

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from _____ to _____

Commission file number 0-4887

UMB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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Missouri
(State or other jurisdiction of
incorporation or organization)

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

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

64106
(ZIP Code)

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****UMB FINANCIAL CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS***(unaudited, dollars in thousands, except share and per share data)*

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

SHAREHOLDERS EQUITY

Common stock, \$1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 44,554,834 and 40,340,878 shares outstanding, respectively	55,057	55,057
Capital surplus	862,153	732,069
Retained earnings	860,138	787,015
Accumulated other comprehensive income	(15,678)	85,588
Treasury stock, 10,501,896 and 14,715,852 shares, at cost, respectively	(298,015)	(380,384)
Total shareholders equity	1,463,655	1,279,345
Total liabilities and shareholders equity	\$ 16,184,233	\$ 14,927,196

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**UMB FINANCIAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME***(unaudited, dollars in thousands, except share and per share data)*

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

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

PER SHARE DATA

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

See Notes to Condensed Consolidated Financial Statements.

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

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**UMB FINANCIAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY***(unaudited, dollars in thousands, except per share data)*

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

See Notes to Condensed Consolidated Financial Statements.

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

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

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

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The condensed consolidated financial statements include the accounts of UMB Financial Corporation and its subsidiaries (collectively, the Company) after elimination of all intercompany transactions. In the opinion of management of the Company, all adjustments, which were of a normal recurring nature and necessary for a fair presentation of the financial position and results of operations, have been made. The results of operations and cash flows for the interim periods presented may not be indicative of the results of the full year. The financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations within this Form 10-Q filing and in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

2. Summary of Accounting Policies

The Company is a financial holding company, which offers a wide range of banking and other financial services to its customers through its branches and offices in the states of Missouri, Kansas, Colorado, Illinois, Oklahoma, Texas, Arizona, Nebraska, Pennsylvania, South Dakota, Indiana, Utah, and Wisconsin. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also impact reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A summary of the significant accounting policies to assist the reader in understanding the financial presentation is listed in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Interest-bearing Due From Banks

Amounts due from the Federal Reserve Bank which are interest-bearing for all periods presented, and amounts due from certificates of deposits issued by other financial institutions are included in interest-bearing due from banks. The amounts due from certificates of deposit totaled \$22.3 million and \$29.9 million at September 30, 2013 and September 30, 2012, respectively.

This table provides a summary of cash and due from banks as presented on the Consolidated Statement of Cash Flows as of September 30, 2013 and September 30, 2012 (in thousands):

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

Per Share Data

Basic income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted quarterly per share data includes the dilutive effect of 650,028 and 517,430 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2013 and 2012, respectively. Diluted year-to-date income per share includes the dilutive effect of 544,930 and 431,418 shares issuable upon the exercise of stock options granted by the Company and outstanding at September 30, 2013 and 2012, respectively.

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

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Common Stock Issuance

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

3. New Accounting Pronouncements

Presentation of Comprehensive Income In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income: Presentation of Comprehensive Income* (ASU 2011-05), which amends the FASB Standards Codification to allow the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 was effective for the Company for the period ended March 31, 2012; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU No. 2011-12 (ASU 2011-12) *Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* in Accounting Standards Update No. 2011-05. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12. The Company adopted ASU 2011-05 for the quarter ended March 31, 2012 with no material impact on its financial statements except for a change in presentation. In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income: Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*, which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The new disclosure requirements were effective for interim periods beginning after December 15, 2012 and were adopted by the Company for the quarter-ended March 31, 2013. The adoption of this accounting pronouncement did not impact the Company's financial statements except for additional financial statement disclosures.

Subsequent Accounting for an Indemnification Asset In October 2012, the FASB issued ASU No. 2012-06, *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution* (ASU 2012-06), which addresses diversity in practice regarding the subsequent measurement of an indemnification asset in a government-assisted acquisition of a financial institution that includes a loss-sharing agreement. The amendments are effective for interim and annual reporting periods beginning on or after December 15, 2012 with early adoption permitted and were adopted by the Company for the quarter-ended March 31, 2013. The adoption of this accounting pronouncement did not impact the Company's financial statements.

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UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

4. Loans and Allowance for Loan Losses

Loan Origination/Risk Management

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

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

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

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

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

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

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

		September 30, 2013						
		30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans	
Commercial:								
Commercial		\$ 3,204	\$ 388	\$ 8,053	\$ 11,645	\$ 3,364,750	\$ 3,376,395	
Commercial	credit card	589	242	190	1,021	117,187	118,208	
Real estate:								
Real estate	construction		128	1,151	1,279	121,324	122,603	
Real estate	commercial	4,342	200	18,950	23,492	1,611,745	1,635,237	
Real estate	residential	2,385	133	602	3,120	270,624	273,744	
Real estate	HELOC	678		404	1,082	572,290	573,372	
Consumer:								
Consumer	credit card	2,748	2,245	1,273	6,266	303,731	309,997	
Consumer	other	4,870	444	637	5,951	65,756	71,707	
Leases						25,639	25,639	
Total loans		\$ 18,816	\$ 3,780	\$ 31,260	\$ 53,856	\$ 6,453,046	\$ 6,506,902	

		December 31, 2012						
		30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans	
Commercial:								
Commercial		\$ 5,170	\$ 93	\$ 14,122	\$ 19,385	\$ 2,854,309	\$ 2,873,694	
Commercial	credit card	561	43	61	665	103,655	104,320	
Real estate:								
Real estate	construction	3,750		1,263	5,013	73,473	78,486	
Real estate	commercial	3,590	113	8,170	11,873	1,423,938	1,435,811	
Real estate	residential	1,371	49	666	2,086	210,277	212,363	
Real estate	HELOC	1,324	50	225	1,599	572,324	573,923	
Consumer:								
Consumer	credit card	2,989	2,955	2,285	8,229	326,289	334,518	
Consumer	other	1,116	251	1,311	2,678	51,872	54,550	
Leases						19,084	19,084	
Total loans		\$ 19,871	\$ 3,554	\$ 28,103	\$ 51,528	\$ 5,635,221	\$ 5,686,749	

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

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

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UMB FINANCIAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Credit Quality Indicators

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

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

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

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

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

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

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

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

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