UMB FINANCIAL CORP
Form 10-Q
November 01, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

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

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

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

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

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

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

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

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

As of October 27, 2016, UMB Financial Corporation had 49,562,002 shares of common stock outstanding.

Table of Contents

UMB FINANCIAL CORPORATION

FORM 10-Q

INDEX

PART I FINANCIAL INFORMATION	3
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)	3
CONSOLIDATED BALANCE SHEETS	3
CONSOLIDATED STATEMENTS OF INCOME	4
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	5
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	43
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	62
ITEM 4. CONTROLS AND PROCEDURES	66
PART II - OTHER INFORMATION	67
ITEM 1. LEGAL PROCEEDINGS	67
ITEM 1A. RISK FACTORS	67
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	67
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	67
ITEM 4. MINE SAFETY DISCLOSURES	67
ITEM 5. OTHER INFORMATION	68
ITEM 6. EXHIBITS	68
SIGNATURES	69

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)

	September 30, 2016	December 31, 2015
ASSETS		
Loans:	$ 10,293,494	$ 9,430,761
Allowance for loan losses	(90,404)	(81,143)
Net loans	10,203,090	9,349,618
Loans held for sale	11,880	589
Investment securities:		
Available for sale	6,295,687	6,806,949
Held to maturity (fair value of $1,097,988 and $691,379, respectively)	1,009,117	667,106
Trading securities	58,062	29,617
Other securities	66,853	65,198
Total investment securities	7,429,719	7,568,870
Federal funds sold and securities purchased under agreements to resell	244,891	173,627
Interest-bearing due from banks	453,189	522,877
Cash and due from banks	354,184	458,217
Premises and equipment, net	287,267	281,471
Accrued income	93,016	90,127
Goodwill	228,396	228,346
Other intangibles, net	37,419	46,782
Other assets	383,095	373,721
Total assets	$ 19,726,146	$ 19,094,245
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 6,008,326	$ 6,306,895
Interest-bearing demand and savings	8,288,670	7,529,972
Time deposits under $250,000	658,541	771,973
Time deposits of $250,000 or more	422,712	483,912
Total deposits	15,378,249	15,092,752

Federal funds purchased and repurchase agreements	2,021,123	1,818,062
Short-term debt		5,009
Long-term debt	75,418	86,070
Accrued expenses and taxes	163,221	161,245
Other liabilities	63,507	37,413
Total liabilities	17,701,518	17,200,551
SHAREHOLDERS EQUITY		
Common stock, $1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 49,546,069 and 49,396,366 shares outstanding, respectively	55,057	55,057
Capital surplus	1,028,869	1,019,889
Retained earnings	1,112,613	1,033,990
Accumulated other comprehensive income (loss), net	42,512	(3,718)
Treasury stock, 5,510,661 and 5,660,364 shares, at cost, respectively	(214,423)	(211,524)
Total shareholders equity	2,024,628	1,893,694
Total liabilities and shareholders equity	$ 19,726,146	$ 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 September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
INTEREST INCOME				
Loans	$ 98,820	$ 84,686	$ 283,313	$ 220,314
Securities:				
Taxable interest	17,012	18,498	55,221	56,469
Tax-exempt interest	14,797	11,320	41,377	31,842
Total securities income	31,809	29,818	96,598	88,311
Federal funds and resell agreements	790	175	1,939	377
Interest-bearing due from banks	445	475	1,772	1,761
Trading securities	174	75	399	303
Total interest income	132,038	115,229	384,021	311,066
INTEREST EXPENSE				
Deposits	4,626	3,863	12,817	10,433
Federal funds and repurchase agreements	1,894	427	4,750	1,389
Other	753	1,044	2,587	1,631
Total interest expense	7,273	5,334	20,154	13,453
Net interest income	124,765	109,895	363,867	297,613
Provision for loan losses	13,000	2,500	25,000	10,500
Net interest income after provision for loan losses	111,765	107,395	338,867	287,113
NONINTEREST INCOME				
Trust and securities processing	60,218	65,182	179,448	199,862
Trading and investment banking	6,114	2,969	16,382	14,659
Service charges on deposit accounts	21,832	21,663	65,713	64,829
Insurance fees and commissions	698	480	3,355	1,636
Brokerage fees	4,712	2,958	13,159	8,748
Bankcard fees	17,086	17,624	52,636	51,842
Gain on sales of securities available for sale, net	2,978	101	8,509	8,404
	1,594	(5,032)	2,191	(6,999)

Equity earnings (loss) on alternative investments				
Other	6,716	3,153	18,352	10,874
Total noninterest income	121,948	109,098	359,745	353,855
NONINTEREST EXPENSE				
Salaries and employee benefits	109,369	104,733	325,216	302,855
Occupancy, net	11,394	11,748	33,505	32,070
Equipment	16,231	17,228	49,545	46,810
Supplies and services	4,624	5,371	14,292	14,299
Marketing and business development	5,332	5,766	16,086	16,914
Processing fees	11,264	12,795	34,190	38,232
Legal and consulting	4,450	8,648	14,186	18,943
Bankcard	5,015	5,266	16,199	14,987
Amortization of other intangible assets	2,992	3,483	9,363	8,807
Regulatory fees	3,370	3,176	10,491	8,805
Other	5,742	7,065	22,497	18,934
Total noninterest expense	179,783	185,279	545,570	521,656
Income before income taxes	53,930	31,214	153,042	119,312
Income tax expense	11,984	8,763	37,175	32,882
NET INCOME	$ 41,946	$ 22,451	$ 115,867	$ 86,430
PER SHARE DATA				
Net income - basic	$ 0.86	$ 0.46	$ 2.37	$ 1.85
Net income - diluted	0.85	0.46	2.36	1.84
Dividends	0.245	0.235	0.735	0.705
Weighted average shares outstanding - basic	48,849,251	48,577,282	48,792,419	46,619,428
Weighted average shares outstanding - diluted	49,284,280	49,036,332	49,162,200	47,080,009

See Notes to Consolidated Financial Statements.

4

Table of Contents

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, dollars in thousands)

	Three Months Ended		**Nine Months Ended**	
	September 30,		**September 30,**	
	2016	**2015**	**2016**	**2015**
Net Income	$ 41,946	$ 22,451	$ 115,867	$ 86,430
Other comprehensive income, net of tax:				
Unrealized (losses) gains on securities:				
Change in unrealized holding (losses) gains, net	(16,946)	46,166	90,639	33,289
Less: Reclassification adjustment for gains included in net income	(2,978)	(101)	(8,509)	(8,404)
Change in unrealized (losses) gains on securities during the period	(19,924)	46,065	82,130	24,885
Change in unrealized losses on derivative hedges	(643)		(7,677)	
Income tax benefit (expense)	7,784	(17,394)	(28,223)	(9,361)
Other comprehensive (loss) income	(12,783)	28,671	46,230	15,524
Comprehensive income	$ 29,163	$ 51,122	$ 162,097	$ 101,954

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			86,430	15,524		101,954
Cash dividends ($0.705 per share)			(34,135)			(34,135)
Purchase of treasury stock					(6,172)	(6,172)
Issuance of equity awards		(4,180)			4,639	459
Recognition of equity-based compensation		9,030				9,030
Net tax benefit related to equity compensation plans		732				732
Sale of treasury stock		475			315	790
Exercise of stock options		2,089			2,615	4,704
Common stock issuance for acquisition		112,635			67,102	179,737
Balance September 30, 2015	$ 55,057	$ 1,015,383	$ 1,016,206	$ 26,530	$ (212,319)	$ 1,900,857
Balance - January 1, 2016	$ 55,057	$ 1,019,889	$ 1,033,990	$ (3,718)	$ (211,524)	$ 1,893,694
Total comprehensive income			115,867	46,230		162,097
Cash dividends ($0.735 per share)			(36,388)			(36,388)
Purchase of treasury stock					(14,189)	(14,189)
Issuance of equity awards		(3,373)			3,802	429
Recognition of equity-based compensation		8,253				8,253
Sale of treasury stock		362			474	836
Exercise of stock options		2,400			7,014	9,414
Cumulative effect adjustment (1)		1,338	(856)			482
Balance September 30, 2016	$ 55,057	$ 1,028,869	$ 1,112,613	$ 42,512	$ (214,423)	$ 2,024,628

(1) Related to the adoption of Accounting Standards Update 2016-09. See Note 3, New Accounting Pronouncements, for further detail.

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	Nine Months Ended September 30,	
	2016	**2015**
Operating Activities		
Net Income	$ 115,867	$ 86,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	25,000	10,500
Net accretion of premiums and discounts from acquisition	(1,711)	(1,255)
Depreciation and amortization	40,949	38,498
Deferred income tax expense (benefit)	911	(6,276)
Net (increase) decrease in trading securities	(30,635)	10,505
Gains on sales of securities available for sale, net	(8,509)	(8,404)
Gains on sales of assets	(136)	(99)
Amortization of securities premiums, net of discount accretion	43,467	40,971
Originations of loans held for sale	(71,726)	(78,931)
Net gains on sales of loans held for sale	(1,281)	(1,131)
Proceeds from sales of loans held for sale	61,716	79,673
Equity-based compensation	8,682	9,489
Net tax benefit related to equity compensation plans	(261)	732
Changes in:		
Accrued income	(2,889)	(4,811)
Accrued expenses and taxes	4,789	146
Other assets and liabilities, net	(14,466)	(2,582)
Net cash provided by operating activities	169,767	173,455
Investing Activities		
Proceeds from maturities of securities held to maturity	29,757	31,410
Proceeds from sales of securities available for sale	951,263	782,789
Proceeds from maturities of securities available for sale	1,300,372	925,017
Purchases of securities held to maturity	(373,520)	(341,773)
Purchases of securities available for sale	(1,689,198)	(1,293,123)
Net increase in loans	(876,784)	(604,895)
Net (increase) decrease in fed funds sold and resell agreements	(71,264)	29,675
Net increase in interest bearing balances due from other financial institutions	65,203	40,586
Purchases of premises and equipment	(38,950)	(42,100)
Net cash activity from acquisitions		104,611
Proceeds from sales of premises and equipment	2,164	147
Increase in COLI/BOLI cash surrender value	(7,095)	(204,647)

Net cash used in investing activities	(708,052)	(572,303)
Financing Activities		
Net increase in demand and savings deposits	460,129	854,302
Net decrease in time deposits	(173,783)	(353,137)
Net increase (decrease) in fed funds purchased and repurchase agreements	203,061	(682,532)
Net decrease in short-term debt	(5,000)	(112,133)
Repayment of long-term debt	(11,285)	(10,597)
Payment of contingent consideration on acquisitions	(3,031)	(18,702)
Cash dividends paid	(36,385)	(34,104)
Proceeds from exercise of stock options and sales of treasury shares	10,250	5,494
Purchases of treasury stock	(14,189)	(6,173)
Net cash provided by (used in) financing activities	429,767	(357,582)
Decrease in cash and cash equivalents	(108,518)	(756,430)
Cash and cash equivalents at beginning of period	819,112	1,787,230
Cash and cash equivalents at end of period	$ 710,594	$ 1,030,800
Supplemental Disclosures:		
Income taxes paid	$ 30,995	$ 36,404
Total interest paid	20,555	12,769
Transactions related to bank acquisitions:		
Assets acquired		1,321,453
Liabilities assumed		1,159,920

See Notes to Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 September 30, 2016 and September 30, 2015 *(in thousands)*:

	September 30,	
	2016	2015
Due from the Federal Reserve Bank	$ 356,410	$ 691,208
Cash and due from banks	354,184	339,592
Cash and cash equivalents at end of period	$ 710,594	$ 1,030,800

Also included in the Interest-bearing due from banks, but not considered cash and cash equivalents, are interest-bearing accounts held at other financial institutions, which totaled $96.8 million and $155.9 million at September 30, 2016 and September 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 435,029 and 459,050 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2016 and 2015, respectively. Diluted year-to-date net income per share includes the dilutive effect of 369,781 and 460,581 shares issuable upon the exercise of stock options granted by the Company and outstanding at September 30, 2016 and 2015, respectively.

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

Options issued under employee benefits plans to purchase 394,863 shares of common stock were outstanding at September 30, 2016, but were not included in the computation of quarter-to-date diluted EPS because the options were anti-dilutive. Options issued under employee benefits plans to purchase 628,698 shares of common stock were outstanding at September 30, 2016, but were not included in the computation of year-to-date diluted EPS because the options were anti-dilutive. Options issued under employee benefits plans to purchase 461,905 shares of common stock were outstanding at September 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 November 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.

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 November 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.

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 amendment requires different transition methods for various components of the standard. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted.

In September 2016, the Company early adopted ASU No. 2016-09 with an effective date of January 1, 2016. As part of the adoption of this standard, the Company made an accounting policy election to account for forfeitures on an actual basis and discontinue the use of an estimated forfeiture approach. Additionally, the Company selected the retrospective transition method for the reclassification of the Net tax benefit related to equity compensation plans from the financing section to the operating section of the Company s Consolidated Statement of Cash Flows. The

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

impact to the Company s Consolidated Statements of Income for adopting all provisions of the standard was an increase to net income of $158 thousand for the three-month period ended March 31, 2016 and an increase to net income of $220 thousand for the three-month period ended June 30, 2016. Upon adoption, the Company recorded a cumulative effect adjustment of $482 thousand as an increase to the opening balance of total equity. Prior period financial statements as of and for the three-month and year-to-date periods ended March 31, 2016 and June 30, 2016 will be recast when presented in future filings.

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 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.

Statement of Cash Flows In August 2016, the FASB issued ASU 2016-15**,** Classification of Certain Receipts and Cash Payments. This amendment adds to and clarifies existing guidance regarding the classification of certain cash receipts and payments in the statement of cash flows with the intent of reducing diversity in practice with respect to eight types of cash flows. The amendments in this update require full retrospective adoption and are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact this will have on its Consolidated Statement of Cash Flows.

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. 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.

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

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

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

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

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

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

expected over the life of the loan are also a component of the initial fair value. In determining the Acquisition Date fair value of PCI loans, and in subsequent accounting, the Company generally aggregated purchased commercial, real estate, and consumer loans into pools of loans with common risk characteristics.

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

Loans accounted for under ASC Topic 310-30

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

Each quarter the Company evaluates the remaining contractual amounts due and estimates cash flows expected to be collected over the life of the PCI loans. Contractual amounts due may increase or decrease for a variety of reasons, for example, when the contractual terms of the loan agreement are modified, when interest rates on variable rate loans change, or when principal and/or interest payments are received. Cash flows expected to be collected on PCI loans are estimated by incorporating several key assumptions similar to the initial estimate of fair 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 September 30, 2016, the net recorded carrying amount of loans accounted for under ASC 310-30 was $1.0 million and the contractual amount due was $1.2 million.

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

	September 30, 2016
PCI Loans:	
Contractual cash flows	$ 1,224
Non-accretable difference	(152)
Accretable yield	(37)
Loans accounted for under ASC 310-30	$ 1,035

13

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

Loan Aging Analysis

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

	September 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	$ 8,665	$ 24	$ 51,880	$ 60,569	$	$ 4,378,010	$ 4,438,579
Asset-based						236,566	236,566
Factoring						107,762	107,762
Commercial credit card	201	306	19	526		164,908	165,434
Real estate:							
Real estate construction	1,723		225	1,948		680,757	682,705
Real estate commercial	1,384		19,132	20,516		2,990,053	3,010,569
Real estate residential	1,006		869	1,875		509,257	511,132
Real estate HELOC	643		4,336	4,979		716,868	721,847
Consumer:							
Consumer credit card	1,967	2,005	434	4,406		258,345	262,751
Consumer other	11,602	343	2,725	14,670	1,035	108,915	124,620
Leases						31,529	31,529
Total loans	$ 27,191	$ 2,678	$ 79,620	$ 109,489	$ 1,035	$ 10,182,970	$ 10,293,494

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

PCI Loans				
Commercial:				
Commercial	$	$	$	$
Asset-based				
Factoring				
Commercial credit card				
Real estate:				
Real estate construction				
Real estate commercial				
Real estate residential				
Real estate HELOC				
Consumer:				
Consumer credit card				
Consumer other	42	3	990	1,035
Leases				
Total PCI loans	$ 42	$ 3	$ 990	$ 1,035

Table of Contents

UMB FINANCIAL CORPORATION

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

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

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

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

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

The Company sold residential real estate loans with proceeds of $61.7 million and $79.7 million in the secondary market without recourse during the nine months ended September 30, 2016 and September 30, 2015, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of $79.6 million and $61.2 million at September 30, 2016 and December 31, 2015, respectively. Restructured loans totaled $54.4 million and $36.6 million at September 30, 2016 and December 31, 2015, respectively. Loans 90 days past due and still accruing interest amounted to $2.7 million and $7.3 million at September 30, 2016 and December 31, 2015, respectively. There was an insignificant amount of interest recognized on impaired loans during 2016 and 2015.

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 borrower 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 NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

This table provides an analysis of the credit risk profile of each loan class excluded from ASC 310-30 at September 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	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Non-watch list	$ 4,045,383	$ 3,880,109	$ 211,605	$ 198,903	$ 106,642	$ 90,449
Watch	130,364	105,539				
Special Mention	41,303	29,397	20,809	18,163	461	237
Substandard	221,529	190,691	4,152	2,178	659	
Total	$ 4,438,579	$ 4,205,736	$ 236,566	$ 219,244	$ 107,762	$ 90,686

	Real estate	construction	Real estate	commercial
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Non-watch list	$ 677,305	$ 415,258	$ 2,892,722	$ 2,561,401
Watch	284	370	49,945	51,774
Special Mention			7,144	22,544
Substandard	5,116	940	60,758	25,998
Total	$ 682,705	$ 416,568	$ 3,010,569	$ 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	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Performing	$ 165,415	$ 125,348	$ 510,263	$ 491,427	$ 717,511	$ 726,439
Non-performing	19	13	869	800	4,336	3,524
Total	$ 165,434	$ 125,361	$ 511,132	$ 492,227	$ 721,847	$ 729,963

	Consumer credit card		Consumer other		Leases	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Performing	$ 262,317	$ 291,102	$ 120,860	$ 152,180	$ 31,529	$ 41,857
Non-performing	434	468	2,725	2,597		
Total	$ 262,751	$ 291,570	$ 123,585	$ 154,777	$ 31,529	$ 41,857

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

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

Credit Exposure

Credit Risk Profile by Risk Rating

PCI Loans

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

Credit Exposure

Credit Risk Profile Based on Payment Activity

PCI Loans

	Consumer	other
	September 30, 2016	December 31, 2015
Performing	$ 1,035	$ 2,001
Non-performing		
Total	$ 1,035	$ 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 at the time, 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

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

borrower operates. When a loan is considered impaired, the loan is analyzed to determine the need, if any, to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower s ability to repay amounts owed, collateral deficiencies, the relative risk ranking of the loan and economic conditions affecting the borrower s industry.

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

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 NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS

This table provides a roll forward of the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2016 *(in thousands):*

	Three Months Ended September 30, 2016				
	Commercial	**Real estate**	**Consumer**	**Leases**	**Total**
Allowance for loan losses:					
Beginning balance	$ 64,561	$ 10,683	$ 9,319	$ 103	$ 84,666
Charge-offs	(5,667)	(142)	(2,335)		(8,144)
Recoveries	129	209	544		882
Provision	4,844	6,280	1,888	(12)	13,000
Ending balance	$ 63,867	$ 17,030	$ 9,416	$ 91	$ 90,404

	Nine Months Ended September 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	(11,542)	(2,938)	(6,951)		(21,431)
Recoveries	3,477	540	1,675		5,692
Provision	8,085	11,208	5,743	(36)	25,000
Ending balance	$ 63,867	$ 17,030	$ 9,416	$ 91	$ 90,404
Ending balance: individually evaluated for impairment	$ 1,759	$ 4,726	$	$	$ 6,485
Ending balance: collectively evaluated for impairment	62,108	12,304	9,416	91	83,919
Loans:					
Ending balance: loans	$ 4,948,341	$ 4,926,253	$ 387,371	$ 31,529	$ 10,293,494
Ending balance: individually evaluated for impairment	80,769	16,122	2,158		99,049
Ending balance: collectively evaluated for impairment	4,867,572	4,910,131	384,178	31,529	10,193,410
Ending balance: PCI Loans			1,035		1,035

20

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

This table provides a roll forward of the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2015 *(in thousands):*

	Three Months Ended September 30, 2015				
	Commercial	**Real estate**	**Consumer**	**Leases**	**Total**
Allowance for loan losses:					
Beginning balance	$ 59,378	$ 8,892	$ 9,288	$ 163	$ 77,721
Charge-offs	(1,124)	(68)	(2,263)		(3,455)
Recoveries	488	133	643		1,264
Provision	540	448	1,525	(13)	2,500
Ending balance	$ 59,282	$ 9,405	$ 9,193	$ 150	$ 78,030

	Nine Months Ended September 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	(4,624)	(168)	(7,413)		(12,205)
Recoveries	1,387	225	1,983		3,595
Provision	7,170	(1,377)	4,702	5	10,500
Ending balance	$ 59,282	$ 9,405	$ 9,193	$ 150	$ 78,030
Ending balance: individually evaluated for impairment	$ 2,504	$ 305	$ 31	$	$ 2,840
Ending balance: collectively evaluated for impairment	56,778	9,100	9,162	150	75,190
Loans:					
Ending balance: loans	$ 4,555,783	$ 4,052,470	$ 397,487	$ 40,386	$ 9,046,126
Ending balance: individually evaluated for impairment	52,450	8,957	3,365		64,772
Ending balance: collectively evaluated for impairment	4,500,836	4,041,244	391,798	40,386	8,974,264
Ending balance: PCI Loans	2,497	2,269	2,324		7,090

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

Impaired Loans

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

	As of September 30, 2016					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	$ 95,272	$ 59,619	$ 21,150	$ 80,769	$ 1,759	$ 68,633
Asset-based						
Factoring						
Commercial credit card						
Real estate:						
Real estate construction	961	306	114	420	24	433
Real estate commercial	17,490	10,425	5,028	15,453	4,702	7,997
Real estate residential	249	249		249		592
Real estate HELOC						99
Consumer:						
Consumer credit card						
Consumer other	2,158	2,158		2,158		2,476
Leases						
Total	$ 116,130	$ 72,757	$ 26,292	$ 99,049	$ 6,485	$ 80,230

	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						

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

22

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 30, 2016, no purchased loans were modified as troubled debt restructurings after the Acquisition Date.

The Company had $148 thousand and $217 thousand in commitments to lend to borrowers with loan modifications classified as TDRs as of September 30, 2016 and September 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 nine month period ended September 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 nine months ended September 30, 2016 *(in thousands)*:

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
Commercial:						
Commercial	1	$ 12,721	$ 12,721	3	$ 24,778	$ 24,778
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	1	$	12,721	$	12,721	3	$	24,778	$	24,778

23

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

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

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
Commercial:						
Commercial	2	$ 8,675	$ 8,675	16	$ 28,138	$ 28,138
Asset-based						
Factoring						
Commercial credit card						
Real estate:						
Real estate construction						
Real estate commercial				1	261	261
Real estate residential	1	261	261	1	121	121
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	3	$ 8,936	$ 8,936	18	$ 28,520	$ 28,520

5. Securities

Securities Available for Sale

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

	Gross	Gross

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2016				
U.S. Treasury	$ 249,461	$ 291	$ (226)	$ 249,526
U.S. Agencies	289,244	247	(51)	289,440
Mortgage-backed	3,322,340	45,857	(5,901)	3,362,296
State and political subdivisions	2,291,316	37,450	(1,546)	2,327,220
Corporates	67,242	30	(67)	67,205
Total	$ 6,219,603	$ 83,875	$ (7,791)	$ 6,295,687

	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

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

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

	Amortized Cost	Fair Value
Due in 1 year or less	$ 743,207	$ 743,589
Due after 1 year through 5 years	1,065,114	1,078,518
Due after 5 years through 10 years	844,091	864,353
Due after 10 years	244,851	246,931
Total	2,897,263	2,933,391
Mortgage-backed securities	3,322,340	3,362,296
Total securities available for sale	$ 6,219,603	$ 6,295,687

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

For the nine months ended September 30, 2016, proceeds from the sales of securities available for sale were $951.3 million compared to $782.8 million for the same period in 2015. Securities transactions resulted in gross realized gains of $8.5 million and $8.5 million for the nine months ended September 30, 2016 and 2015, respectively. The gross realized losses for the nine months ended September 30, 2016 and 2015 were $1 thousand and $48 thousand, respectively.

Securities available for sale with a market value of $5.1 billion at September 30, 2016 and $5.9 billion at December 31, 2015 were pledged to secure U.S. Government deposits, other public deposits, certain trust deposits, derivative transactions, and repurchase agreements. Of this amount, securities with a market value of $1.4 billion at September 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 September 30, 2016 and December 31, 2015 *(in thousands):*

September 30, 2016	Less than 12 months	12 months or more	Total
Description of Securities	Fair Value		Fair Value

		Unrealized Losses	Fair Value	Unrealized Losses		Unrealized Losses
U.S. Treasury	$ 75,083	$ (226)	$	$	$ 75,083	$ (226)
U.S. Agencies	62,425	(33)	12,994	(18)	75,419	(51)
Mortgage-backed	424,586	(1,395)	291,636	(4,506)	716,222	(5,901)
State and political subdivisions	427,223	(1,513)	6,159	(33)	433,382	(1,546)
Corporates	20,979	(21)	30,539	(46)	51,518	(67)
Total	$ 1,010,296	$ (3,188)	$ 341,328	$ (4,603)	$ 1,351,624	$ (7,791)

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

December 31, 2015	**Less than 12 months**		**12 months or more**		**Total**	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury	$ 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	$ 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 September 30, 2016.

Securities Held to Maturity

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

	Amortized Cost	**Net Unrealized Gains**	**Fair Value**
September 30, 2016			
State and political subdivisions	$ 1,009,117	$ 88,871	$ 1,097,988
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 September 30, 2016 *(in thousands):*

	Amortized	**Fair**

	Cost	Value
Due in 1 year or less	$ 17,219	$ 18,735
Due after 1 year through 5 years	83,572	90,932
Due after 5 years through 10 years	565,141	614,912
Due after 10 years	343,185	373,409
Total securities held to maturity	$ 1,009,117	$ 1,097,988

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 nine months ended September 30, 2016 or 2015.

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

Trading Securities

The net unrealized gains on trading securities at September 30, 2016 and September 30, 2015 were $14 thousand and $8 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 September 30, 2016 and December 31, 2015 *(in thousands):*

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016				
FRB and FHLB stock	$ 33,397	$	$	$ 33,397
Other securities marketable	4	9,578		9,582
Other securities non-marketable	23,185	700	(11)	23,874
Total Other securities	$ 56,586	$ 10,278	$ (11)	$ 66,853
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 $9.6 million at September 30, 2016 and $7.2 million at December 31, 2015. The fair value of other non-marketable securities includes alternative investment securities of $1.8 million at September 30, 2016 and $2.0 million at December 31, 2015. Unrealized gains or losses on alternative investments are recognized in the Equity earnings (loss) on alternative investments of the Company s Consolidated Statements of Income.

6. Goodwill and Other Intangibles

Changes in the carrying amount of goodwill for the periods ended September 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 September 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 NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

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

	As of September 30, 2016		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**
Core deposit intangible assets	$ 47,527	$ 38,218	$ 9,309
Customer relationships	107,460	79,902	27,558
Other intangible assets	4,198	3,646	552
Total intangible assets	$ 159,185	$ 121,766	$ 37,419

	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		**Nine Months Ended**	
	September 30,		**September 30,**	
	2016	**2015**	**2016**	**2015**
Aggregate amortization expense	$ 2,992	$ 3,483	$ 9,363	$ 8,807

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

For the three months ending December 31, 2016	$ 2,928
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

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 September 30, 2016, in addition to the various types of marketable securities that have been pledged as collateral for these borrowings *(in thousands):*

	As of September 30, 2016		
	Remaining Contractual Maturities of the Agreements		
	Overnight & Continuous	Over 90 Days	Total
Repurchase agreements, secured by:			
U.S. Treasury	$ 176,297	$	$ 176,297
U.S. Agencies	1,247,635	1,600	1,249,235
Total repurchase agreements	$ 1,423,932	$ 1,600	$ 1,425,532

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 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 September 30, 2016. Previously reported results have been reclassified in this filing 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 NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

Business Segment Information

Segment financial results were as follows *(in thousands):*

	Three Months Ended September 30, 2016			
	Bank	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 121,963	$	$ 2,802	$ 124,765
Provision for loan losses	13,000			13,000
Noninterest income	80,454	19,413	22,081	121,948
Noninterest expense	142,836	16,874	20,073	179,783
Income before taxes	46,581	2,539	4,810	53,930
Income tax expense	10,427	519	1,038	11,984
Net income	$ 36,154	$ 2,020	$ 3,772	$ 41,946
Average assets	$ 18,384,000	$ 61,000	$ 1,247,000	$ 19,692,000

	Three Months Ended September 30, 2015			
	Bank	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 108,424	$ 49	$ 1,422	$ 109,895
Provision for loan losses	2,500			2,500
Noninterest income	65,207	21,398	22,493	109,098
Noninterest expense	149,269	16,495	19,515	185,279
Income before taxes	21,862	4,952	4,400	31,214
Income tax expense	6,120	1,409	1,234	8,763
Net income	$ 15,742	$ 3,543	$ 3,166	$ 22,451
Average assets	$ 17,045,000	$ 66,000	$ 1,009,000	$ 18,120,000

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

	Nine Months Ended September 30, 2016			
	Bank	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 355,847	$	$ 8,020	$ 363,867
Provision for loan losses	25,000			25,000
Noninterest income	235,915	56,965	66,865	359,745
Noninterest expense	431,594	52,993	60,983	545,570
Income before taxes	135,168	3,972	13,902	153,042
Income tax expense	32,928	899	3,348	37,175
Net income	$ 102,240	$ 3,073	$ 10,554	$ 115,867
Average assets	$ 18,147,000	$ 62,000	$ 1,279,000	$ 19,488,000

	Nine Months Ended September 30, 2015			
	Bank	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 294,210	$ 27	$ 3,376	$ 297,613
Provision for loan losses	10,500			10,500
Noninterest income	210,695	74,182	68,978	353,855
Noninterest expense	407,997	52,799	60,860	521,656
Income before taxes	86,408	21,410	11,494	119,312
Income tax expense	23,859	5,899	3,124	32,882
Net income	$ 62,549	$ 15,511	$ 8,370	$ 86,430
Average assets	$ 16,419,000	$ 71,000	$ 970,000	$ 17,460,000

9. Acquisition

As previously disclosed, on May 31, 2015, the Company acquired 100% of the outstanding common shares of Marquette. 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 acquisition 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.

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

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
Assets	
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
Liabilities	
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
Consideration:	
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.

The Company assumed long-term debt obligations of Marquette 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 London Interbank Offered Rate (LIBOR) 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.

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

The results of operations of Marquette are included in the results of operations of the Company subsequent to the Acquisition Date. For the nine months ended September 30, 2016, acquisition expenses recognized in Noninterest expense in the Company s Consolidated Statements of Income totaled $4.5 million. This total included $880 thousand of severance in Salaries and employee benefits and $1.7 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, 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 contractual 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):*

	September 30, 2016	December 31, 2015
Commitments to extend credit for loans (excluding credit card loans)	$ 6,517,542	$ 6,671,794
Commitments to extend credit under credit card loans	2,735,487	2,986,581
Commercial letters of credit	1,393	11,541
Standby letters of credit	381,284	360,468
Forward contracts	64,012	75,611
Spot foreign exchange contracts	4,145	10,391

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.

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

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 September 30, 2016 and December 31, 2015 *(in thousands)*:

	Asset Derivatives		Liability Derivatives	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Fair Value				
Interest Rate Products:				
Derivatives not designated as hedging instruments	$ 21,499	$ 11,700	$ 22,588	$ 11,921
Derivatives designated as hedging instruments	426	603	8,233	337
Total	$ 21,925	$ 12,303	$ 30,821	$ 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 September 30, 2016, the Company had two interest rate swaps with a notional amount of $15.8 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 September 30, 2016, the Company had two 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 nine months ended September 30, 2016, the Company recognized net losses of $643 thousand and $7.7 million, respectively, in AOCI for the effective portion of the change in fair value of these cash flow hedges. During the three and nine months ended September 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 September 30, 2016, the Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 20 years.

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

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 September 30, 2016, the Company had 50 interest rate swaps with an aggregate notional amount of $595.8 million related to this program. During the three and nine months ended September 30, 2016, the Company recognized $76 thousand and $868 thousand of net losses, respectively, related to changes in fair value of these swaps. During the three and nine months ended September 30, 2015, the Company recognized $125 thousand and $211 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 nine months ended September 30, 2016 and September 30, 2015 *(in thousands)*:

	Amount of Gain (Loss) Recognized			
	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest Rate Products				
Derivatives not designated as hedging instruments	$ (76)	$ (125)	$ (868)	$ (211)
Total	$ (76)	$ (125)	$ (868)	$ (211)
Interest Rate Products				
Derivatives designated as hedging instruments:				
Fair value adjustments on derivatives	$ (64)	$ (178)	$ (395)	$ (172)
Fair value adjustments on hedged items	63	177	392	173
Total	$ (1)	$ (1)	$ (3)	$ 1

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 September 30, 2016 and September 30, 2015 *(in thousands)*:

	Amount of Loss Recognized in Other Comprehensive Income on Derivatives (Effective Portion)			
	For the Three Months Ended		**For the Nine Months Ended**	
Derivatives in Cash Flow Hedging Relationships	**September 30, 2016**	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Interest rate products				
Derivatives designated as cash flow hedging instruments	$ (643)	$	$ (7,677)	$
Total	$ (643)	$	$ (7,677)	$

35

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

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 September 30, 2016, the termination value of derivatives in a net liability position, which includes accrued interest, related to these agreements was $31.1 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 September 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 September 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.

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

	Fair Value Measurement at September 30, 2016			
Description	**September 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	2,349		2,349	
Mortgage-backed	7,068		7,068	
State and political subdivisions	18,645		18,645	
Trading - other	29,600	29,161	439	
Trading securities	58,062	29,561	28,501	
U.S. Treasury	249,526	249,526		
U.S. Agencies	289,440		289,440	
Mortgage-backed	3,362,296		3,362,296	
State and political subdivisions	2,327,220		2,327,220	
Corporates	67,205	67,205		
Available for sale securities	6,295,687	316,731	5,978,956	
Company-owned life insurance	40,274		40,274	
Bank-owned life insurance	208,095		208,095	
Derivatives	21,925		21,925	
Total	$ 6,624,043	$ 346,292	$ 6,277,751	$
Liabilities				
Deferred compensation	$ 40,804	$ 40,804	$	$
Derivatives	30,821		30,821	
Total	$ 71,625	$ 40,804	$ 30,821	$

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

		Fair Value Measurement at December 31, 2015		
Description	**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 nine months ended September 30, 2016 and 2015 (*in thousands*):

	Nine Months Ended September 30,	
	2016	2015
Beginning balance	$ 17,718	$ 53,411
Payment of contingent consideration on acquisitions	(17,784)	(18,702)
Fair value adjustments	66	(3,477)
Ending balance	$	$ 31,232

UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)

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 val