UMB FINANCIAL CORP
Form 10-Q
May 01, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from ______ to ______

Commission file number 0-4887

UMB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

As of April 25, 2014, UMB Financial Corporation had 45,438,349 shares of common stock outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UMB FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

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

	March 31, 2014	December 31, 2013
ASSETS		
Loans:	$ 6,759,089	$ 6,520,512
Allowance for loan losses	(75,514)	(74,751)
Net loans	6,683,575	6,445,761
Loans held for sale	1,108	1,357
Investment Securities:		
Available for sale	6,734,931	6,762,411
Held to maturity (market value of $236,898 and $231,510, respectively)	219,724	209,770
Trading securities	43,055	28,464
Federal Reserve Bank stock and other	54,551	50,482
Total investment securities	7,052,261	7,051,127
Federal funds sold and securities purchased under agreements to resell	108,986	87,018
Interest-bearing due from banks	770,458	2,093,467
Cash and due from banks	593,956	521,001
Bank premises and equipment, net	247,770	249,689
Accrued income	75,384	78,216
Goodwill	209,758	209,758
Other intangibles	52,483	55,585
Other assets	150,091	118,873
Total assets	$ 15,945,830	$ 16,911,852
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 5,303,067	$ 5,189,998
Interest-bearing demand and savings	5,747,984	7,001,126
Time deposits under $100,000	458,484	491,792
Time deposits of $100,000 or more	756,236	957,850
Total deposits	12,265,771	13,640,766
Federal funds purchased and repurchase agreements	1,973,736	1,583,218
Short-term debt		107
Long-term debt	5,815	5,055
Accrued expenses and taxes	118,918	153,450
Other liabilities	39,392	23,191
Total liabilities	14,403,632	15,405,787

SHAREHOLDERS EQUITY		
Common stock, $1.00 par value; 80,000,000 shares authorized, 55,056,730 shares issued, and 45,433,101 and 45,221,237 shares outstanding, respectively	55,057	55,057
Capital surplus	883,195	882,407
Retained earnings	897,826	884,630
Accumulated other comprehensive loss	(13,297)	(32,640)
Treasury stock, 9,623,629 and 9,835,493 shares, at cost, respectively	(280,583)	(283,389)
Total shareholders equity	1,542,198	1,506,065
Total liabilities and shareholders equity	$ 15,945,830	$ 16,911,852

See Notes to Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended March 31, 2014	2013
INTEREST INCOME		
Loans	$ 58,900	$ 54,720
Securities:		
Taxable interest	18,961	18,465
Tax-exempt interest	9,907	9,760
Total securities income	28,868	28,225
Federal funds and resell agreements	33	24
Interest-bearing due from banks	1,123	669
Trading securities	123	264
Total interest income	89,047	83,902
INTEREST EXPENSE		
Deposits	3,059	3,792
Federal funds purchased and repurchase agreements	481	567
Other	62	60
Total interest expense	3,602	4,419
Net interest income	85,445	79,483
Provision for loan losses	4,500	2,000
Net interest income after provision for loan losses	80,945	77,483
NONINTEREST INCOME		
Trust and securities processing	71,563	62,312
Trading and investment banking	4,323	7,109
Service charges on deposit accounts	21,558	21,523
Insurance fees and commissions	603	961
Brokerage fees	1,815	2,946
Bankcard fees	15,623	16,439
Gain on sales of securities available for sale, net	1,470	5,893
Equity earnings on alternative investments	2,530	
Other	3,479	3,833
Total noninterest income	122,964	121,016
NONINTEREST EXPENSE		
Salaries and employee benefits	88,881	83,702
Occupancy, net	9,705	9,887
Equipment	12,663	11,934
Supplies and services	4,637	4,487
Marketing and business development	4,602	4,272
Processing fees	13,651	14,090

Legal and consulting	3,372	3,600
Bankcard	3,688	4,547
Amortization of other intangible assets	3,102	3,456
Regulatory fees	2,516	1,911
Contingency reserve (Note 7)	15,000	
Other	10,424	8,492
Total noninterest expense	172,241	150,378
Income before income taxes	31,668	48,121
Income tax expense	8,255	13,180
NET INCOME	$ 23,413	$ 34,941
PER SHARE DATA		
Net income basic	$ 0.52	$ 0.88
Net income diluted	0.52	0.87
Dividends	0.225	0.215
Weighted average shares outstanding	44,742,068	39,881,505

See Notes to Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(unaudited, dollars in thousands)

	Three Months Ended March 31, 2014	2013
Net income	$ 23,413	$ 34,941
Other comprehensive income, net of tax:		
Unrealized gains on securities:		
Change in unrealized holding gains (losses), net	32,459	(27,048)
Less: Reclassifications adjustment for gains included in net income	(1,470)	(5,893)
Change in unrealized gains (losses) on securities during the period	30,989	(32,941)
Income tax (expense) benefit	(11,646)	10,925
Other comprehensive income (loss)	19,343	(22,016)
Comprehensive income	$ 42,756	$ 12,925

See Notes to Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

STATEMENTS OF CHANGES IN CONSOLIDATED 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, 2013	$ 55,057	$ 732,069	$ 787,015	$ 85,588	$ (380,384)	$ 1,279,345
Total comprehensive income			34,941	(22,016)		12,925
Cash dividends ($0.215 per share)			(8,711)			(8,711)
Purchase of treasury stock					(1,656)	(1,656)
Issuance of equity awards		(2,592)			3,041	449
Recognition of equity based compensation		1,913				1,913
Net tax benefit related to equity compensation plans		332				332
Sale of treasury stock		42			24	66
Exercise of stock options		445			450	895
Balance March 31, 2013	$ 55,057	$ 732,209	$ 813,245	$ 63,572	$ (378,525)	$ 1,285,558
Balance January 1, 2014	$ 55,057	$ 882,407	$ 884,630	$ (32,640)	$ (283,389)	$ 1,506,065
Total comprehensive income			23,413	19,343		42,756
Cash dividends ($0.225 per share)			(10,217)			(10,217)
Purchase of treasury stock					(2,867)	(2,867)
Issuance of equity awards		(3,648)			4,117	469
Recognition of equity based compensation		2,212				2,212
Net tax benefit related to equity compensation plans		1,068				1,068
Sale of treasury stock		143			77	220
Exercise of stock options		1,013			1,479	2,492
Balance March 31, 2014	$ 55,057	$ 883,195	$ 897,826	$ (13,297)	$ (280,583)	$ 1,542,198

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	Three Months Ended March 31, 2014	2013
Operating Activities		
Net Income	$ 23,413	$ 34,941
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,500	2,000
Depreciation and amortization	11,344	10,969
Deferred income tax benefit	(2,822)	(2,591)
Net increase in trading securities and other earning assets	(17,121)	(16,824)
Gains on sales of securities available for sale	(1,470)	(5,893)
(Gains) losses on sales of assets	(550)	303
Amortization of securities premiums, net of discount accretion	13,276	13,433
Originations of loans held for sale	(11,545)	(39,543)
Net gains on sales of loans held for sale	(189)	(211)
Proceeds from sales of loans held for sale	11,983	37,326
Issuance of equity awards	469	449
Equity based compensation	2,212	1,913
Changes in:		
Accrued income (expense)	2,832	(761)
Accrued expenses and taxes	(28,557)	(11,956)
Other assets and liabilities, net	(25,719)	11,790
Net cash (used in) provided by operating activities	(17,944)	35,345
Investing Activities		
Proceeds from maturities of securities held to maturity	4,500	7,996
Proceeds from sales of securities available for sale	77,583	333,912
Proceeds from maturities of securities available for sale	516,001	514,720
Purchases of securities held to maturity	(16,600)	(22,734)
Purchases of securities available for sale	(544,487)	(805,695)
Net increase in loans	(242,279)	(327,354)
Net (increase) decrease in fed funds sold and resell agreements	(21,968)	70,822
Net increase in interest bearing balances due from other financial institutions	(53,471)	(1,004)
Purchases of bank premises and equipment	(6,926)	(8,011)
Net cash received from acquisitions		(692)
Proceeds from sales of bank premises and equipment	1,153	808
Net cash used in investing activities	(286,494)	(237,232)
Financing Activities		
Net (increase) decrease in demand and savings deposits	(1,140,073)	1,121,789
Net decrease in time deposits	(234,922)	(215,696)
Net decrease (increase) in fed funds purchased and repurchase agreements	390,518	(127,927)
Net decrease in short-term debt	(107)	(99)
Proceeds from long-term debt	1,820	
Repayment of long-term debt	(1,060)	(972)
Payment of contingent consideration on acquisitions	(5,975)	(4,899)
Cash dividends paid	(10,201)	(8,526)

Net tax benefit related to equity compensation plans	1,068	332
Proceeds from exercise of stock options and sales of treasury shares	2,712	961
Purchases of treasury stock	(2,867)	(1,656)
Net cash (used in) provided by financing activities	(999,087)	763,307
(Decrease) increase in cash and due from banks	(1,303,525)	561,420
Cash and cash equivalents at beginning of period	2,582,428	1,366,394
Cash and cash equivalents at end of period	$ 1,278,903	$ 1,927,814
Supplemental Disclosures:		
Income taxes paid	$ 16,053	$ 9,302
Total interest paid	3,720	4,608

See Notes to Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

1. Financial Statement Presentation

The condensed consolidated financial statements include the accounts of UMB Financial Corporation and its subsidiaries (collectively, the Company) after elimination of all intercompany transactions. In the opinion of management of the Company, all adjustments, which were of a normal recurring nature and necessary for a fair presentation of the financial position and results of operations, have been made. The results of operations and cash flows for the interim periods presented may not be indicative of the results of the full year. The financial statements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations within this Form 10-Q filing and in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

2. Summary of Significant Accounting Policies

The Company is a financial holding company, which offers a wide range of banking and other financial services to its customers through its branches and offices in the states of Missouri, Kansas, Colorado, Illinois, Oklahoma, Texas, Arizona, Nebraska, Pennsylvania, South Dakota, Indiana, Utah, and Wisconsin. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also impact reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A summary of the significant accounting policies to assist the reader in understanding the financial presentation is listed in the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Interest-bearing Due From Banks

Amounts due from the Federal Reserve Bank which are interest-bearing for all periods presented, and amounts due from certificates of deposits issued by other financial institutions are included in interest-bearing due from banks. The amounts due from certificates of deposit totaled $82.9 million and $22.9 million at March 31, 2014 and March 31, 2013, respectively.

This table provides a summary of cash and cash equivalents as presented on the Consolidated Statement of Cash Flows as of March 31, 2014 and March 31, 2013 (in thousands):

	March 31,	
	2014	**2013**
Due from the Federal Reserve	$ 684,947	$ 1,608,279
Cash and due from banks	593,956	319,535
Cash and cash equivalents at end of period	$ 1,278,903	$ 1,927,814

Per Share Data

Basic income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted income per share includes the dilutive effect of 640,622 and 418,210 shares issuable upon the exercise of stock options granted by the Company at March 31, 2014 and 2013, respectively.

Options issued under employee benefit plans to purchase 258,254 and 280,611 shares of common stock were outstanding at March 31, 2014 and 2013, respectively, but were not included in the computation of diluted EPS because the options were anti-dilutive.

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

3. New Accounting Pronouncements

Investment Companies In June 2013, the FASB issued ASU No. 2013-08, Amendments to the Scope, Measurement, and Disclosure Requirements for investment companies. The amendments changed the assessment of whether an entity is an investment company by requiring an entity to possess certain fundamental characteristics, while allowing judgment in assessing other typical characteristics. The ASU was effective January 1, 2014, and the Company did not change the status of any subsidiary, or the accounting applied to a subsidiary, under the new guidelines.

Accounting for Investments in Qualified Affordable Housing Projects In January 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Regardless of whether the reporting entity chooses to elect the proportional amortization method, this ASU introduces new recurring disclosures about all investments in qualified affordable housing projects. The ASU is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of this accounting pronouncement will not have a significant impact on the Company s financial statements or financial statement disclosures.

Reclassification of Residential Real Estate Loans In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendment is intended to reduce diversity in practice by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loans such that the loan receivable should be derecognized and the real stated property recognized. The amendments in this update are effective for interim and annual periods beginning after December 15, 2014. The adoption of this accounting pronouncement will not have a significant impact on the Company s financial statements.

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

4. Loans and Allowance for Loan Losses

Loan Origination/Risk Management

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

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

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. The Company requires an appraisal of the collateral be made at origination 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 from approved long-term borrowers, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their repayment being sensitive to interest rate changes, governmental regulation of real property, economic conditions, and the availability of long-term financing.

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

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

This table provides a summary of loan classes and an aging of past due loans at March 31, 2014 and December 31, 2013 *(in thousands):*

	March 31, 2014					
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Commercial:						
Commercial	$ 3,478	$ 2,023	$ 8,611	$ 14,112	$ 3,475,917	$ 3,490,029
Commercial credit card	368	126	25	519	120,835	121,354
Real estate:						
Real estate construction	768		921	1,689	184,271	185,960
Real estate commercial	2,660		18,104	20,764	1,690,106	1,710,870
Real estate residential	1,114		946	2,060	292,345	294,405
Real estate HELOC	1,983		325	2,308	568,121	570,429
Consumer:						
Consumer credit card	2,391	2,853	869	6,113	294,183	300,296
Consumer other	2,943	99	352	3,394	58,299	61,693
Leases	157			157	23,896	24,053
Total loans	$ 15,862	$ 5,101	$ 30,153	$ 51,116	$ 6,707,973	$ 6,759,089

	December 31, 2013					
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Commercial:						
Commercial	$ 2,107	$ 135	$ 8,042	$ 10,284	$ 3,291,219	$ 3,301,503
Commercial credit card	362	82	38	482	102,788	103,270
Real estate:						
Real estate construction	186		934	1,120	151,755	152,875
Real estate commercial	3,611	344	19,213	23,168	1,678,983	1,702,151
Real estate residential	1,257	13	868	2,138	287,218	289,356
Real estate HELOC	880	6	210	1,096	565,032	566,128
Consumer:						
Consumer credit card	3,230	2,448	1,031	6,709	311,627	318,336
Consumer other	1,727	190	370	2,287	60,625	62,912
Leases					23,981	23,981
Total loans	$ 13,360	$ 3,218	$ 30,706	$ 47,284	$ 6,473,228	$ 6,520,512

The Company sold $12.0 million and $37.3 million of residential real estate and student loans in the secondary market without recourse during the periods ended March 31, 2014 and March 31, 2013, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of $30.2 million and $30.7 million at March 31, 2014 and December 31, 2013, respectively. Restructured loans totaled $12.1 million at March 31, 2014 and December 31, 2013. Loans 90 days past due and still accruing interest amounted to $5.1 million and $3.2 million at March 31, 2014 and December 31, 2013, respectively. There was an insignificant amount of interest recognized on impaired loans during 2014 and 2013.

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

Credit Quality Indicators

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

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

- **Watch** This rating represents credit exposure that presents higher than average risk and warrants greater than routine attention by Company personnel due to conditions affecting the borrower, the borrower s industry or the economic environment. These conditions have resulted in some degree of uncertainty that results in higher than average credit risk.
- **Special Mention** This rating reflects a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the institution s credit position at some future date. The rating is not adversely classified and does not expose an institution to sufficient risk to warrant adverse classification.
- **Substandard** This rating represents an asset inadequately protected by the financial worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans in this category are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. This category may include loans where the collection of full principal and interest is doubtful or remote.

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

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

This table provides an analysis of the credit risk profile of each loan class at March 31, 2014 and December 31, 2013 *(in thousands):*

Credit Exposure

Credit Risk Profile by Risk Rating

	Commercial		Real estate - construction	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Non-watch list	$ 3,229,699	$ 3,041,224	$ 183,855	$ 151,359
Watch	107,824	110,932	801	210
Special Mention	74,830	78,064		
Substandard	77,676	71,283	1,304	1,306
Total	$ 3,490,029	$ 3,301,503	$ 185,960	$ 152,875

	Real estate - commercial	
	March 31, 2014	December 31, 2013
Non-watch list	$ 1,565,623	$ 1,565,894
Watch	79,620	76,647
Special Mention	19,644	19,876
Substandard	45,983	39,734
Total	$ 1,710,870	$ 1,702,151

Credit Exposure

Credit Risk Profile Based on Payment Activity

	Commercial - credit card		Real estate - residential	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Performing	$ 121,329	$ 103,232	$ 293,459	$ 288,488
Non-performing	25	38	946	868
Total	$ 121,354	$ 103,270	$ 294,405	$ 289,356

	Real estate - HELOC		Consumer - credit card	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Performing	$ 570,104	$ 565,918	$ 299,427	$ 317,305
Non-performing	325	210	869	1,031
Total	$ 570,429	$ 566,128	$ 300,296	$ 318,336

	Consumer - other		Leases	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Performing	$ 61,341	$ 62,542	$ 24,053	$ 23,981
Non-performing	352	370		
Total	$ 61,693	$ 62,912	$ 24,053	$ 23,981

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

Allowance for Loan Losses

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

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

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

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

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

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS

This table provides a rollforward of the allowance for loan losses by portfolio segment for three months ended March 31, 2014 *(in thousands):*

	Three Months Ended March 31, 2014				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	$ 48,886	$ 15,342	$ 10,447	$ 76	$ 74,751
Charge-offs	(1,471)	(126)	(3,088)		(4,685)
Recoveries	67	9	872		948
Provision	881	866	2,753		4,500
Ending Balance	$ 48,363	$ 16,091	$ 10,984	$ 76	$ 75,514
Ending Balance: individually evaluated for impairment	$ 2,541	$ 1,719	$	$	$ 4,260
Ending Balance: collectively evaluated for impairment	45,822	14,372	10,984	76	71,254
Loans:					
Ending Balance: loans	$ 3,611,383	$ 2,761,664	$ 361,989	$ 24,053	$ 6,759,089
Ending Balance: individually evaluated for impairment	14,719	14,555	2		29,276
Ending Balance: collectively evaluated for impairment	3,596,664	2,747,109	361,987	24,053	6,729,813

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS (in thousands)

This table provides a rollforward of the allowance for loan losses by portfolio segment for three months ended March 31, 2013 *(in thousands):*

	Three Months Ended March 31, 2013				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	$ 43,390	$ 15,506	$ 12,470	$ 60	$ 71,426
Charge-offs	(1,397)	(195)	(3,257)		(4,849)
Recoveries	374	9	921		1,304
Provision	978	(374)	1,395	1	2,000
Ending Balance	$ 43,345	$ 14,946	$ 11,529	$ 61	$ 69,881
Ending Balance: individually evaluated for impairment	$ 3,206	$ 309	$	$	$ 3,515
Ending Balance: collectively evaluated for impairment	40,139	14,637	11,529	61	66,366
Loans:					
Ending Balance: loans	$ 3,305,175	$ 2,320,388	$ 365,217	$ 19,901	$ 6,010,681
Ending Balance: individually evaluated for impairment	15,974	10,140	46		26,160
Ending Balance: collectively evaluated for impairment	3,289,201	2,310,248	365,171	19,901	5,984,521

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

Impaired Loans

This table provides an analysis of impaired loans by class at March 31, 2014 and December 31, 2013 *(in thousands):*

	Three Months Ended March 31, 2014					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	$ 17,684	$ 2,855	$ 11,864	$ 14,719	$ 2,541	$ 14,678
Commercial credit card						
Real estate:						
Real estate construction	1,403	798	123	921	98	927
Real estate commercial	14,360	3,052	9,574	12,626	1,621	13,074
Real estate residential	1,221	1,008		1,008		1,048
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other	3	2		2		6
Leases						
Total	$ 34,671	$ 7,715	$ 21,561	$ 29,276	$ 4,260	$ 29,733

	Year Ended December 31, 2013					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	$ 17,227	$ 3,228	$ 11,407	$ 14,635	$ 2,882	$ 14,791
Commercial credit card						
Real estate:						
Real estate construction	1,408	810	123	933		1,186
Real estate commercial	14,686	5,305	8,218	13,523	94	10,506
Real estate residential	1,317	1,087		1,087	1,276	1,122
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other	12	11		11		34
Leases						

Total	$ 34,650	$ 10,441	$ 19,748	$ 30,189	$ 4,252	$ 27,639

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

Troubled Debt Restructurings

A loan modification is considered a troubled debt restructuring (TDR) when a concession had 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.

The Company had $279 thousand in commitments to lend to borrowers with loan modifications classified as TDR s. The Company made no TDR s in the last 12 months that had payment defaults for the three month period ended March 31, 2014.

This table provides a summary of loans restructured by class during the three months ended March 31, 2014 and 2013 *(in thousands)*:

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
Commercial:						
Commercial	1	$ 469	$ 469		$	$
Commercial credit card						
Real estate:						
Real estate construction						
Real estate commercial				2	1,408	1,407
Real estate residential						
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	1	$ 469	$ 469	2	$ 1,408	$ 1,407

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

5. Securities

Securities Available for Sale

This table provides detailed information about securities available for sale at March 31, 2014 and December 31, 2013 *(in thousands):*

March 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$ 252,195	$ 320	$ (725)	$ 251,790
U.S. Agencies	1,019,869	1,797	(2,041)	1,019,625
Mortgage-backed	3,108,155	23,477	(48,246)	3,083,386
State and political subdivisions	1,951,916	24,097	(18,441)	1,957,572
Corporates	424,106	539	(2,087)	422,558
Total	$ 6,756,241	$ 50,230	$ (71,540)	$ 6,734,931

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$ 110,789	$ 284	$ (873)	$ 110,200
U.S. Agencies	1,258,176	2,793	(3,306)	1,257,663
Mortgage-backed	2,984,963	23,942	(64,339)	2,944,566
State and political subdivisions	2,003,509	23,493	(31,756)	1,995,246
Corporates	457,275	902	(3,441)	454,736
Total	$ 6,814,712	$ 51,414	$ (103,715)	$ 6,762,411

The following table presents contractual maturity information for securities available for sale at March 31, 2014 *(in thousands):*

	Amortized Cost	Fair Value
Due in 1 year or less	$ 469,340	$ 471,680
Due after 1 year through 5 years	2,303,020	2,314,245
Due after 5 years through 10 years	729,845	726,462
Due after 10 years	145,881	139,158
Total	3,648,086	3,651,545
Mortgage-backed securities	3,108,155	3,083,386
Total securities available for sale	$ 6,756,241	$ 6,734,931

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 three months ended March 31, 2014, proceeds from the sales of securities available for sale were $77.6 million compared to $333.9 million for the same period in 2013. Securities transactions resulted in gross realized gains of $1.5 million and $5.9 million for the three months ended March 31, 2014 and 2013. The gross realized losses for the three months ended March 31, 2014 and 2013 were $11 thousand and $37 thousand, respectively.

Securities available for sale and held to maturity with a market value of $5.4 billion at March 31, 2014 and $5.9 billion at December 31, 2013 were pledged to secure U.S. Government deposits, other public deposits and certain trust deposits as required by law. Of this amount, securities with a market value of $1.6 billion at March 31, 2014 and $1.7 billion at December 31, 2013 were pledged at the Federal Reserve Discount Window but were unencumbered as of those dates.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

The following table shows the Company s available for sale investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2014 and December 31, 2013 *(in thousands).*

March 31, 2014	**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	$ 103,744	$ (725)	$	$	$ 103,744	$ (725)
U.S. Agencies	504,992	(1,612)	33,680	(429)	538,672	(2,041)
Mortgage-backed	1,824,634	(42,933)	127,158	(5,313)	1,951,792	(48,246)
State and political subdivisions	600,148	(12,825)	109,243	(5,616)	709,391	(18,441)
Corporates	195,055	(1,423)	43,670	(664)	238,725	(2,087)
Total temporarily - impaired debt securities available for sale	$ 3,228,573	$ (59,518)	$ 313,751	$ (12,022)	$ 3,542,324	$ (71,540)

December 31, 2013	**Less than 12 months**		**12 months or more**		**Total**	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury	$ 39,822	$ (873)	$	$	$ 39,822	$ (873)
U.S. Agencies	675,509	(3,130)	9,824	(176)	685,333	(3,306)
Mortgage-backed	1,945,964	(60,719)	89,147	(3,620)	2,035,111	(64,339)
State and political subdivisions	662,225	(25,064)	87,061	(6,692)	749,286	(31,756)
Corporates	271,834	(2,458)	41,522	(983)	313,356	(3,441)
Total temporarily - impaired debt securities available for sale	$ 3,595,354	$ (92,244)	$ 227,554	$ (11,471)	$ 3,822,908	$ (103,715)

The unrealized losses in the Company s investments in U.S. treasury obligations, U.S. government agencies, federal agency mortgage-backed securities, municipal securities, and corporates were caused by changes in interest rates. The Company does not have the intent to sell these securities and does not believe it is more likely than not that the Company will be required to sell these securities before a recovery of fair value. The Company expects to recover its cost basis in the securities and does not consider these investments to be other-than-temporarily impaired at March 31, 2014.

Securities Held to Maturity

The table below provides detailed information for securities held to maturity at March 31, 2014 and December 31, 2013 *(in thousands):*

March 31, 2014	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**

State and political subdivisions	$ 219,724	$ 17,174	$	$ 236,898
December 31, 2013				
State and political subdivisions	$ 209,770	$ 21,740	$	$ 231,510

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

The following table presents contractual maturity information for securities held to maturity at March 31, 2014 *(in thousands):*

	Amortized Cost	Fair Value
Due in 1 year or less	$ 61	$ 66
Due after 1 year through 5 years	27,251	29,381
Due after 5 years through 10 years	98,703	106,418
Due after 10 years	93,709	101,033
Total securities held to maturity	$ 219,724	$ 236,898

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

There were no sales of securities held to maturity during the first three months of 2014 or 2013.

Trading Securities

The net unrealized gains on trading securities at March 31, 2014 and March 31, 2013 were $0.3 million and $0.2 million, respectively, and were included in trading and investment banking income on the consolidated statements of income.

Federal Reserve Bank Stock and Other Securities

The table below provides detailed information for Federal Reserve Bank stock and other securities at March 31, 2014 and December 31, 2013(in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2014				
Federal Reserve Bank stock	$ 16,279	$	$	$ 16,279
Other securities marketable		17,385		17,385
Other securities non-marketable	18,427	2,460		20,887
Total Federal Reserve Bank stock and other	$ 34,706	$ 19,845	$	$ 54,551
December 31, 2013				
Federal Reserve Bank stock	$ 16,279	$	$	$ 16,279
Other securities marketable	20	16,612		16,632
Other securities non-marketable	17,139	432		17,571
Total Federal Reserve Bank stock and other	$ 33,438	$ 17,044	$	$ 50,482

Federal Reserve Bank stock is based on the capital structure of the investing bank and is carried at cost. Other marketable and non-marketable securities include Prairie Capital Management 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 $17.4 million at March 31, 2014 and $16.6 million at December 31, 2013. The fair value of other non-marketable securities includes alternative investment securities of $6.3 million at March 31, 2014 and $4.7 million at December 31, 2013. Unrealized gains or losses on alternative investments are recognized in the Equity Earnings on Alternative Investments line of the Company s Consolidated Statements of Income.

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

6. Goodwill and Other Intangibles

Changes in the carrying amount of goodwill for the periods ended March 31, 2014 and December 31, 2013 by reportable segment are as follows *(in thousands):*

	Bank	Institutional Investment Management	Asset Servicing	Total
Balances as of January 1, 2013	$ 142,753	$ 47,529	$ 19,476	$ 209,758
Balances as of December 31, 2013	$ 142,753	$ 47,529	$ 19,476	$ 209,758
Balances as of January 1, 2014	$ 142,753	$ 47,529	$ 19,476	$ 209,758
Balances as of March 31, 2014	$ 142,753	$ 47,529	$ 19,476	$ 209,758

Following are the finite-lived intangible assets that continue to be subject to amortization as of March 31, 2014 and December 31, 2013 *(in thousands)*:

	As of March 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible assets	$ 36,497	$ 31,946	$ 4,551
Customer relationships	103,960	56,835	47,125
Other intangible assets	3,247	2,440	807
Total intangible assets	$ 143,704	$ 91,221	$ 52,483

	As of December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible assets	$ 36,497	$ 31,674	$ 4,823
Customer relationships	103,960	54,062	49,898
Other intangible assets	3,247	2,383	864
Total intangible assets	$ 143,704	$ 88,119	$ 55,585

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

	Three Months Ended March 31,	
	2014	2013
Aggregate amortization expense	$ 3,102	$ 3,456

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

For the nine months ending December 31, 2014	$ 9,044
For the year ending December 31, 2015	9,550
For the year ending December 31, 2016	8,342
For the year ending December 31, 2017	7,098
For the year ending December 31, 2018	4,908

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

7. Commitments, Contingencies and Guarantees

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

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

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

Contract or Notional Amount *(in thousands):*

	March 31, 2014	**December 31, 2013**
Commitments to extend credit for loans (excluding credit card loans)	$ 2,793,554	$ 2,690,268
Commitments to extend credit under credit card loans	2,314,445	2,215,278
Commercial letters of credit	1,562	5,949
Standby letters of credit	387,889	356,054
Futures contracts	4,500	
Forward foreign exchange contracts	16,802	21,525
Spot foreign exchange contracts	1,342	8,001

On March 28, 2014, the Company received objections to its calculation of an earn-out amount owed to the sellers of Prairie Capital Management, LLC (PCM) and a related incentive bonus calculation. The sellers, which include current employees of PCM, claim that a $16.6 million unrealized gain on equity method investments managed by PCM should have been included in the Company s calculations, which are governed by the asset purchase agreement. The Company disputes this claim but desires to avoid future distractions to the operations of PCM. Based on the probability of future resolution, a $15.0 million contingency reserve was recorded during the first quarter of 2014. This contingency reserve is included in the Other liabilities line on the Company s consolidated balance sheet and the Contingency reserve line on Company s consolidated statements of income.

8. Business Segment Reporting

The Company has strategically aligned its operations into the following four reportable segments (collectively, Business Segments): Bank, Payment Solutions, Institutional Investment Management, and Asset Servicing. Business segment financial results produced by the Company s internal management reporting system are evaluated regularly by senior executive officers in deciding how to allocate resources and assess performance for individual Business Segments. The management reporting system assigns balance sheet and income statement items to each business segment using methodologies that are refined on an ongoing basis. For comparability purposes, amounts in all periods presented are based on methodologies in effect at March 31, 2014. Previously reported results have been reclassified to conform to the current organizational structure.

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

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

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FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

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

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

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

Business Segment Information

Segment financial results were as follows (in thousands):

	Three Months Ended March 31, 2014				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 71,121	$ 12,388	$ (2)	$ 1,938	$ 85,445
Provision for loan losses	2,426	2,074			4,500
Noninterest income	47,420	20,235	34,095	21,214	122,964
Noninterest expense	107,753	21,015	25,894	17,579	172,241
Income before taxes	8,362	9,534	8,199	5,573	31,668
Income tax expense	1,942	2,609	2,184	1,520	8,255
Net income	$ 6,420	$ 6,925	$ 6,015	$ 4,053	$ 23,413
Average assets	$ 12,299,000	$ 1,952,000	$ 74,000	$ 2,179,000	$ 16,504,000

	Three Months Ended March 31, 2013				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	$ 67,260	$ 11,548	$	$ 675	$ 79,483
Provision for loan losses	309	1,691			2,000
Noninterest income	52,748	19,437	28,552	20,279	121,016
Noninterest expense	91,536	20,117	18,845	19,880	150,378
Income before taxes	28,163	9,177	9,707	1,074	48,121
Income tax expense	7,705	2,534	2,667	274	13,180
Net income	$ 20,458	$ 6,643	$ 7,040	$ 800	$ 34,941

Average assets	$ 11,306,000	$ 1,698,000	$ 78,000	$ 1,701,000	$ 14,783,000

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

9. Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

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

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company s derivative financial instruments as of March 31, 2014 and December 31, 2013. The Company s derivative asset and derivative liability are located within Other assets and Other liabilities, respectively, on the Company s Consolidated Balance Sheet.

This table provides a summary of the fair value of the Company s derivative assets and liabilities as of March 31, 2014 and December 31, *2013 (in thousands)*:

	Asset Derivatives		Liability Derivatives	
Fair value	**March 31, 2014**	**December 31, 2013**	**March 31, 2014**	**December 31, 2013**
Interest Rate Products:				
Derivatives not designated as hedging instruments	$ 3,378	$ 2,442	$ 3,365	$ 2,346
Derivatives designated as hedging instruments		76	43	
Total	$ 3,378	$ 2,518	$ 3,408	$ 2,346

Fair Value Hedges of Interest Rate Risk

The Company is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in the benchmark interest rate, LIBOR. Interest rate swaps designated as fair value hedges involve making fixed-rate payments to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of March 31, 2014, the Company had one interest rate swap with a notional amount of $6.8 million that was designated as a fair value hedge of interest rate risk associated with the Company s fixed rate loan assets.

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

Designated Hedges

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. During the three months ended March 31, 2014, the Company recognized a net loss of $10 thousand in other noninterest expense related to hedge ineffectiveness.

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 March 31, 2014, the Company had 26 interest rate swaps with an aggregate notional amount of $333.5 million related to this program. During the three months ended March 31, 2014 and 2013, the Company recognized net losses of $83 thousand and net gains of $106 thousand, respectively, related to changes in the fair value of these swaps.

Effect of Derivative Instruments on the Income Statement

This table provides a summary of the amount of gain (loss) recognized in other noninterest expense in the Consolidated Statements of Income related to the Company s derivative asset and liability as of March 31, 2014 and March 31, 2013 *(in thousands)*:

	Amount of Gain (Loss) Recognized For the Year Ended March 31, 2014	2013
Interest Rate Products		
Derivatives not designated as hedging instruments	$ (83)	$ 106
Total	$ (83)	$ 106
Interest Rate Products		
Derivatives designated as hedging instruments		
Fair value adjustments on derivatives	$ (119)	$
Fair value adjustments on hedged items	109	
Total	$ (10)	$

Credit-risk-related Contingent Features

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

As of March 31, 2014 the termination value of derivatives in a net liability position, which includes accrued interest, related to these agreements was $0.2 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 March 31, 2014, it could have been required to settle its obligations under the agreements at the termination value.

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

10. Fair Value Measurements

The following table presents information about the Company s assets measured at fair value on a recurring basis as of March 31, 2014, 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 and liabilities measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013 *(in thousands):*

		Fair Value Measurement As of March 31, 2014		
Description	**March 31, 2014**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
U.S. Treasury	$ 400	$ 400	$	$
U.S. Agencies				
Mortgage-backed	7,406		7,406	
State and political subdivisions	5,273		5,273	
Trading other	29,976	29,979	(3)	
Trading securities	43,055	30,379	12,676	
U.S. Treasury	251,790	251,790		
U.S. Agencies	1,019,625		1,019,625	
Mortgage-backed	3,083,386		3,083,386	
State and political subdivisions	1,957,572		1,957,572	
Corporates	422,558	422,558		
Available for sale securities	6,734,931	674,348	6,060,583	
Company-owned life insurance	20,058		20,058	
Derivatives	3,378		3,378	
Total	$ 6,801,422	$ 704,727	$ 6,096,695	$
Liabilities				
Deferred compensation	$ 24,106	$ 24,106	$	$
Contingent consideration liability	44,700			44,700
Derivatives	3,408		3,408	

Total	$ 72,214	$ 24,106	$ 3,408	$ 44,700

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

		Fair Value Measurement as of December 31, 2013		
Description	**December 31, 2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
U.S. Treasury	$ 400	$ 400	$	$
U.S. Agencies				
Mortgage-backed	515		515	
State and political subdivisions	3,072		3,072	
Trading other	24,477	24,477		
Trading securities	28,464	24,877	3,587	
U.S. Treasury	110,200	110,200		
U.S. Agencies	1,257,663		1,257,663	
Mortgage-backed	2,944,566		2,944,566	
State and political subdivisions	1,995,246		1,995,246	
Corporates	454,736	454,736		
Available for sale securities	6,762,411	564,936	6,197,475	
Company-owned life insurance	19,619		19,619	
Derivatives	2,518		2,518	
Total	$ 6,813,012	$ 589,813	$ 6,223,199	$
Liabilities				
Deferred compensation	19,825	$ 19,825	$	$
Contingent consideration liability	46,201			46,201
Derivatives	2,346		2,346	
Total	$ 68,372	$ 19,825	$ 2,346	$ 46,201

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

	Three Months Ended March 31,	
	2014	**2013**
Beginning Balance	$ 46,201	$ 51,163
Payment of contingent considerations on acquisitions	(5,975)	(4,899)
Income from fair value adjustments		(138)
Expense from fair value adjustments	4,474	3,316
Ending Balance	$ 44,700	$ 49,442

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

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

Description	Valuation Techniques	Significant Unobservable Inputs	Range
Liabilities			
Contingent consideration liability	Discounted cash flows	Revenue and expense growth percentage	1% - 78%

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

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

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

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

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

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

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

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

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

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

Assets measured at fair value on a non-recurring basis as of March 31, 2014 and December 31, 2013 *(in thousands):*

		Fair Value Measurement at March 31, 2014 Using			
Description	**March 31, 2014**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses) Recognized During the Three Months Ended March 31**
Impaired loans	$ 17,301	$	$	$ 17,301	$ (8)
Other real estate owned	35			35	$
Total	$ 17,336	$	$	$ 17,336	$ (8)

		Fair Value Measurement at December 31, 2013 Using			
Description	**December 31, 2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses) Recognized During the Twelve Months Ended December 31**
Impaired loans	$ 15,496	$	$	$ 15,496	$ (2,496)
Other real estate owned	329			329	(125)
Total	$ 15,825	$	$	$ 15,825	$ (2,621)

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

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

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

Other real estate owned Other real estate owned consists of loan collateral which has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other non-real estate property, including auto, recreational and marine vehicles. Other real estate owned is recorded as held for sale initially at the lower of the loan balance or fair value of the collateral. The initial valuation of the foreclosed property is obtained through an appraisal process similar to the process described in the impaired loans paragraph above. Subsequent to foreclosure, valuations are reviewed quarterly and updated periodically, and the assets may be

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

marked down further, reflecting a new cost basis. Fair value measurements may be based upon appraisals or third-party price opinions and, accordingly, those measurements may be classified as Level 2. Other fair value measurements may be based on internally developed pricing methods, and those measurements may be classified as Level 3.

Fair value disclosures require disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The estimated fair value of the Company s financial instruments at March, 31, 2014 and December 31, 2013 are as follows *(in millions):*

		Fair Value Measurement at March 31, 2014 Using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
FINANCIAL ASSETS					
Securities held to maturity	$ 219.7	$	$ 236.9	$	$ 236.9
Federal Reserve Bank and other	54.6		54.6		54.6
Loans (exclusive of allowance for loan loss)	6,760.2		6,799.6		6,799.6
FINANCIAL LIABILITIES					
Time deposits	1,214.7		1,212.9		1,212.9
Long-term debt	5.8		6.0		6.0
OFF-BALANCE SHEET ARRANGEMENTS					
Commitments to extend credit for loans					1.5
Commercial letters of credit					0.1
Standby letters of credit					0.5

		Fair Value Measurement at December 31, 2013 Using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
FINANCIAL ASSETS					
Securities held to maturity	$ 209.8	$	$ 231.5	$	$ 231.5
Federal Reserve Bank and other s	50.5		50.5		50.5
Loans (exclusive of allowance for loan loss)	6,521.9		6,571.6		6,571.6
FINANCIAL LIABILITIES					
Time deposits	1,449.6		1,449.4		1,449.4
Long-term debt	5.1		4.5		4.5
OFF-BALANCE SHEET ARRANGEMENTS					
Commitments to extend credit for loans					6.0
Commercial letters of credit					0.1

Standby letters of credit	2.0

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

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

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

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UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

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

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

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

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

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2014 and December 31, 2013. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amount presented herein.

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

This review highlights the material changes in the results of operations and changes in financial condition for the three-month period ended March 31, 2014. It should be read in conjunction with the accompanying condensed consolidated financial statements, notes to condensed consolidated financial statements and other financial statistics appearing elsewhere in this report. Results of operations for the periods included in this review are not necessarily indicative of results to be attained during any future period.

CAUTIONARY NOTICE ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

- local, regional, national, or international business, economic, or political conditions or events;
- changes in laws or the regulatory environment, including as a result of recent financial-services legislation or regulation;
- changes in monetary, fiscal, or trade laws or policies, including as a result of actions by central banks or supranational authorities;
- changes in accounting standards or policies;
- shifts in investor sentiment or behavior in the securities, capital, or other financial markets, including changes in market liquidity or volatility or changes in interest or currency rates;
- changes in spending, borrowing, or saving by businesses or households;
- the Company s ability to effectively manage capital or liquidity or to effectively attract or deploy deposits;
- changes in any credit rating assigned to the Company or its affiliates;
- adverse publicity or other reputational harm to the Company;

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

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

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

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

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

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

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

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

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

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

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

mergers or acquisitions, including the Company s ability to integrate acquisitions;

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

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

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

other assumptions, risks, or uncertainties described in the Notes to Consolidated Financial Statements (Item 1) in this Form 10-Q and Management s Discussion and Analysis (Item 2), or the or described in any of the Company s quarterly or current reports.

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

Overview

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

The first strategy is to maintain high quality through a strong balance sheet, solid credit quality, a low cost of funding, and effective risk management. The strength in the balance sheet can be seen in the solid credit quality of the earning assets and the Company s continued growth in low cost funding. At March 31, 2014, the Company s nonperforming assets as a percentage of total assets were 0.20 percent. As a percentage of loans, nonperforming loans decreased to 0.45 percent as compared to 0.46 percent on March 31, 2013. These credit quality ratios were achieved while maintaining positive directional growth in average earning assets, which increased 11.6 percent from March 31, 2013.

The second strategy is to deliver profitable and sustainable growth by accelerating fee businesses, growing quality earning assets, maximizing efficiencies, and maintaining sales leverage. The Company s acceleration of fee businesses is apparent with the increase in trust and securities processing. Trust and securities processing income increased $9.3 million, or 14.9 percent, for the three months ended March 31, 2014 compared to the same period in 2013. The increase in trust and securities processing income was primarily due to a $4.3 million, or 20.4 percent, increase in advisory fee income from the Scout Funds; a $1.4 million, or 6.9 percent, increase in fund administration and custody services; and a $3.0 million, or 15.4 percent, increase in fees related to institutional and personal investment management services. Also notable is the Company s loan growth. While maintaining the aforementioned credit ratios, the Company s March 31, 2014 total loans increased $748.4 million, or 12.5 percent, as compared to the same three month period one year ago.

The third strategy is to maintain diversified revenue streams. The emphasis on fee-based operations helps reduce the Company s exposure to changes in interest rates. During the first quarter of 2014, noninterest income increased $1.9 million, or 1.6 percent, compared to the same period of 2013. Gains of $1.5 million on securities available for sale were recognized in the first quarter of 2014 compared to $5.9 million during the same period in 2013. The year-over-year change in securities gains are camouflaging the 14.9 percent increase in trust and securities processing in the first quarter of 2014. During the first quarter of 2014, $2.5 million of equity earnings on alternative investments were recognized on Prairie Capital Management investments. There were no unrealized gains or losses recognized in the first quarter of 2013. The Company continues to emphasize its asset management, bankcard services, health care services, and treasury management businesses. At March 31, 2014, noninterest income represented 59.0 percent of total revenues, as compared to 60.4 percent at March 31, 2013.

The fourth strategy is a focus on capital management. The Company places a significant emphasis on the maintenance of a strong capital position, which management believes promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company s ability to capitalize on business growth and acquisition opportunities. The Company continues to maximize shareholder value through a mix of reinvesting in organic growth, investing in acquisitions, evaluating increased dividends over time and utilizing a share buy-back strategy when appropriate. At March 31, 2014, the Company had $1.5 billion in total shareholders equity. This is an increase of $256.6 million, or 20.0 percent, compared to total shareholders equity at March 31, 2013. In 2013, the Company completed the issuance of 4.5 million shares of common stock with net proceeds of $231.4 million to be used for strategic growth purposes. At March 31, 2014, the Company had a total risk-based capital ratio of 14.14 percent, which is higher than the 10 percent regulatory minimum to be considered well-capitalized. The Company repurchased 46,970 shares at an average price of $61.04 per share during the first quarter of 2014.

Earnings Summary

The Company recorded consolidated net income of $23.4 million for the three-month period ended March 31, 2014, compared to $34.9 million for the same period a year earlier. This represents a 33.0 percent decrease over the three-month period ended March 31, 2013. Basic earnings per share for the first quarter of 2014 were $0.52 per share ($0.52 per share fully-diluted) compared to $0.88 per share ($0.87 per share fully-diluted) for the first quarter of 2013. Return on average assets and return on average common shareholders equity for the three-month period ended March 31, 2014 were 0.58 and 6.13 percent, respectively, compared to 0.96 and 11.05 percent for the three-month period ended March 31, 2013.

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Net interest income for the three month period ended March 31, 2014 increased $6.0 million, or 7.5 percent, compared to the same period in 2013. Average earning assets increased by $1.7 billion, or 12.4 percent, compared to the first quarter of 2013. Net interest margin, on a tax-equivalent basis, decreased to 2.39 percent or a 12 basis points decline for the three months ended March 31, 2014, compared to 2.51 percent for the same period in 2013.

The provision for loan losses increased by $2.5 million for the three month period ended March 31, 2014, compared to the same period in 2013. These changes are a direct result of applying the Company s methodology for computing the allowance for loan losses. The allowance for loan losses as a percentage of total loans decreased by four basis points to 1.12 percent as of March 31, 2014, compared to March 31, 2013. For a description of the Company s methodology for computing the allowance for loan losses, please see the summary discussion of the Allowance for Loan Losses within the Critical Accounting Policies and Estimates subsection of the Management s Discussion and Analysis of Financial Condition and Results of Operations section on the Company s 2013 Annual Report on Form 10-K.

Noninterest income increased by $1.9 million, or 1.6 percent, for the three-month period ended March 31, 2014, compared to the same period one year ago. For the three month period, the increase is primarily due to increased trust and securities processing income and equity earnings on alternative investments offset by decreased trading and investment banking income and decreased levels of securities gains recognized in 2014. These changes are discussed in greater detail below under Noninterest Income.

Noninterest expense increased by $21.9 million, or 14.5 percent, for the three-month period ended March 31, 2014, compared to the same period in 2013. A $15.0 million contingency reserve was recorded in the first quarter of 2014. On March 28, 2014, the Company received objections to its calculation of the earn-out amount owed to the sellers of PCM and a related incentive bonus calculation for the employees of PCM. The Company disputes this claim. Based on the probability of a future resolution, a contingency reserve was recorded. For the three month period, the increase was also due to increased salaries and employee benefits expense and increased fair value adjustments to the contingent consideration liabilities on acquisitions. These changes are discussed in greater detail below under Noninterest Expense.

Net Interest Income

Net interest income is a significant source of the Company s earnings and represents the amount by which interest income on earning assets exceeds the interest expense paid on liabilities. The volume of interest-earning assets and the related funding sources, the overall mix of these assets and liabilities, and the rates paid on each affect net interest income. For the three-month period ended March 31, 2014, net interest income increased by $6.0 million, or 7.5 percent, as compared to the same period in 2013.

Table 1 shows the impact of earning asset rate changes compared to changes in the cost of interest-bearing liabilities. The Company continues to experience a downward repricing of these earning assets and interest-bearing liabilities during the recent interest rate cycle. While the Company continues to see declining rates, it has been able to improve net interest income. As illustrated in this table, net interest spread for the three months ended March 31, 2014 decreased by 10 basis points and net interest margin decreased by 12 basis points compared to the same period in 2013. These results are primarily due to a favorable volume variance, offset by an unfavorable rate variance on earning assets. The combined impact of these variances coupled with a favorable rate variance on interest-bearing liabilities has led to decreases in interest expense and increases in interest income, or an increase in the Company s net interest income compared to results one year ago. Interest-bearing liabilities are repricing slower or incrementally less than the earning assets. The increase of $541.0 million of average noninterest-bearing demand deposits, as compared to the first quarter of 2013, continues to be a positive impact. However, with the rate on interest-bearing liabilities decreasing to 0.15 percent as compared to 0.21 percent one year ago, the contribution from free funds is diminished. For the impact of the contribution from free funds, see the Analysis of Net Interest Margin within Table 2 below. Table 2 also illustrates how the changes in volume and rates have resulted in the flattening of net interest income.

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Table 1

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

The following table presents, for the periods indicated, the average earning assets and resulting yields, as well as the average interest-bearing liabilities and resulting yields, expressed in both dollars and rates. All average balances are daily average balances. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.34 percent for the three-month period ended March 31, 2014 and 2.48 percent for the same period in 2013.

	Three Months Ended March 31, 2014		2013	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Assets				
Loans, net of unearned interest	$ 6,678,932	3.58%	$ 5,814,855	3.82%
Securities:				
Taxable	4,887,151	1.57	4,871,926	1.54
Tax-exempt	2,109,901	2.93	1,994,620	3.07
Total securities	6,997,052	1.98	6,866,546	1.98
Federal funds and resell agreements	27,155	0.49	19,140	0.51
Interest-bearing due from banks	1,696,482	0.27	972,962	0.28
Other earning assets	38,590	1.48	57,565	2.09
Total earning assets	15,438,211	2.48	13,731,068	2.64
Allowance for loan losses	(74,997)		(71,504)	
Other assets	1,141,037		1,123,453	
Total assets	$ 16,504,251		$ 14,783,017	
Liabilities and Shareholders Equity				
Interest-bearing deposits	$ 7,968,400	0.16%	$ 7,018,471	0.22%
Federal funds and repurchase agreements	1,667,764	0.12	1,673,062	0.14
Borrowed funds	5,705	4.41	5,392	4.51
Total interest-bearing liabilities	9,641,869	0.15	8,696,925	0.21
Noninterest-bearing demand deposits	5,167,513		4,626,556	
Other liabilities	147,147		177,139	
Shareholders equity	1,547,722		1,282,397	
Total liabilities and shareholders equity	$ 16,504,251		$ 14,783,017	
Net interest spread		2.33%		2.43%
Net interest margin		2.39		2.51

Table 2 presents the dollar amount of change in net interest income and margin due to volume and rate. Table 2 also reflects the effect that interest-free funds have on net interest margin. Although the average balance of interest free funds (total earning assets less interest-bearing liabilities) increased $762.2 million for the three-month period ended March 31, 2014 compared to the same period in 2013, the benefit from interest free funds declined by 2 basis points from the three months ended March 31, 2013.

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Table 2

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

ANALYSIS OF CHANGES IN NET INTEREST INCOME

	Three Months Ended March 31, 2014 and 2013		
	Volume	**Rate**	**Total**
Change in interest earned on:			
Loans	$ 7,639	$ (3,459)	$ 4,180
Securities:			
Taxable	59	437	496
Tax-exempt	825	(678)	147
Federal funds sold and resell agreements	10	(1)	9
Interest-			