securities	7,647,892	2.08	7,253,329	1.93
Federal funds and resell agreements	163,943	1.41	51,793	0.79
Interest-bearing due from banks	481,031	0.55	759,238	0.34
Other earning assets	33,677	1.67	33,661	1.76
Total earning assets	18,045,391	2.97	15,870,730	2.63
Allowance for loan losses	(81,259)		(77,124)	
Other assets	1,420,465		1,330,476	
Total assets	\$ 19,384,597		\$ 17,124,082	
Liabilities and Shareholders Equity				
Interest-bearing deposits	\$ 9,372,812	0.18%	\$ 7,764,368	0.17%
Federal funds and repurchase agreements	1,929,910	0.30	1,713,386	0.11
Borrowed funds	91,796	4.02	29,193	4.05
Total interest-bearing liabilities	11,394,518	0.23	9,506,947	0.17
Noninterest-bearing demand deposits	5,869,330		5,582,180	
Other liabilities	160,173		325,066	
Shareholders equity	1,960,576		1,709,889	
Total liabilities and shareholders equity	\$ 19,384,597		\$ 17,124,082	
Net interest spread		2.74%		2.46%
Net interest margin		2.82		2.53

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 the average balance of interest-free funds (total earning assets less interest-bearing liabilities) increased \$231.6 million for the three-month period and \$287.1 million for the six-month period ended June 30, 2016 compared to the same periods in 2015, the benefit from interest free funds was relatively flat in the three-month and six-month periods due to increased yields on earning assets, offset by an increase in rates of interest-bearing liabilities.

Table of Contents

Table 2

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

	Three Months Ended June 30, 2016 and 2015			Six Months Ended June 30, 2016 and 2015		
	Volume	Rate	Total	Volume	Rate	Total
Change in interest earned on:						
Loans	\$ 17,102	\$ 5,451	\$ 22,553	\$ 37,228	\$ 11,637	\$ 48,865
Securities:						
Taxable	(1,232)	921	(311)	(1,320)	1,558	238
Tax-exempt	2,681	557	3,238	5,271	787	6,058
Federal funds sold and resell agreements	397	94	491	787	160	947
Interest-bearing due from banks	(141)	144	3	(766)	807	41
Trading	14	26	40		(3)	(3)
Interest income	18,821	7,193	26,014	41,200	14,946	56,146
Change in interest incurred on:						
Interest-bearing deposits	608	6	614	1,422	199	1,621
Federal funds purchased and repurchase agreements	336	820	1,156	321	1,573	1,894
Other borrowed funds	417	(24)	393	1,252	(5)	1,247
Interest expense	1,361	802	2,163	2,995	1,767	4,762
Net interest income	\$ 17,460	\$ 6,391	\$ 23,851	\$ 38,205	\$ 13,179	\$ 51,384

ANALYSIS OF NET INTEREST MARGIN

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
	\$ 18,086,368	\$ 15,974,980	\$ 2,111,388	\$ 18,045,391	\$ 15,870,730	\$ 2,174,661

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Average earning assets						
Interest-bearing liabilities	11,570,149	9,690,359	1,879,790	11,394,518	9,506,947	1,887,571
Interest-free funds	\$ 6,516,219	\$ 6,284,621	\$ 231,598	\$ 6,650,873	\$ 6,363,783	\$ 287,090
Free funds ratio (free funds to earning assets)	36.03%	39.34%	(3.31)%	36.86%	40.10%	(3.24)%
Tax-equivalent yield on earning assets	3.01	2.70	0.31	2.97	2.63	0.34
Cost of interest-bearing liabilities	0.23	0.19	0.04	0.23	0.17	0.06
Net interest spread	2.78	2.51	0.27	2.74	2.46	0.28
Benefit of interest-free funds	0.08	0.08		0.08	0.07	0.01
Net interest margin	2.86%	2.59%	0.27%	2.82%	2.53%	0.29%

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 \$7.0 million and \$12.0 million related to the provision for loan losses for the three and six-month periods ended June 30, 2016, compared to \$5.0 million and \$8.0 million for the same periods in 2015. As illustrated in Table 3 below, the ALL decreased to 0.84 percent of total loans as of June 30, 2016, compared to 0.87 percent of total loans as of the same period in 2015. As discussed above, these results include the impact of the acquisition of Marquette.

Table 3 presents a summary of the Company's ALL for the six months ended June 30, 2016 and 2015, and for the year ended December 31, 2015. Net charge-offs were \$8.5 million for the first six months of 2016, compared to \$6.4 million for the same period in 2015. See "Credit Risk Management" under "Item 3. Quantitative and Qualitative Disclosures About Market Risk" in this report for information relating to nonaccrual loans, past due loans, restructured loans and other credit risk matters.

Table 3

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

	Six Months Ended June 30,		Year Ended
	2016	2015	December 31, 2015
Allowance-January 1	\$ 81,143	\$ 76,140	\$ 76,140
Provision for loan losses	12,000	8,000	15,500
Charge-offs:			
Commercial	(5,875)	(3,500)	(5,239)
Consumer:			
Credit card	(4,285)	(4,618)	(8,555)
Other	(331)	(532)	(1,103)
Real estate	(2,796)	(100)	(214)
Total charge-offs	(13,287)	(8,750)	(15,111)
Recoveries:			
Commercial	3,348	899	1,824
Consumer:			
Credit card	929	1,017	1,802
Other	202	323	667
Real estate	331	92	321

Total recoveries	4,810	2,331	4,614
Net charge-offs	(8,477)	(6,419)	(10,497)
Allowance-end of period	\$ 84,666	\$ 77,721	\$ 81,143
Average loans, net of unearned interest	\$ 9,715,208	\$ 7,771,523	\$ 8,423,997
Loans at end of period, net of unearned interest	10,083,266	8,916,128	9,430,761
Allowance to loans at end of period	0.84%	0.87%	0.86%
Allowance as a multiple of net charge-offs	4.97x	6.00x	7.73x
Net charge-offs to:			
Provision for loan losses	70.64%	80.24%	67.72%
Average loans	0.18	0.17	0.12

Table of Contents**Noninterest Income**

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

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

Table 4

SUMMARY OF NONINTEREST INCOME (unaudited, dollars in thousands)

	Three Months Ended June 30,		Dollar Change 16-15	Percent Change 16-15
	2016	2015		
Trust and securities processing	\$ 59,745	\$ 67,381	\$ (7,636)	(11.3)%
Trading and investment banking	5,638	5,568	70	1.3
Service charges on deposits	22,420	21,625	795	3.7
Insurance fees and commissions	1,160	586	574	98.0
Brokerage fees	4,262	2,936	1,326	45.2
Bankcard fees	17,534	18,035	(501)	(2.8)
Gains on sales of securities available for sale, net	2,598	967	1,631	>100.0
Equity earnings (losses) on alternative investments	978	(1,125)	2,103	(>100.0)
Other	7,112	3,577	3,535	98.8
Total noninterest income	\$ 121,447	\$ 119,550	\$ 1,897	1.6%
	Six Months Ended June 30,		Dollar Change 16-15	Percent Change 16-15
	2016	2015		
Trust and securities processing	\$ 119,230	\$ 134,680	\$ (15,450)	(11.5)%
Trading and investment banking	10,268	11,690	(1,422)	(12.2)
Service charges on deposits	43,881	43,166	715	1.7
Insurance fees and commissions	2,657	1,156	1,501	>100.0
Brokerage fees	8,447	5,790	2,657	45.9
Bankcard fees	35,550	34,218	1,332	3.9
Gains on sales of securities available for sale, net	5,531	8,303	(2,772)	(33.4)
Equity earnings (losses) on alternative investments	597	(1,967)	2,564	(>100.0)
Other	11,636	7,721	3,915	50.7
Total noninterest income	\$ 237,797	\$ 244,757	\$ (6,960)	(2.8)%

Fee-based, or noninterest income (summarized in Table 4), increased by \$1.9 million, or 1.6 percent, during the three months ended June 30, 2016, and decreased by \$7.0 million, or 2.8 percent, during the six months ended June 30, 2016, compared to the same periods in 2015. Table 4 above summarizes the components of noninterest income and the respective year-over-year comparison for each category.

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

Table of Contents

decrease in these fees for the three and six-month periods compared to the same periods last year was primarily due to changes in three categories of income. First, advisory fee income from the Scout Funds for the three and six-month periods ended June 30, 2016, decreased by \$7.4 million, or 46.9 percent, and \$15.1 million, or 47.0 percent, respectively, compared to the same periods in 2015, due to declines in the underlying assets under management (AUM) for the respective periods. Additionally, the mix of AUM in the Institutional Investment Management segment has shifted to a higher percentage of fixed income versus equity as of June 30, 2016 compared to June 30, 2015. Second, fund administration and custody services fees for the three and six-month periods ended June 30, 2016, decreased by \$0.9 million, or 3.7 percent, and \$1.6 million, or 3.4 percent, respectively, due to a decrease in the underlying assets under administration. Third, institutional and personal investment management services increased by \$0.5 million, or 2.2 percent, and \$0.4 million, or 0.9 percent, for the three and six-month periods ended June 30, 2016, respectively. Since trust and securities processing fees are primarily asset-based, which are highly correlated to the change in market value of the assets, the related income for the remainder of the year will be affected by changes in the securities markets. Management continues to emphasize sales of services to both new and existing clients as well as increasing and improving the distribution channels.

Trading and investment banking fees for the three-month period ended June 30, 2016 increased \$0.1 million, or 1.3 percent, while for the six-month period ended June 30, 2016, they decreased \$1.4 million, or 12.2 percent. The income in this category is market driven and impacted by general increases or decreases in trading volume.

Service charges on deposits for the three and six-month periods ended June 30, 2016, increased \$0.8 million, or 3.7 percent, and increased \$0.7 million, or 1.7 percent, respectively. These increases were driven by higher healthcare service charges.

Brokerage fees for the three and six-month periods ended June 30, 2016, increased \$1.3 million, or 45.2 percent, and increased \$2.7 million, or 45.9 percent, respectively. These increases were driven by higher money market balances and the related 12b-1 fees.

Bankcard fees for the three and six-month periods ended June 30, 2016, decreased \$0.5 million, or 2.8 percent, and increased \$1.3 million, or 3.9 percent, respectively. The decrease for the three-month period was due to higher customer rebates and the increase in the six-month period was driven by higher interchange income.

During the three and six-month periods ended June 30, 2016, \$2.6 million and \$5.5 million in pre-tax gains were recognized on the sales of securities available for sale, compared to \$1.0 million and \$8.3 million for the same periods in 2015. 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.

During the three and six-month periods ended June 30, 2016, gains of \$1.0 million and \$0.6 million of equity earnings on alternative investments were recognized on PCM investments, respectively, compared to losses of \$1.1 million and \$2.0 million for the same periods in 2015 due to changes in the underlying fund investments.

Other noninterest income for the three and six-month period ended June 30, 2016, increased \$3.5 million, or 98.8 percent, and \$3.9 million, or 50.7 percent, respectively, primarily driven by increases of \$2.4 million in bank-owned and company-owned life insurance and \$1.0 million in derivative income.

Table of Contents

Table 5

SUMMARY OF NONINTEREST EXPENSE (unaudited in thousands)

	Three Months Ended June 30,		Dollar Change 16-15	Percent Change 16-15
	2016	2015		
Salaries and employee benefits	\$ 108,897	\$ 99,585	\$ 9,312	9.4%
Occupancy, net	11,139	10,312	827	8.0
Equipment	17,032	15,410	1,622	10.5
Supplies and services	4,719	4,603	116	2.5
Marketing and business development	6,313	6,530	(217)	(3.3)
Processing fees	11,464	12,654	(1,190)	(9.4)
Legal and consulting	4,937	5,917	(980)	(16.6)
Bankcard	5,369	4,953	416	8.4
Amortization of other intangible assets	3,145	2,569	576	22.4
Regulatory fees	3,692	2,873	819	28.5
Other	8,536	6,558	1,978	30.2
Total noninterest expense	\$ 185,243	\$ 171,964	\$ 13,279	7.7%

	Six Months Ended June 30,		Dollar Change 16-15	Percent Change 16-15
	2016	2015		
Salaries and employee benefits	\$ 216,047	\$ 198,122	\$ 17,925	9.0%
Occupancy, net	22,111	20,322	1,789	8.8
Equipment	33,314	29,582	3,732	12.6
Supplies and services	9,668	8,928	740	8.3
Marketing and business development	10,754	11,148	(394)	(3.5)
Processing fees	22,926	25,437	(2,511)	(9.9)
Legal and consulting	9,736	10,295	(559)	(5.4)
Bankcard	11,184	9,721	1,463	15.0
Amortization of other intangible assets	6,371	5,324	1,047	19.7
Regulatory fees	7,121	5,629	1,492	26.5
Other	16,755	11,869	4,886	41.2
Total noninterest expense	\$ 365,987	\$ 336,377	\$ 29,610	8.8%

Noninterest expense increased by \$13.3 million, or 7.7 percent, and increased \$29.6 million, or 8.8 percent, for the three and six months ended June 30, 2016, compared to the same periods in 2015. 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 \$9.3 million, or 9.4 percent, and increased \$17.9 million, or 9.0 percent, for the three and six months ended June 30, 2016, compared to the same periods in 2015. The Marquette acquisition contributed approximately \$4.7 million and \$13.8 million of this increase for the three and six months ended June 30,

2016, respectively, and is embedded in the breakouts in the following paragraph. A second significant driver is an increase in non-acquisition related severances of \$2.0 million and \$2.2 million for the three and six month comparative periods, respectively, which are included in the commissions and bonuses line as noted below.

Salaries and wages increased \$3.0 million, or 4.8 percent, and \$10.1 million, or 8.4 percent, for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. Commissions and bonuses increased \$5.0 million, or 23.3 percent, and \$6.3 million, or 14.9 percent, for the three and six months

Table of Contents

ended June 30, 2016, respectively, compared to the same periods in 2015. Employee benefits expense increased \$1.4 million, or 8.5 percent, and \$1.6 million, or 4.4 percent, for the three and six month period ended June 30, 2016, respectively, compared to the same periods in 2015.

Equipment expense increased \$1.6 million, or 10.5 percent, and \$3.7 million, or 12.6 percent, for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. The increases in both periods are due to increased computer hardware and software expenses related to investments for regulatory requirements, cyber security and the ongoing modernization of our core systems.

Processing fees expense decreased \$1.2 million, or 9.4 percent, and \$2.5 million, or 9.9 percent, for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. The decreases in both periods are due to decreased fees paid by the third-party advisor to distributors of the Scout Funds.

Other noninterest expense increased \$2.0 million, or 30.2 percent, and \$4.9 million, or 41.2 percent, for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. The increase in both periods is due to changes in the fair value adjustments to the contingent consideration liabilities and fair value adjustments on derivatives.

Total acquisition expenses recognized in noninterest expense during the second quarter 2016 totaled \$1.0 million and totaled \$4.0 million for the first six months of 2016, compared to \$787 thousand and \$1.6 million for the same periods in 2015, respectively.

Income Tax Expense

The Company's effective tax rate was 25.6 percent for the six months ended June 30, 2016, compared to 27.4 percent for the same period in 2015. The decrease in the effective tax rate is attributable to nondeductible Marquette acquisition costs in 2015 with no corresponding activity in 2016. Additionally, a larger portion of income in 2016 was earned from tax-exempt municipal securities and excludable life insurance policy gains.

Strategic Lines of Business

Table 6

Bank Operating Results (unaudited, dollars in thousands)

	Three Months Ended June 30,		Dollar Change	Percent Change
	2016	2015	16-15	16-15
Net interest income	\$ 118,613	\$ 96,403	\$ 22,210	23.0%
Provision for loan losses	7,000	5,000	2,000	40.0
Noninterest income	80,044	70,840	9,204	13.0
Noninterest expense	145,736	133,617	12,119	9.1
Income before taxes	45,921	28,626	17,295	60.4
Income tax expense	11,939	7,017	4,922	70.1

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Net income	\$ 33,982	\$ 21,609	\$ 12,373	57.3%
	Six Months Ended		Dollar	Percent
	June 30,		Change	Change
	2016	2015	16-15	16-15
Net interest income	\$ 233,885	\$ 185,764	\$ 48,121	25.9%
Provision for loan losses	12,000	8,000	4,000	50.0
Noninterest income	155,483	145,529	9,954	6.8
Noninterest expense	289,104	258,796	30,308	11.7
Income before taxes	88,264	64,497	23,767	36.8
Income tax expense	22,643	17,732	4,911	27.7
Net income	\$ 65,621	\$ 46,765	\$ 18,856	40.3%

Table of Contents

Bank net income increased by \$18.9 million, or 40.3 percent, to \$65.6 million for the six-month period ended June 30, 2016, compared to the same period in 2015. Net interest income increased \$48.1 million, or 25.9 percent, for the six-month period ended June 30, 2016, compared to the same period in 2015, driven by strong loan growth and the acquisition of Marquette. The Marquette acquisition added earning assets with an acquired value of \$1.2 billion primarily from loan balances with an acquired value of \$980.4 million at May 31, 2015. Provision for loan losses increased by \$4.0 million, to adjust the related ALL to the appropriate level based on the inherent risk in the loan portfolio for this segment. Noninterest income increased \$10.0 million, or 6.8 percent, over the same period in 2015 driven by increases in bank-owned life insurance income of \$3.5 million, brokerage and mutual fund income of \$2.7 million, unrealized gains on PCM equity method investments of \$2.6 million, healthcare deposit service charges of \$2.1 million, and insurance and annuities income of \$1.5 million. These increases were offset by decreases in commercial and consumer deposit service charges of \$1.1 million.

Noninterest expense increased \$30.3 million, or 11.7 percent, to \$289.1 million for the six-month period ended June 30, 2016, compared to the same period in 2015. This increase was driven by increases of \$16.0 million in salaries and benefits, \$1.5 million in bankcard expense, \$1.4 million in services and supplies, \$1.4 million in legal and professional fees, \$1.3 million in amortization of intangibles, \$1.2 million in regulatory fees, and \$1.0 million in furniture and equipment expense. The increase in salaries and benefits is driven by increases of \$9.9 million in salary and wage expense, \$4.3 million in bonus and commission expense, and \$1.8 million in employee benefit expense. Marquette contributed \$13.8 million of the increase in salary and benefits. The increases in supplies and services expense, legal and professional fees, regulatory agency fees, and amortization of other intangibles are also primarily driven by both integration and ongoing expenses associated with Marquette. Additionally, there was an increase in other noninterest expense of \$3.4 million, largely due to an increase of \$2.2 million in fair value adjustments to contingent consideration liabilities incurred in 2015, as well as an increase of \$0.7 million in fair value adjustments on derivatives.

Table 7

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

	Three Months Ended June 30,		Dollar Change 16-15	Percent Change 16-15
	2016	2015		
Net interest income	\$	\$	\$	%
Provision for loan losses				
Noninterest income	19,127	25,685	(6,558)	(25.5)
Noninterest expense	18,858	18,302	556	3.0
Income before taxes	269	7,383	(7,114)	(96.4)
Income tax expense	77	1,747	(1,670)	(95.6)
Net income	\$ 192	\$ 5,636	\$ (5,444)	(96.6)%

	Six Months Ended June 30,	Dollar Change	Percent Change
--	------------------------------	------------------	-------------------

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

	2016	2015	16-15	16-15
Net interest income	\$	\$	\$	%
Provision for loan losses				
Noninterest income	37,542	52,769	(15,227)	(28.9)
Noninterest expense	36,088	36,262	(174)	(0.5)
Income before taxes	1,454	16,507	(15,053)	(91.2)
Income tax expense	367	4,497	(4,130)	(91.8)
Net income	\$ 1,087	\$ 12,010	\$ (10,923)	(90.9)%

Table of Contents

For the six months ended June 30, 2016, Institutional Investment Management net income decreased \$10.9 million, or 90.9 percent, compared to the same period last year. Noninterest income decreased \$15.2 million, or 28.9 percent, due to a \$15.1 million decrease in advisory fees from the Scout Funds offset by an increase of \$0.2 million in advisory fees from separately managed accounts, both of which are driven by changes in AUM. Scout AUM totaled \$28.1 billion as of June 30, 2016 compared to \$30.0 billion as of June 30, 2015. Additionally, the mix of AUM has shifted between the two periods from 71 percent fixed income and 29 percent equity as of June 30, 2015 to 82 percent fixed income and 18 percent equity as of June 30, 2016. The decrease in noninterest expense of \$0.2 million, or 0.5 percent, as compared to the prior year was primarily due to decreases of \$3.1 million in fees paid by the advisor to third-party distributors of the Scout Funds, \$1.0 million in technology, service and overhead expenses as compared to the prior year, and \$0.3 million in marketing and business development expense. These decreases were offset by increases of \$3.4 million in bonus and commission expense driven by severance and increased incentives, and \$1.3 million in fair value adjustments to contingent consideration liabilities incurred in 2015.

Table 8

Asset Servicing Operating Results (unaudited, dollars in thousands)

	Three Months Ended June 30,		Dollar Change 16-15	Percent Change 16-15
	2016	2015		
Net interest income	\$ 2,597	\$ 957	\$ 1,640	>100.0%
Provision for loan losses				
Noninterest income	22,276	23,025	(749)	(3.3)
Noninterest expense	20,649	20,045	604	3.0
Income before taxes	4,224	3,937	287	7.3
Income tax expense	1,101	968	133	13.7
Net income	\$ 3,123	\$ 2,969	\$ 154	5.2%
	Six Months Ended June 30,		Dollar Change 16-15	Percent Change 16-15
	2016	2015		
Net interest income	\$ 5,217	\$ 1,954	\$ 3,263	>100.0%
Provision for loan losses				
Noninterest income	44,772	46,459	(1,687)	(3.6)
Noninterest expense	40,795	41,319	(524)	(1.3)
Income before taxes	9,194	7,094	2,100	29.6
Income tax expense	2,360	1,890	470	24.9
Net income	\$ 6,834	\$ 5,204	\$ 1,630	31.3%

For the six months ended June 30, 2016, Asset Servicing net income increased \$1.6 million, or 31.3 percent, to \$6.8 million as compared to the same period last year. Net interest income increased \$3.3 million compared to the same period last year. Noninterest income decreased \$1.7 million, or 3.6 percent, largely due to a \$1.6 million decrease in fee income driven primarily by lower fund administration services, fund transfer agency fees, and custody fees. As of June 30, 2016, assets under administration totaled \$182.3 billion compared to \$203.1 billion at June 30, 2015. For the six months ended June 30, 2016, noninterest expense decreased \$0.5 million, or 1.3 percent, as compared to the same period last year, primarily due to a decrease of \$1.6 million in operational losses, which was partially offset by an increase of \$1.2 million in salary and benefits expense, as compared to the prior year.

Table of Contents**Balance Sheet Analysis**

Total assets of the Company increased by \$639.8 million, or 3.4 percent, as of June 30, 2016, compared to December 31, 2015, primarily due to an increase in loan balances of \$652.5 million, or 6.9 percent.

Total assets of the Company increased \$1.3 billion as of June 30, 2016, or 7.1 percent, compared to June 30, 2015, primarily due to an increase in loan balances of \$1.2 billion, or 13.1 percent, and an increase in held-to-maturity (HTM) securities of \$433.7 million, or 97.1 percent, which were partially offset by a decrease in due from Federal Reserve balances of \$251.6 million, or 48.2 percent.

The overall increase in total assets from June 30, 2015 and December 31, 2015 to June 30, 2016 is directly related to an increase in deposits during those periods. From December 31, 2015, total deposits increased by \$555.9 million, or 3.7 percent, and from June 30, 2015, total deposits increased by \$1.2 billion, or 7.9 percent.

*Table 9***SELECTED FINANCIAL INFORMATION** *(unaudited, dollars in thousands)*

	June 30,		December 31,
	2016	2015	2015
Total assets	\$ 19,734,076	\$ 18,418,727	\$ 19,094,245
Loans, net of unearned interest	10,093,761	8,918,947	9,431,350
Total investment securities	7,774,390	7,486,412	7,568,870
Interest-bearing due from banks	379,611	698,940	522,877
Total earning assets	18,359,379	17,117,904	17,615,581
Total deposits	15,648,693	14,496,646	15,092,752
Total borrowed funds	1,878,890	1,862,781	1,909,141

Loans

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.

Actual loan balances totaled \$10.1 billion as of June 30, 2016, and increased \$652.5 million, or 6.9 percent, compared to December 31, 2015 and increased \$1.2 billion, or 13.1 percent, compared to June 30, 2015. Compared to December 31, 2015, commercial real estate loans increased \$322.4 million, or 12.1 percent, commercial loans increased \$238.4 million, or 5.7 percent, and construction real estate loans increased \$115.2 million, or 27.7 percent. Compared to June 30, 2015, commercial real estate loans increased \$597.6 million, or 25.0 percent, commercial loans increased \$311.6 million, or 7.5 percent, and construction real estate loans increased \$135.9 million, or 34.3 percent. The increase in total loans is driven by the Company's focus on generating higher-yielding assets by shifting assets from the securities portfolio to the loan portfolio.

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 investment portfolio contains trading, available-for-sale (AFS), and HTM securities as well as FRB stock, FHLB stock, and other miscellaneous investments. Investment securities totaled \$7.8 billion as of June 30, 2016 and \$7.6 billion as of December 31, 2015 and comprised 42.3 percent and 43.0 percent of the Company's earning assets, respectively, as of those dates.

The Company's AFS securities portfolio comprised 87.1 percent of the Company's investment securities portfolio at June 30, 2016, compared to 89.9 percent at December 31, 2015. The Company's AFS securities

Table of Contents

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. The average life of the AFS securities portfolio decreased from 45.8 months at June 30, 2015 to 42.7 months at June 30, 2016. In addition to providing a potential source of liquidity, the AFS securities portfolio can be used as a tool to manage interest rate sensitivity. The Company's goal in the management of its AFS securities portfolio is to maximize return within the Company's parameters of liquidity goals, interest rate risk, and credit risk.

Management expects collateral pledging requirements for public funds, loan demand, and deposit funding to be the primary factors impacting changes in the level of AFS securities. There were \$5.5 billion of AFS securities pledged to secure U.S. Government deposits, other public deposits, certain trust deposits, and repurchase agreements at June 30, 2016. Of this amount, securities with a market value of \$1.5 billion at June 30, 2016 were pledged at the Federal Reserve Discount Window but were unencumbered as of that date.

The Company's HTM securities portfolio consists of private placement bonds, which are issued primarily to refinance existing revenue bonds in the healthcare and education sectors. The HTM portfolio totaled \$880.6 million as of June 30, 2016, an increase of \$213.5 million, or 32.0 percent, from December 31, 2015. The average life of the HTM portfolio was 10.3 years at June 30, 2016, compared to 9.7 years at December 31, 2015.

The securities portfolio generates the Company's second largest component of interest income. The securities portfolio achieved an average yield on a tax-equivalent basis of 2.08 percent for the six months ended June 30, 2016, compared to 1.93 percent for the same period in 2015.

Deposits and Borrowed Funds

Deposits increased \$555.9 million, or 3.7 percent, from December 31, 2015 to June 30, 2016 and increased \$1.2 billion, or 7.9 percent, from June 30, 2015 to June 30, 2016. Total interest-bearing deposits increased \$740.4 million from December 31, 2015 offset by small declines in non-interest bearing and time deposits. Total interest-bearing deposits increased \$967.1 million and noninterest-bearing deposits increased \$346.0 million, offset by decreased time deposits of \$161.0 million as compared to June 30, 2015.

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 servicing segments, 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.

Long-term debt totaled \$85.3 million at June 30, 2016, compared to \$86.1 million as of December 31, 2015, and \$88.3 million as of June 30, 2015. As part of the Marquette acquisition, the Company assumed long-term debt obligations with an aggregate balance of \$103.1 million and an aggregate fair value of \$65.5 million as of May 31, 2015 payable to four unconsolidated trusts (Marquette Capital Trust I, Marquette Capital Trust II, Marquette Capital Trust III, and Marquette Capital Trust IV) that had issued trust preferred securities. These long-term debt obligations had an aggregate contractual balance of \$103.1 million and had an aggregate carrying value of \$66.7 million as of June 30, 2016. The interest rates on trust preferred securities issued by the trusts are tied to the three-month LIBOR rate with spreads ranging from 133 basis points to 160 basis points, and reset quarterly. The trust preferred securities have maturity dates ranging from January 2036 to September 2036.

Federal funds purchased and securities sold under agreement to repurchase totaled \$1.8 billion at June 30, 2016, December 31, 2015 and June 30, 2015. 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.

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.

Table of Contents

Total shareholders' equity was \$2.0 billion at June 30, 2016, a \$109.0 million increase compared to December 31, 2015, and a \$145.7 million increase compared to June 30, 2015.

The Company's Board of Directors authorized, at its April 26, 2016 and April 28, 2015 meetings, the repurchase of up to two million shares of the Company's common stock during the twelve months following the meetings. During the six months ended June 30, 2016 and 2015, the Company acquired 281,874 shares and 105,218 shares of its common stock under the 2016 and 2015 plans, respectively. The Company has not made any repurchase of its securities other than through these plans.

On July 26, 2016, the Board of Directors declared a dividend of \$0.245 per share. The dividend will be paid on October 3, 2016 to shareholders of record on September 9, 2016.

Through the Company's relationship with the FHLB of Des Moines, the Company owns \$10.0 million of FHLB stock and has access to additional liquidity and funding sources through FHLB advances. The Company's borrowing capacity is dependent upon the amount of collateral the Company places at the FHLB. The Company's borrowing capacity with the FHLB was \$561.3 million as of June 30, 2016. The Company had no outstanding FHLB advances at FHLB of Des Moines as of June 30, 2016. Additionally, the Company owns \$0.4 million of FHLB of San Francisco stock, acquired as part of the Marquette acquisition. The FHLB of San Francisco advances, also acquired as part of the Marquette acquisition, totaled \$15.0 million at June 30, 2016 and have maturity dates between September 2016 and September 2020. In July 2016, the Company prepaid \$10.0 million of these advances which had maturity dates of September 2018 and September 2020.

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. Effective January 1, 2015, the Company implemented the Basel III regulatory capital rules adopted by the FRB in July 2013. Basel III capital rules increase minimum requirements for both the quantity and quality of capital held by banking organizations. The rules include a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5 percent and a minimum tier 1 risk-based capital ratio of 6 percent. A financial institution's total capital is also 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 Basel III regulatory capital rules include transitional periods for various components of the rules that require full compliance for the Company by January 1, 2019, including a capital conservation buffer requirement of 2.5 percent of risk-weighted assets for which the transitional period began on January 1, 2016.

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. 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 capital position as of June 30, 2016 is summarized in the table below and exceeded regulatory requirements.

Table 10

RATIOS	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015

Edgar Filing: UMB FINANCIAL CORP - Form 10-Q

Common equity tier 1 capital ratio	11.65%	12.64%	11.65%	12.64%
Tier 1 risk-based capital ratio	11.65	12.77	11.65	12.77
Total risk-based capital ratio	12.70	13.77	12.70	13.77
Leverage ratio	8.91	9.56	8.91	9.56
Return on average assets	0.77	0.70	0.76	0.75
Return on average equity	7.58	6.95	7.54	7.55
Average equity to assets	10.19	10.02	10.11	9.99

Table of Contents

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

Per Share Data	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Earnings basic	\$ 0.76	\$ 0.65	\$ 1.51	\$ 1.40
Earnings diluted	0.76	0.65	1.50	1.39
Cash dividends	0.245	0.235	0.490	0.470
Dividend payout ratio	32.24%	36.15%	32.45%	33.57%
Book value	\$ 40.44	\$ 37.68	\$ 40.44	\$ 37.68

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 10, Commitments, Contingencies and Guarantees in the Notes to Consolidated Financial Statements for detailed information on these arrangements.

Critical Accounting Policies and Estimates

The preparation of these 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 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 customers and suppliers, allowance for loan losses, bad debts, investments, financing operations, long-lived assets, taxes, other 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. Under different assumptions or conditions, actual results may differ from the recorded estimates.

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 Form 10-K.

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 a financial instrument. 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.

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 following discussion 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.

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 Asset Liability Committee (ALCO) and approved by the Board. The ALCO is responsible 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 such as swaps and futures contracts to manage interest rate risk on certain loans, trading securities, trust preferred securities, and deposits. See further information in Note 11 Derivatives and Hedging Activities in the Notes to the Company's Consolidated Financial Statements.

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 all of the Company's assets and liabilities together with 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 or a 100 basis point downward gradual change (e.g. ramp) and immediate change (e.g. shock) of market interest rates over a two year period. In ramp scenarios, rates change gradually for a one year period and remain constant in year two. In shock scenarios, rates change immediately and the change is sustained for the remainder of the two year scenario horizon. 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. The results of these simulations can be significantly influenced by assumptions utilized and management evaluates the sensitivity of the simulation results on a regular basis.

Table 11 shows the net interest income increase or decrease over the next twelve months as of June 30, 2016 and 2015 based on hypothetical changes in interest rates and a constant sized balance sheet with runoff being replaced.

Table of Contents

Table 11

MARKET RISK (unaudited, dollars in thousands)

(basis points)	Hypothetical change in interest rate Year One		Rate Ramp Year Two	
	June 30, 2016 Amount of change	June 30, 2015 Amount of change	June 30, 2016 Amount of change	June 30, 2015 Amount of change
300	\$ 17,888	\$ 27,256	\$ 51,500	\$ 81,463
200	10,777	18,488	33,474	55,581
100	3,656	9,769	15,221	29,006
Static				
(100)	N/A	N/A	N/A	N/A

(basis points)	Hypothetical change in interest rate Year One		Rate Shock Year Two	
	June 30, 2016 Amount of change	June 30, 2015 Amount of change	June 30, 2016 Amount of change	June 30, 2015 Amount of change
300	\$ 50,540	\$ 57,911	\$ 77,823	\$ 98,054
200	32,618	38,776	51,213	66,832
100	14,612	19,813	24,320	35,227
Static				
(100)	N/A	N/A	N/A	N/A

The Company is positioned to benefit from increases in interest rates. Net interest income is projected to increase in rising interest rate scenarios due to yields on earning assets increasing more due to changes in market rates than the cost of paying liabilities is projected to increase. The Company's ability to price deposits in a rising rate environment consistent with our history is a key assumption in these scenarios. 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.

Trading Account

The Company's subsidiary, UMB Bank, n.a. (the Bank), carries taxable governmental securities in a trading account that is maintained in accordance with Board-approved policy and procedures. The policy limits the amount and type of securities that can be carried in the trading account and requires compliance with any limits under applicable law and regulations, and mandates the use of a value-at-risk methodology to manage price volatility risks within financial parameters. The risk associated with the carrying of trading securities is offset by the sale of exchange-traded financial futures contracts, with both the trading account and futures contracts marked to market daily. This account had a balance of \$56.3 million as of June 30, 2016, \$29.6 million as of December 31, 2015 and \$36.6 million as of June 30, 2015.

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 11 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 have minimal foreign currency risk as a result of foreign exchange contracts. See Note 10 Commitments, Contingencies and Guarantees in the Notes to the Consolidated Financial Statements.

Table of Contents**Credit Risk Management**

Credit risk represents the risk that a customer or counterparty may not perform in accordance with contractual terms. The Company utilizes a centralized credit administration function, which provides information on the Bank's risk levels, delinquencies, an internal ranking system and overall credit exposure. Loan requests are centrally reviewed to ensure the consistent application of the loan policy and standards. In addition, the Company has an internal loan review staff that operates independently of the Bank. This review team performs periodic examinations of the bank's loans for credit quality, documentation and loan administration. The respective 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 on nonaccrual. The Company's nonperforming loans increased \$20.8 million to \$58.4 million at June 30, 2016, compared to June 30, 2015, and decreased \$2.7 million, compared to December 31, 2015.

The Company had \$0.6 million and \$2.6 million of other real estate owned as of June 30, 2016 and 2015, respectively, and \$3.3 million of other real estate owned as of December 31, 2015. Loans past due more than 90 days totaled \$4.7 million as of June 30, 2016, compared to \$7.6 million at June 30, 2015 and \$7.3 million as of December 31, 2015.

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.

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 \$42.6 million of restructured loans at June 30, 2016, \$27.0 million at June 30, 2015, and \$36.6 million at December 31, 2015.

*Table 12***LOAN QUALITY** (unaudited, dollars in thousands)

	June 30,		December 31,
	2016	2015	2015
Nonaccrual loans	\$ 28,734	\$ 20,722	\$ 45,589
Restructured loans on nonaccrual	29,689	16,927	15,563
Total nonperforming loans	58,423	37,649	61,152
Other real estate owned	601	2,553	3,307
Total nonperforming assets	\$ 59,024	\$ 40,202	\$ 64,459
Loans past due 90 days or more	\$ 4,700	\$ 7,645	\$ 7,324
Restructured loans accruing	12,946	10,042	21,029
Allowance for loan losses	84,666	77,721	81,143
Ratios			
Nonperforming loans as a percent of loans	0.58%	0.42%	0.65%

Nonperforming assets as a percent of loans plus other real estate owned	0.59	0.45	0.68
Nonperforming assets as a percent of total assets	0.30	0.22	0.34
Loans past due 90 days or more as a percent of loans	0.05	0.09	0.08
Allowance for loan losses as a percent of loans	0.84	0.87	0.86
Allowance for loan losses as a multiple of nonperforming loans	1.45x	2.06x	1.33x

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 Company believes that the most important factor in the

Table of Contents

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, the Company believes 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 on and maturity of assets, which include \$6.8 billion of high-quality securities available for sale. The liquidity of the Company and the Bank is also enhanced by its activity in the federal funds market and by its core deposits. Additionally, management believes it can raise debt or equity capital on favorable terms in the future, should the need arise.

Another factor affecting liquidity is the amount of deposits and customer repurchase agreements that have pledging requirements. All customer repurchase agreements require collateral in the form of a security. The U.S. Government, other public entities, and certain trust depositors require the Company to pledge securities if their deposit balances are greater than the FDIC-insured deposit limitations. These pledging requirements affect liquidity risk in that the related security cannot otherwise be disposed due to the pledging restriction. At June 30, 2016, \$5.5 billion, or 81.9 percent, of the securities available-for-sale were pledged or used as collateral, compared to \$5.9 billion, or 86.7 percent, at December 31, 2015. However of these amounts, securities with a market value of \$1.5 billion at June 30, 2016 and \$1.6 billion at December 31, 2015 were pledged at the Federal Reserve Discount Window but were unencumbered as of those dates.

The Company also has other commercial 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 commercial commitments at June 30, 2016 was \$9.5 billion. Since many of these commitments expire without being drawn upon, the total amount of these commercial commitments does not necessarily represent the future cash requirements of the Company.

The Company's cash requirements consist primarily of dividends to shareholders, debt service, operating expenses, and treasury stock purchases. Management fees and dividends received from bank and non-bank subsidiaries traditionally have been sufficient to satisfy these requirements and are expected to be sufficient in the future. The 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 into 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 \$50.0 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 0.3 percent unused commitment fee for unused portions of the line of credit. The Company had no advances outstanding at June 30, 2016.

The Company is a member bank of the FHLB. The Company owns \$10.4 million of FHLB stock and has access to additional liquidity and funding sources through FHLB advances. As part of the Marquette acquisition, the Company acquired advances with the FHLB of San Francisco with a balance of \$15.0 million as of June 30, 2016 with maturity dates ranging from 2016 to 2020. In July 2016, the Company prepaid \$10.0 million of these advances which had maturity dates of September 2018 and September 2020. Additionally, the Company has access to borrow up to \$561.3 million through advances at the FHLB of Des Moines, but had no outstanding FHLB Des Moines advances as of June 30, 2016.

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, as amended.

Table of Contents

The Company operates in many markets and relies 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, as amended, 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, as amended (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 this report, the Company's disclosure controls and procedures were effective for ensuring that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act 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 disclosure.

Internal Control Over Financial Reporting

During the quarter ended June 30, 2016, the Company completed the implementation of FIS Global's IBS Loan system. This implementation was subject to various testing and review procedures prior to execution. The Company believes the conversion to, and implementation of, this new system further strengthened its existing internal control over financial reporting by enhancing certain business processes. Additionally, as a result of the acquisition of Marquette, we continue to integrate certain business processes and systems of Marquette. Accordingly, certain changes have been made and will continue to be made to our internal control over financial reporting until such time as this integration is complete.

Other than the changes described above, there have been no other changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, such control over

financial reporting during the period covered by this report.

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 be material to 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 Form 10-K.

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

The table below sets forth the information with respect to purchases made by or on behalf of the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the three months ended June 30, 2016.

ISSUER PURCHASE OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1-April 26, 2016	172	\$ 49.28	172	1,670,338
April 27-April 30, 2016	1,794	55.62	1,794	1,998,206
May 1-May 31, 2016	5,103	56.27	5,103	1,993,103
June 1-June 30, 2016	5,283	57.84	5,283	1,987,820
Total	12,352	\$ 56.75	12,352	

On April 28, 2015, the Company announced a plan to repurchase up to two million shares of common stock, which terminated on April 26, 2016. On April 26, 2016, the Company announced a plan to repurchase up to two million shares of common stock, which will terminate on April 25, 2017. 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 stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

Table of Contents

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

a) The following exhibits are filed herewith:

- 3.1 Restated Articles of Incorporation (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).
- 3.2 Bylaws filed herewith.
- 10.1 Form of 2016 Performance-Based Restricted Stock Award Agreement for the UMB Financial Corporation Long-Term Incentive Compensation Plan filed herewith.
- 10.2 Form of 2016 Service-Based Restricted Stock Award Agreement for the UMB Financial Corporation Long-Term Incentive Compensation Plan filed herewith.
- 10.3 Form of 2016 Stock Option Award Agreement for the UMB Financial Corporation Long-Term Incentive Compensation Plan filed herewith.
- 10.4 Employment offer letter between the Company and John Pauls dated June 1, 2016 filed herewith.
- 31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act filed herewith.
- 31.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act filed herewith.
- 32.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act filed herewith.
- 32.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act filed herewith.
- 101.INS XBRL Instance filed herewith.
- 101.SCH XBRL Taxonomy Extension Schema filed herewith.
- 101.CAL XBRL Taxonomy Extension Calculation filed herewith.
- 101.DEF XBRL Taxonomy Extension Definition filed herewith.
- 101.LAB XBRL Taxonomy Extension Labels filed herewith.
- 101.PRE XBRL Taxonomy Extension Presentation filed herewith.

Table of Contents

SIGNATURES

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

UMB FINANCIAL CORPORATION

/s/ Brian J. Walker
Brian J. Walker
Chief Accounting Officer

Date: August 2, 2016