

UMB FINANCIAL CORP  
Form 10-Q  
November 01, 2012  
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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, 2012

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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<b>Missouri</b> (State or other jurisdiction of  incorporation or organization)	<b>43-0903811</b> (I.R.S. Employer  Identification Number)
<b>1010 Grand Boulevard, Kansas City, Missouri</b> (Address of principal executive offices)	<b>64106</b> (ZIP Code)
<b>(Registrant's telephone number, including area code): (816) 860-7000</b>	

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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 25, 2012, UMB Financial Corporation had 40,601,432 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, 2012	December 31, 2011
<b><u>ASSETS</u></b>		
Loans:	\$ 5,389,763	\$ 4,960,343
Allowance for loan losses	(71,368)	(72,017)
Net loans	5,318,395	4,888,326
Loans held for sale	13,899	10,215
Investment Securities:		
Available for sale	6,487,124	6,107,882
Held to maturity (market value of \$113,221 and \$102,287, respectively)	98,479	89,246
Trading	39,919	58,142
Federal Reserve Bank stock and other	25,526	22,212
Total investment securities	6,651,048	6,277,482
Federal funds sold and securities purchased under agreements to resell	41,172	66,078
Interest-bearing due from banks	174,012	1,164,007
Cash and due from banks	397,339	446,580
Bank premises and equipment, net	239,234	227,936
Accrued income	70,099	75,997
Goodwill	209,758	211,114
Other intangibles	72,351	84,331
Other assets	98,538	89,332
Total assets	\$ 13,285,845	\$ 13,541,398
<b><u>LIABILITIES</u></b>		
Deposits:		
Noninterest-bearing demand	\$ 4,415,669	\$ 3,941,372
Interest-bearing demand and savings	5,070,680	4,680,125
Time deposits under \$100,000	562,357	615,475
Time deposits of \$100,000 or more	564,074	932,939
Total deposits	10,612,780	10,169,911
Federal funds purchased and repurchase agreements	1,164,199	1,950,827
Short-term debt		12,000
Long-term debt	5,632	6,529
Accrued expenses and taxes	191,926	186,380
Other liabilities	17,133	24,619
Total liabilities	11,991,670	12,350,266

**SHAREHOLDERS' EQUITY**

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Common stock, \$1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued; and 40,596,751 and 40,426,342 shares outstanding, respectively	55,057	55,057
Capital surplus	730,274	723,299
Retained earnings	774,641	697,923
Accumulated other comprehensive income	101,413	81,099
Treasury stock, 14,459,979 and 14,630,388 shares, at cost, respectively	(367,210)	(366,246)
 Total shareholders' equity	 1,294,175	 1,191,132
 Total liabilities and shareholders' equity	 \$ 13,285,845	 \$ 13,541,398

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)*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 54,558	\$ 55,424	\$ 162,613	\$ 164,519
Securities:				
Taxable interest	20,345	20,511	61,652	64,896
Tax-exempt interest	9,602	8,825	28,445	25,345
Total securities income	29,947	29,336	90,097	90,241
Federal funds and resell agreements	48	45	88	73
Interest-bearing due from banks	225	628	1,422	2,633
Trading securities	201	191	842	682
Total interest income	84,979	85,624	255,062	258,148
<b><u>INTEREST EXPENSE</u></b>				
Deposits	4,079	6,139	13,443	18,968
Federal funds and repurchase agreements	454	339	1,402	1,405
Other	81	72	390	335
Total interest expense	4,614	6,550	15,235	20,708
Net interest income	80,365	79,074	239,827	237,440
Provision for loan losses	4,500	4,500	13,500	17,200
Net interest income after provision for loan losses	75,865	74,574	226,327	220,240
<b><u>NONINTEREST INCOME</u></b>				
Trust and securities processing	56,291	51,928	166,756	157,291
Trading and investment banking	7,120	4,952	23,938	20,449
Service charges on deposits	19,171	18,880	58,191	55,669
Insurance fees and commissions	1,028	1,038	2,949	3,407
Brokerage fees	3,104	2,627	8,324	7,540
Bankcard fees	14,466	15,882	46,031	46,869
Gain on sales of available for sale securities, net	259	2,411	20,022	15,891
Other	4,882	3,239	22,637	9,447
Total noninterest income	106,321	100,957	348,848	316,563
<b><u>NONINTEREST EXPENSE</u></b>				
Salaries and employee benefits	78,813	74,905	236,728	220,726
Occupancy, net	9,870	9,398	28,359	28,582
Equipment	10,330	10,424	31,999	32,135
Supplies and services	4,995	5,513	15,256	16,670
Marketing and business development	7,368	4,912	17,615	14,192
Processing fees	12,964	12,704	38,372	38,197
Legal and consulting	4,311	3,272	11,838	9,965

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Bankcard	4,700	4,001	13,572	12,072
Amortization of intangible assets	3,643	4,022	11,228	12,187
Regulatory fees	2,363	2,130	7,096	8,241
Class action litigation settlement				7,800
Other	6,548	8,147	20,432	19,758
Total noninterest expense	145,905	139,428	432,495	420,525
Income before income taxes	36,281	36,103	142,680	116,278
Income tax provision	10,156	10,088	41,023	33,072
<b>NET INCOME</b>	<b>\$ 26,125</b>	<b>\$ 26,015</b>	<b>\$ 101,657</b>	<b>\$ 83,206</b>

**PER SHARE DATA**

Net income basic	\$ 0.65	\$ 0.65	\$ 2.54	\$ 2.08
Net income diluted	0.64	0.64	2.51	2.06
Dividends	0.205	0.195	0.615	0.585
Weighted average shares outstanding	40,081,304	40,020,772	40,047,261	40,057,009
See Notes to Condensed Consolidated Financial Statements.				

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net Income	\$ 26,125	\$ 26,015	\$ 101,657	\$ 83,206
Other comprehensive income, net of tax:				
Unrealized gains on securities:				
Change in unrealized holding gains, net	32,256	37,526	52,410	98,039
Less: Reclassifications adjustment for gains included in net income	(259)	(2,411)	(20,022)	(15,891)
Change in unrealized gains on securities during the period	31,997	35,115	32,388	82,148
Income tax expense	(11,827)	(12,940)	(12,074)	(30,327)
Other comprehensive income	20,170	22,175	20,314	51,821
Comprehensive income	\$ 46,295	48,190	\$ 121,971	135,027

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)*

	<b>Common Stock</b>	<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Treasury Stock</b>	<b>Total</b>
Balance January 1, 2011	\$ 55,057	\$ 718,306	\$ 623,415	\$ 25,465	\$ (361,383)	\$ 1,060,860
Total comprehensive income			83,206	51,821		135,027
Cash dividends						
(\$0.585 per share)			(23,679)			(23,679)
Purchase of treasury stock					(8,435)	(8,435)
Issuance of equity awards		(2,244)			2,484	240
Recognition of equity based compensation		4,964				4,964
Net tax benefit related to equity compensation plans		96				96
Sale of treasury stock		213			205	418
Exercise of stock options		176			632	808
Balance September 30, 2011	\$ 55,057	\$ 721,511	\$ 682,942	\$ 77,286	\$ (366,497)	\$ 1,170,299
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

See Notes to Condensed Consolidated Financial Statements.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating Activities</b>		
Net Income	\$ 101,657	\$ 83,206
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	13,500	17,200
Depreciation and amortization	30,576	32,720
Deferred income tax expense (benefit)	1,409	(3,740)
Net decrease (increase) in trading securities	18,223	(28,597)
Gains on sales of securities available for sale, net	(20,022)	(15,891)
(Gains) losses on sales of assets	(503)	61
Amortization of securities premiums, net of discount accretion	37,277	32,092
Originations of loans held for sale	(179,493)	(146,125)
Net gains on sales of loans held for sale	(1,526)	(1,139)
Proceeds from sales of loans held for sale	177,335	150,116
Issuance of equity awards	244	240
Equity based compensation	5,425	4,964
Changes in:		
Accrued income	5,898	1,464
Accrued expenses and taxes	5,364	17,481
Other assets and liabilities, net	(18,305)	(11,170)
Net cash provided by operating activities	177,059	132,882
<b>Investing Activities</b>		
Proceeds from maturities of securities held to maturity	6,327	7,153
Proceeds from sales of securities available for sale	991,842	991,014
Proceeds from maturities of securities available for sale	1,172,929	1,222,172
Purchases of securities held to maturity	(19,504)	(32,299)
Purchases of securities available for sale	(2,528,213)	(2,294,900)
Net increase in loans	(442,109)	(215,792)
Net decrease in fed funds sold and resell agreements	24,906	148,481
Net decrease in interest-bearing balances due from other financial institutions	121,079	35,523
Purchases of bank premises and equipment	(31,516)	(26,780)
Net cash received (paid) for acquisitions	1,529	(8,133)
Proceeds from sales of bank premises and equipment	1,034	160
Net cash used in investing activities	(701,696)	(173,401)
<b>Financing Activities</b>		
Net increase in demand and savings deposits	864,852	716,953
Net decrease in time deposits	(421,983)	(350,671)
Net decrease in fed funds purchased and repurchase agreements	(786,628)	(743,649)
Net decrease in short-term debt	(12,000)	(3,331)
Proceeds from long-term debt	529	500
Repayment of long-term debt	(1,426)	(2,743)
Payment of contingent consideration on acquisitions	(12,260)	(8,316)

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Cash dividends paid	(24,946)	(23,528)
Net tax benefit related to equity compensation plans	333	96
Proceeds from exercise of stock options and sales of treasury shares	6,071	1,226
Purchases of treasury stock	(6,062)	(8,435)
Net cash used in financing activities	(393,520)	(421,898)
Decrease in cash and due from banks	(918,157)	(462,417)
Cash and due from banks at beginning of period	1,459,631	1,033,617
Cash and due from banks at end of period	\$ 541,474	\$ 571,200
Supplemental Disclosures:		
Income taxes paid	\$ 31,718	\$ 28,110
Total interest paid	\$ 16,423	\$ 21,781
See Notes to Condensed Consolidated Financial Statements.		

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (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 significant 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 and in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

**2. Summary of Accounting Policies**

The Company is a multi-bank 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, Arizona, Nebraska, Pennsylvania, South Dakota, Indiana, Wisconsin, New Jersey, and Massachusetts. 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, 2011.

**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 held at other financial institutions are included in interest-bearing due from banks. The amount due from the Federal Reserve Bank totaled \$144.1 million and \$187.4 million at September 30, 2012 and September 30, 2011, respectively, and is considered cash and cash equivalents. The amounts due from certificates of deposit totaled \$29.9 million and \$135.6 million at September 30, 2012 and September 30, 2011, 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, 2012 and September 30, 2011 (in thousands):*

	September 30,	
	2012	2011
Due from the Federal Reserve	\$ 144,135	\$ 187,443
Cash and due from banks	397,339	383,757
Cash and due from banks at end of period	\$ 541,474	\$ 571,200

**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 517,430 and 299,465 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2012 and 2011, respectively. Diluted year-to-date income per share includes the dilutive effect of 431,418 and 307,866 shares issuable upon the exercise of stock options granted by the Company and outstanding at September 30, 2012 and 2011, respectively.

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Options issued under employee benefit plans to purchase 510,850 shares of common stock were outstanding at September 30, 2012, but were not included in the computation of year-to-date diluted EPS because the options were anti-dilutive. Options issued under employee benefit plans to purchase 883,294 shares of common stock were outstanding at September 30, 2011, but were not included in the computation of quarterly and year-to-date 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 AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)**

**3. New Accounting Pronouncements**

**Fair Value Measurements and Disclosure Requirements** In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), which amends the FASB Standards Codification to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The Company adopted this standard for the quarter ended March 31, 2012 which resulted in a \$6.9 million (\$4.7 million, net of tax) reduction of the contingent consideration liabilities and a corresponding increase to other non-interest income due to the Company changing its fair value methodology. The adoption of this accounting pronouncement also resulted in additional fair value financial statement disclosures.

**Presentation of Comprehensive Income** In June 2011, the FASB issued 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.

**Disclosures about Offsetting Assets and Liabilities** In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities (ASU 2011-11), regarding the offset of certain assets & liabilities within the balance sheet. This ASU created new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. The adoption of this accounting pronouncement will have no impact on the Company's financial statement disclosures.

**Testing Indefinite-Lived Intangible Assets for Impairment** In July 2012, the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment (ASU 2012-02), which amends the guidance in ASC 350-30 on testing indefinite-lived assets, other than goodwill, for impairment. An entity testing an indefinite-lived intangible asset for impairment has the option of performing a qualitative assessment before calculating the fair value of the asset. If the entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, the two-step impairment test would not be required. The amendments are effective for interim and annual impairment tests performed for fiscal years beginning after September 15, 2012 with early adoption permitted. The adoption of this accounting pronouncement will have no impact on the Company's financial statements.

**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. The adoption of this accounting pronouncement will have no impact on 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, 2012 (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 credit risk program 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, 2012 and December 31, 2011 (in thousands):

		September 30, 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		\$ 11,353	\$ 646	\$ 11,587	\$ 23,586	\$ 2,667,654
Commercial	credit card	805	238		1,043	108,246
Real estate:						
Real estate	construction	732	206	1,034	1,972	71,419
Real estate	commercial	6,528	344	8,906	15,778	1,326,358
Real estate	residential	1,533	40	1,183	2,756	201,197
Real estate	HELOC	1,410	47	284	1,741	562,739
Consumer:						
Consumer	credit card	3,214	2,437	2,999	8,650	314,599
Consumer	other	1,733	202	1,396	3,331	59,910
Leases						18,784
Total loans		\$ 27,308	\$ 4,160	\$ 27,389	\$ 58,857	\$ 5,330,906

		December 31, 2011				
		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		\$ 2,986	\$ 767	\$ 9,234	\$ 12,987	\$ 2,221,830
Commercial	credit card	896	284		1,180	94,159
Real estate:						
Real estate	construction	430		642	1,072	83,518
Real estate	commercial	2,368	313	7,218	9,899	1,384,656
Real estate	residential	1,713	247	1,660	3,620	182,266
Real estate	HELOC	819	41	696	1,556	531,476
Consumer:						
Consumer	credit card	2,858	3,394	4,638	10,890	322,756
Consumer	other	1,260	952	1,493	3,705	90,939
Leases						3,834
Total loans		\$ 13,330	\$ 5,998	\$ 25,581	\$ 44,909	\$ 4,915,434

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The Company sold \$177.3 million and \$150.1 million of residential real estate and student loans during the nine month periods ended September 30, 2012 and September 30, 2011, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of \$27.4 million and \$25.6 million at September 30, 2012 and December 31, 2011, respectively. Restructured loans totaled \$8.4 million and \$6.0 million at September 30, 2012 and December 31, 2011, respectively. Loans 90 days past due and still accruing interest amounted to \$4.2 million and \$6.0 million at September 30, 2012 and December 31, 2011, respectively. There was an insignificant amount of interest recognized on impaired loans during 2012 and 2011.

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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)**

**Credit Quality Indicators**

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

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

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

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

**Substandard** This rating represents an asset inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans in this category are characterized by the distinct possibility that the 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 is doubtful or remote.

All other classes of loans are generally evaluated and monitored based on payment activity. Non-performing loans include restructured loans, which are 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, 2012 and December 31, 2011 (in thousands):

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

	<b>Commercial</b>		<b>Real estate - construction</b>	
	<b>September 30, 2012</b>	<b>December 31, 2011</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Non-watch list	\$ 2,471,369	\$ 2,064,658	\$ 70,349	\$ 83,100
Watch	104,327	100,499	416	355
Special Mention	38,369	16,688		
Substandard	77,175	52,972	2,626	1,135
<b>Total</b>	<b>\$ 2,691,240</b>	<b>\$ 2,234,817</b>	<b>\$ 73,391</b>	<b>\$ 84,590</b>

	<b>Real estate - commercial</b>	
	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Non-watch list	\$ 1,233,619	\$ 1,275,280
Watch	54,106	27,777
Special Mention	9,378	35,019
Substandard	45,033	56,479
<b>Total</b>	<b>\$ 1,342,136</b>	<b>\$ 1,394,555</b>

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

	<b>Commercial - credit card</b>		<b>Real estate - residential</b>	
	<b>September 30, 2012</b>	<b>December 31, 2011</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Performing	\$ 109,289	\$ 95,339	\$ 202,770	\$ 184,226
Non-performing			1,183	1,660
<b>Total</b>	<b>\$ 109,289</b>	<b>\$ 95,339</b>	<b>\$ 203,953</b>	<b>\$ 185,886</b>

	<b>Real estate - HELOC</b>		<b>Consumer - credit card</b>	
	<b>September 30, 2012</b>	<b>December 31, 2011</b>	<b>September 30,2012</b>	<b>December 31, 2011</b>

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Performing	\$ 564,196	\$ 532,336	\$ 320,250	\$ 329,008
Non-performing	284	696	2,999	4,638
Total	\$ 564,480	\$ 533,032	\$ 323,249	\$ 333,646

	Consumer - other		Leases	
	September 30, 2012	December 31, 2011	September 30,2012	December 31, 2011
Performing	\$ 61,845	\$ 93,151	\$ 18,784	\$ 3,834
Non-performing	1,396	1,493		
Total	\$ 63,241	\$ 94,644	\$ 18,784	\$ 3,834

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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (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 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 possible 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 unidentified 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 the view of the regulatory authorities toward loan classifications.

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 problem 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 criticized category. In addition, a portion of the allowance is determined by a review of qualitative factors by management including external factors such as legal and regulatory requirements, competition, unemployment, and other economic and business conditions. The qualitative review also includes an assessment of internal factors such as changes in lending policies and procedures, quality of Company's loan review system, experience of management and staff, and credit concentrations.

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This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2011 (in thousands):

	<b>Three Months Ended September 30, 2012</b>				
	<b>Commercial</b>	<b>Real estate</b>	<b>Consumer</b>	<b>Leases</b>	<b>Total</b>
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 37,942	\$ 22,660	\$ 12,001	\$ 49	\$ 72,652
Charge-offs	(3,147)	(316)	(3,087)		(6,550)
Recoveries	151	16	599		766
Provision	8,167	(5,591)	1,916	8	4,500
Ending Balance	\$ 43,113	\$ 16,769	\$ 11,429	\$ 57	\$ 71,368

  

	<b>Nine Months Ended September 30, 2012</b>				
	<b>Commercial</b>	<b>Real estate</b>	<b>Consumer</b>	<b>Leases</b>	<b>Total</b>
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 37,927	\$ 20,486	\$ 13,593	\$ 11	\$ 72,017
Charge-offs	(6,385)	(724)	(9,674)		(16,783)
Recoveries	401	25	2,208		2,634
Provision	11,170	(3,018)	5,302	46	13,500
Ending Balance	\$ 43,113	\$ 16,769	\$ 11,429	\$ 57	\$ 71,368
Ending Balance: individually evaluated for impairment	\$ 1,591	\$ 1,067	\$	\$	\$ 2,658
Ending Balance: collectively evaluated for impairment	41,522	15,702	11,429	57	68,710
Ending Balance: loans acquired with deteriorated credit quality					
<b>Loans:</b>					
Ending Balance: loans	\$ 2,800,529	\$ 2,183,960	\$ 386,490	\$ 18,784	\$ 5,389,763
Ending Balance: individually evaluated for impairment	18,380	14,396	45		32,821
Ending Balance: collectively evaluated for impairment	2,782,149	2,169,564	386,445	18,784	5,356,942
Ending Balance: loans acquired with deteriorated credit quality					

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This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2011 (in thousands):

	Commercial	Three Months Ended September 30, 2011			Total
		Real estate	Consumer	Leases	
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 35,604	\$ 22,886	\$ 13,941	\$ 11	\$ 72,442
Charge-offs	(1,372)	(48)	(3,575)		(4,995)
Recoveries	108	9	812		929
Provision	3,226	(1,033)	2,307		4,500
Ending Balance	\$ 37,566	\$ 21,814	\$ 13,485	\$ 11	\$ 72,876
	Commercial	Nine Months Ended September 30, 2011			Total
		Real estate	Consumer	Leases	
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 39,138	\$ 18,557	\$ 16,243	\$ 14	\$ 73,952
Charge-offs	(9,456)	(505)	(11,888)		(21,849)
Recoveries	484	24	3,065		3,573
Provision	7,400	3,738	6,065	(3)	17,200
Ending Balance	\$ 37,566	\$ 21,814	\$ 13,485	\$ 11	\$ 72,876
Ending Balance: individually evaluated for impairment	\$ 1,597	\$ 616	\$	\$	\$ 2,213
Ending Balance: collectively evaluated for impairment	35,969	21,198	13,485	11	70,663
Ending Balance: loans acquired with deteriorated credit quality					
<b>Loans:</b>					
Ending Balance: loans	\$ 2,202,500	\$ 2,169,750	\$ 399,526	\$ 4,295	\$ 4,776,071
Ending Balance: individually evaluated for impairment	5,115	10,729	23		15,867
Ending Balance: collectively evaluated for impairment	2,197,385	2,159,021	399,503	4,295	4,760,204
Ending Balance: loans acquired with deteriorated credit quality					



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This table provides an analysis of impaired loans by class at September 30, 2012 and December 31, 2011 (*in thousands*):

		September 30, 2012				
		Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Average Recorded Investment
Commercial:						
Commercial		\$ 21,687	\$ 7,455	\$ 5,984	\$ 13,439	\$ 12,844
Commercial	credit card					
Real estate:						
Real estate	construction	263	262		262	78
Real estate	commercial	11,784	9,076	2,515	11,591	10,158
Real estate	residential	2,498	1,625	368	1,993	2,794
Real estate	HELOC					
Consumer:						
Consumer	credit card					
Consumer	other	45	45		45	42
Leases						
Total		\$ 36,277	\$ 18,463	\$ 8,867	\$ 27,330	\$ 25,916

		December 31, 2011				
		Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Average Recorded Investment
Commercial:						
Commercial		\$ 14,368	\$ 2,940	\$ 8,121	\$ 11,061	\$ 8,038
Commercial	credit card					
Real estate:						
Real estate	construction	90	50		50	15
Real estate	commercial	9,323	7,983	1,247	9,230	7,000
Real estate	residential	3,568	2,329	859	3,188	2,312
Real estate	HELOC					
Consumer:						
Consumer	credit card					
Consumer	other	23	23		23	28
Leases						
Total		\$ 27,372	\$ 13,325	\$ 10,227	\$ 23,552	\$ 17,393



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The Company adopted ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring (TDR), as of July 1, 2011. This update provides additional guidance on evaluating whether a modification or restructuring of a receivable is a TDR. A loan modification is considered a TDR when a concession had been granted to a debtor experiencing financial difficulties. The Company assessed loan modifications made to borrowers experiencing financial distress occurring after January 1, 2011. The Company's modifications generally include interest rate adjustments, 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. There was no significant impact to the allowance for loan losses as a result of adopting the new guidance.

The Company had \$1.2 million and \$2.0 thousand in commitments to lend to borrowers with loan modifications classified as TDRs as of September 30, 2012 and September 30, 2011, respectively. The Company made no TDRs in the last 12 months that had payment defaults for the three or nine month periods ended September 30, 2012 or September 30, 2011.

This table provides a summary of loans restructured by class for the three and nine months ended September 30, 2012 (*in thousands*):

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	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
<b>Troubled Debt Restructurings</b>						
Commercial:						
Commercial credit card	4	\$ 853	\$ 821	6	\$ 3,785	\$ 3,760
Real estate:						
Real estate construction						
Real estate commercial						
Real estate residential						
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	4	\$ 853	\$ 821	6	\$ 3,785	\$ 3,760

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This table provides a summary of loans restructured by class for the three and nine months ended September 30, 2011 (*in thousands*):

	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	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
<b>Troubled Debt Restructurings</b>						
Commercial:						
Commercial		\$	\$	1	\$ 250	\$ 250
Commercial credit card						
Real estate:						
Real estate construction						
Real estate commercial				2	2,806	2,862
Real estate residential	1	162	162	2	862	862
Real estate HELOC						
Consumer:						
Consumer credit card						
Consumer other						
Leases						
Total	1	\$ 162	\$ 162	5	\$ 3,918	\$ 3,974

**5. Securities****Securities Available for Sale**

This table provides detailed information about securities available for sale at September 30, 2012 and December 31, 2011 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2012</b>				
U.S. Treasury	\$ 117,064	\$ 1,489	\$ (36)	\$ 118,517
U.S. Agencies	809,490	8,047	(13)	817,524
Mortgage-backed	3,344,828	91,997	(202)	3,436,623
State and political subdivisions	1,827,424	56,572	(269)	1,883,727
Corporates	227,954	2,811	(32)	230,733
Total	\$ 6,326,760	\$ 160,916	\$ (552)	\$ 6,487,124

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<b>December 31, 2011</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury	\$ 184,523	\$ 4,802	\$	\$ 189,325
U.S. Agencies	1,615,637	16,434	(62)	1,632,009
Mortgage-backed	2,437,282	55,985	(919)	2,492,348
State and political subdivisions	1,642,844	51,336	(144)	1,694,036
Corporates	99,620	566	(22)	100,164
Total	\$ 5,979,906	\$ 129,123	\$ (1,147)	\$ 6,107,882

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The following table presents contractual maturity information for securities available for sale at September 30, 2012 (*in thousands*):

	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in 1 year or less	\$ 503,011	\$ 505,373
Due after 1 year through 5 years	1,679,302	1,714,184
Due after 5 years through 10 years	677,475	705,935
Due after 10 years	122,144	125,009
<b>Total</b>	<b>2,981,932</b>	<b>3,050,501</b>
Mortgage-backed securities	3,344,828	3,436,623
<b>Total securities available for sale</b>	<b>\$ 6,326,760</b>	<b>\$ 6,487,124</b>

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

For the nine months ended September 30, 2012, proceeds from the sales of securities available for sale were \$991.8 million compared to \$991.0 million for the same period in 2011. Securities transactions resulted in gross realized gains of \$20.3 million and \$16.0 million for the nine months ended September 30, 2012 and 2011. The gross realized losses for the nine months ended September 30, 2012 and 2011 were \$342.0 thousand and \$70.0 thousand, respectively.

**Trading Securities**

The net unrealized gains on trading securities at September 30, 2012 and September 30, 2011 were \$416.7 thousand and \$193.5 thousand, respectively, and were included in trading and investment banking income in the consolidated statements of income.

**Securities Held to Maturity**

The table below provides detailed information for securities held to maturity at September 30, 2012 and December 31, 2011 (*in thousands*):

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>September 30, 2012</b>				
State and political subdivisions	\$ 98,479	\$ 14,742	\$	\$ 113,221
<b>December 31, 2011</b>				
State and political subdivisions	\$ 89,246	\$ 13,041	\$	\$ 102,287

The following table presents contractual maturity information for securities held to maturity at September 30, 2012 (*in thousands*):

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	Amortized Cost	Fair Value
Due in 1 year or less	\$ 2,042	\$ 2,348
Due after 1 year through 5 years	24,846	28,565
Due after 5 years through 10 years	23,724	27,275
Due after 10 years	47,867	55,033
Total securities held to maturity	\$ 98,479	\$ 113,221

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.

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There were no sales of securities held to maturity during the first nine months of 2012 or 2011.

Securities available for sale and held to maturity with a market value of \$4.5 billion at September 30, 2012, and \$5.4 billion at December 31, 2011, were pledged to secure U.S. Government deposits, other public deposits and certain trust deposits as required by law.

The following table shows the Company's available for sale investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2012 and December 31, 2011 (*in thousands*).

<b>September 30, 2012</b>		<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>	
<b>Description of Securities</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	
U.S. Treasury	\$ 10,141	\$ (36)	\$	\$	\$ 10,141	\$ (36)	
U.S. Agencies	35,284	(13)			35,284	(13)	
Mortgage-backed	57,372	(202)			57,372	(202)	
State and political subdivisions	58,622	(268)	1,917	(1)	60,539	(269)	
Corporates	27,711	(32)			27,711	(32)	
Total temporarily- impaired debt securities available for sale	\$ 189,130	\$ (551)	\$ 1,917	\$ (1)	\$ 191,047	\$ (552)	

<b>December 31, 2011</b>		<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>	
<b>Description of Securities</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	
U.S. Treasury	\$	\$	\$	\$	\$	\$	
U.S. Agencies	66,992	(62)			66,992	(62)	
Mortgage-backed	226,081	(919)			226,081	(919)	
State and political subdivisions	45,918	(139)	2,571	(5)	48,489	(144)	
Corporates	12,471	(22)			12,471	(22)	
Total temporarily- impaired debt securities available for sale	\$ 351,462	\$ (1,142)	\$ 2,571	\$ (5)	\$ 354,033	\$ (1,147)	

The unrealized losses in the Company's investments in direct obligations of U.S. treasury obligations, U.S. government agencies, federal agency mortgage-backed securities, and municipal securities were caused by changes in interest rates. Because the Company does not have the intent to sell these securities, it is more likely than not that the Company will not 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 September 30, 2012.



**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)****6. Goodwill and Other Intangibles**

Changes in the carrying amount of goodwill for the periods ended September 30, 2012 and December 31, 2011 by operating segment are as follows (*in thousands*):

	<b>Bank</b>	<b>Institutional Investment Management</b>	<b>Asset Servicing</b>	<b>Total</b>
Balances as of January 1, 2011	\$ 144,109	\$ 47,529	\$ 19,476	\$ 211,114
Balances as of December 31, 2011	\$ 144,109	\$ 47,529	\$ 19,476	\$ 211,114
Balances as of January 1, 2012	\$ 144,109	\$ 47,529	\$ 19,476	\$ 211,114
Goodwill disposals during period	(1,356)			(1,356)
Balances as of September 30, 2012	\$ 142,753	\$ 47,529	\$ 19,476	\$ 209,758

Following are the intangible assets that continue to be subject to amortization as of September 30, 2012 and December 31, 2011 (*in thousands*):

	<b>As of September 30, 2012</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Core deposit intangible assets	\$ 36,497	\$ 29,984	\$ 6,513
Customer relationships	103,960	39,344	64,616
Other intangible assets	3,247	2,025	1,222
Total intangible assets	\$ 143,704	\$ 71,353	\$ 72,351

  

	<b>As of December 31, 2011</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Core deposit intangible assets	\$ 36,497	\$ 28,629	\$ 7,868
Customer relationships	105,544	30,645	74,899
Other intangible assets	3,247	1,683	1,564
Total intangible assets	\$ 145,288	\$ 60,957	\$ 84,331

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Aggregate amortization expense	\$ 3,643	\$ 4,022	\$ 11,228	\$ 12,187

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

For the three months ending December 31, 2012	\$ 3,547
For the year ending December 31, 2013	13,219
For the year ending December 31, 2014	12,146
For the year ending December 31, 2015	9,550
For the year ending December 31, 2016	8,342

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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):**

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Commitments to extend credit for loans (excluding credit card loans)	\$ 2,403,773	\$ 2,202,838
Commitments to extend credit under credit card loans	2,145,793	2,059,193
Commercial letters of credit	2,228	19,564
Standby letters of credit	321,084	320,119
Futures contracts	3,500	30,600
Forward foreign exchange contracts	28,857	119,200
Spot foreign exchange contracts	3,001	3,040

**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 accounting system are evaluated regularly by the Executive Committee in deciding how to allocate resources and assess performance for individual Business Segments. The Business Segments were redefined during the first quarter of 2012 to reflect changes in how executive management responsibilities were changed by the Executive Committee for each of the core businesses, the products and services provided and the types of customers served, and how financial information is currently evaluated by management. The management accounting system assigns balance sheet and income statement items to each business segment using methodologies that are refined on an ongoing basis. In 2011, the Business Segments were Commercial Financial Services, Institutional Financial Services, and Personal Financial Services. For comparability purposes, amounts in all periods presented are based on methodologies in effect at September 30, 2012. 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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*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, managed account services, and collective and multiple-series trust services.

**Business Segment Information**

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

	Three Months Ended September 30, 2012				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 69,109	\$ 10,843	\$	\$ 413	\$ 80,365
Provision for loan losses	2,168	2,332			4,500
Noninterest income	47,851	15,381	24,789	18,300	106,321
Noninterest expense	94,012	17,696	17,186	17,011	145,905
Income before taxes	20,780	6,196	7,603	1,702	36,281
Income tax expense	5,320	2,060	2,130	646	10,156
Net income	\$ 15,460	\$ 4,136	\$ 5,473	\$ 1,056	\$ 26,125
Average assets	\$ 10,681,000	\$ 849,000	\$ 80,000	\$ 1,562,000	\$ 13,172,000

	Three Months Ended September 30, 2011				
	Bank	Payment Solutions	Institutional Investment Management	Asset Servicing	Total
Net interest income	\$ 67,773	\$ 10,832	\$ 3	\$ 466	\$ 79,074
Provision for loan losses	1,873	2,627			4,500
Noninterest income	48,386	14,004	21,593	16,974	100,957
Noninterest expense	92,768	13,199	16,792	16,669	139,428
Income before taxes	21,518	9,010	4,804	771	36,103
Income tax expense	5,818	2,634	1,340	296	10,088
Net income	\$ 15,700	\$ 6,376	\$ 3,464	\$ 475	\$ 26,015

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Average assets	\$ 10,360,000	\$ 745,000	\$ 93,000	\$ 959,000	\$ 12,157,000
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	<b>Nine Months Ended September 30, 2012</b>				
	<b>Bank</b>	<b>Payment Solutions</b>	<b>Institutional Investment Management</b>	<b>Asset Servicing</b>	<b>Total</b>
Net interest income	\$ 206,611	\$ 32,124	\$ 2	\$ 1,090	\$ 239,827
Provision for loan losses	6,424	7,076			13,500
Noninterest income	168,885	48,122	74,585	57,256	348,848
Noninterest expense	282,142	49,030	50,375	50,948	432,495
Income before taxes	86,930	24,140	24,212	7,398	142,680
Income tax expense	23,772	7,544	6,974	2,733	41,023
Net income	\$ 63,158	\$ 16,596	\$ 17,238	\$ 4,665	\$ 101,657
Average assets	\$ 10,850,000	\$ 855,000	\$ 82,000	\$ 1,437,000	\$ 13,224,000

	<b>Nine Months Ended September 30, 2011</b>				
	<b>Bank</b>	<b>Payment Solutions</b>	<b>Institutional Investment Management</b>	<b>Asset Servicing</b>	<b>Total</b>
Net interest income	\$ 204,368	\$ 31,687	\$ 9	\$ 1,376	\$ 237,440
Provision for loan losses	8,849	8,351			17,200
Noninterest income	158,049	41,757	64,156	52,601	316,563
Noninterest expense	281,643	41,135	49,337	48,410	420,525
Income before taxes	71,925	23,958	14,828	5,567	116,278
Income tax expense	19,418	7,394	4,217	2,043	33,072
Net income	\$ 52,507	\$ 16,564	\$ 10,611	\$ 3,524	\$ 83,206
Average assets	\$ 10,235,000	\$ 692,000	\$ 89,000	\$ 1,358,000	\$ 12,374,000

**Table of Contents****UMB FINANCIAL CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)****9. Fair Value Measurements**

The following table presents information about the Company's assets measured at fair value on a recurring basis as of September 30, 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets and liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the hierarchy. In such cases, the fair value is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Assets measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011 (*in thousands*):

Description	Fair Value Measurement at September 30, 2012 Using			
	September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
U.S. Treasury	\$ 400	\$ 400	\$	\$
U.S. Agencies	754	754		
Mortgage-backed	8,294		8,294	
State and political subdivisions	5,284		5,284	
Trading other	25,187	24,882	305	
Trading securities	39,919	26,036	13,883	
U.S. Treasury	118,517	118,517		
U.S. Agencies	817,524	817,524		
Mortgage-backed	3,436,623		3,436,623	
State and political subdivisions	1,883,727		1,883,727	
Corporates	230,733	230,733		
Available for sale securities	6,487,124	1,166,774	5,320,350	
Company-owned life insurance	10,482		10,482	
<b>Total</b>	<b>\$ 6,537,525</b>	<b>\$ 1,192,810</b>	<b>\$ 5,344,715</b>	<b>\$</b>
<b>Liabilities</b>				
Deferred compensation	10,527	10,527		
Contingent consideration	52,087			52,087
<b>Total</b>	<b>\$ 62,614</b>	<b>\$ 10,527</b>	<b>\$</b>	<b>\$ 52,087</b>





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Description	Fair Value Measurement at December 31, 2011 Using			
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
U.S. Treasury	\$ 400	\$ 400	\$	\$
U.S. Agencies	1,517	1,517		
Mortgage-backed	29,641		29,641	
State and political subdivisions	7,252		7,252	
Trading other	19,332	19,317	15	
Trading securities	58,142	21,234	36,908	
U.S. Treasury	189,325	189,325		
U.S. Agencies	1,632,009	1,632,009		
Mortgage-backed	2,492,348		2,492,348	
State and political subdivisions	1,694,036		1,694,036	
Corporates	100,164	100,164		
Available for sale securities	6,107,882	1,921,498	4,186,384	
Total	\$ 6,166,024	\$ 1,942,732	\$ 4,223,292	\$
<b>Liabilities</b>				
Contingent consideration	\$ 72,046			72,046

The following table reconciles the beginning and ending balances of the contingent consideration liability (*in thousands*):

	Nine Months Ended September 30,	
	2012	2011
Beginning Balance	\$ 72,046	\$ 77,719
Payment of contingent considerations on acquisitions	(12,260)	(8,316)
(Income) expense from fair value adjustments	(7,699)	858
Ending Balance	\$ 52,087	\$ 70,261

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
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		Significant Unobservable Inputs	Range (Weighted Average)
<b>Liabilities</b>			
Contingent consideration liability	Present value techniques	Revenue growth percentage	5% - 36%
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.			

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## UMB FINANCIAL CORPORATION

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

## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)

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

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

**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.

**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.

Assets measured at fair value on a non-recurring basis as of September 30, 2012 and December 31, 2011 (*in thousands*):

Description	September 30, 2012	Fair Value Measurement at September 30, 2012 Using			Total Gains (Losses) Recognized During the Nine Months Ended September 30
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 6,209	\$	\$	\$ 6,209	\$ 1,272
Other real estate owned	547			547	\$ (143)
Total	\$ 6,756	\$	\$	\$ 6,756	\$ 1,129

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## UMB FINANCIAL CORPORATION

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

## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)

Description	December 31, 2011	Fair Value Measurement at December 31, 2011 Using			Total Gains (Losses) Recognized During the Twelve Months Ended December 31
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 6,296	\$	\$	\$ 6,296	\$ (1,370)
Other real estate owned	5,909			5,909	\$ (1,065)
Total	\$ 12,505	\$	\$	\$ 12,505	\$ (2,435)

**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 Risk 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 Director of Property Management in collaboration with the Company's credit department led by 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 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.

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## UMB FINANCIAL CORPORATION

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

## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)

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 September 30, 2012 and December 31, 2011 are as follows (*in millions*):

## Fair Value Measurement at September 30, 2012 Using Quoted Prices in Active Markets for Identical Assets (Level 1)

	Carrying Amount	Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
<b>FINANCIAL ASSETS</b>					
Securities held to maturity	\$ 98.5	\$	\$ 113.2	\$	\$ 113.2
Federal Reserve Bank and other stock	25.5		25.5		25.5
Loans (exclusive of allowance for loan loss)	5,403.7		5,477.2		5,477.2
<b>FINANCIAL LIABILITIES</b>					
Time deposits	1,126.4		1,133.8		1,133.8
Long-term debt	5.6		5.8		5.8
<b>OFF-BALANCE SHEET ARRANGEMENTS</b>					
Commitments to extend credit for loans					4.2
Commercial letters of credit					0.2
Standby letters of credit					1.5

## Fair Value Measurement at December 31, 2011 Using Quoted Prices in Active Markets for Identical Assets (Level 1)

	Carrying Amount	Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
<b>FINANCIAL ASSETS</b>					
Securities held to maturity	\$ 89.2	\$	\$ 102.3	\$	\$ 102.3
Federal Reserve Bank and other stock	22.2		22.2		22.2
Loans (exclusive of allowance for loan loss)	4,898.5		5,042.0		5,042.0
<b>FINANCIAL LIABILITIES</b>					
Time deposits	1,548.4		1,557.8		1,557.8
Long-term debt	6.5		6.8		6.8
<b>OFF-BALANCE SHEET ARRANGEMENTS</b>					
Commitments to extend credit for loans					5.8
Commercial letters of credit					0.3
Standby letters of credit					2.2

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.

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**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 Stock** Amount consists of Federal Reserve Bank stock held by the Company's affiliate banks and other miscellaneous investments. The fair value is considered to be the carrying value because no readily determinable market exists for these investments.

**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.

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**UMB FINANCIAL CORPORATION**

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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)**

**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 September 30, 2012 and December 31, 2011. 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.

In the previously filed Form 10-Q for the period ended September 30, 2011, the Company inadvertently excluded certain disclosures regarding the fair value of the contingent consideration liability from this footnote as required by ASC 820, *Fair Value Measurements and Disclosures*. As a result, the accompanying 2011 fair value footnote has been amended to include the appropriate disclosures. There is no quantitative impact on the financial statements of the Company as a result of this additional disclosure.



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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 and nine-month periods ended September 30, 2012. 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.

#### **SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

The information included or incorporated by reference in this report contains forward-looking statements of expected future developments within the meaning of and pursuant to the safe harbor provisions established by Section 21E of the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. These forward-looking statements may refer to financial condition, results of operations, plans, objectives, future financial performance and business of the Company, including, without limitation:

Statements that are not historical in nature; and

Statements preceded by, followed by or that include the words believes, expects, may, should, could, anticipates, estimates, or similar words or expressions.

Forward-looking statements are not guarantees of future performance or results. You are cautioned not to put undue reliance on any forward-looking statement which speaks only as of the date it was made. Forward-looking statements reflect management's expectations and are based on currently available data; however, they involve risks, uncertainties and assumptions. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

General economic and political conditions, either nationally, internationally or in the Company's footprint, may be less favorable than expected;

Legislative or regulatory changes;

Changes in the interest rate environment;

Changes in the securities markets impacting mutual fund performance and flows;

Changes in operations;

The ability to successfully and timely integrate acquisitions;

Competitive pressures among financial services companies may increase significantly;

Changes in technology may be more difficult or expensive than anticipated;

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Changes in the ability of customers to repay loans;

Changes in loan demand may adversely affect liquidity needs; and

Changes in employee costs.

Any forward-looking statements should be read in conjunction with information about risks and uncertainties set forth in this report and in documents incorporated herein by reference. Forward-looking statements speak only as of the date they are made, and the Company does not intend to review or revise any particular forward-looking statement in light of events that occur thereafter or to reflect the occurrence of unanticipated events.

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### **Overview**

The Company focuses on the following core strategies. Management believes these strategies will continue to improve net income and strengthen the balance sheet.

The first strategy is to grow the Company's fee-based businesses. The emphasis on fee-based operations helps reduce the Company's exposure to changes in interest rates. During the third quarter of 2012, noninterest income increased \$5.4 million, or 5.3 percent, compared to the same period in 2011. This increase is primarily attributed to an increase in trust and securities processing income of \$4.4 million, or 8.4 percent, for the three months ended September 30, 2012 compared to the same period in 2011.

The second strategy is a focus on net interest income through loan and deposit growth. This is not just a growth strategy but includes a focus on rate, volume and mix. Net interest income increased \$1.3 million, or 1.6 percent, compared to the same period in 2011. Average earning assets increased by \$987.9 million, or 8.9 percent, compared to the third quarter of 2011. This increase was due to an \$831.4 million, or 14.5 percent, increase in average total securities, including trading securities and a \$502.9 million, or 10.5 percent, increase in average loans. Average total deposits increased \$917.9 million, or 9.7 percent, compared to third quarter of 2011, which positions the Company well to fund customer credit needs as the demand for loans increases.

The third strategy is a focus on improving operating efficiencies. Repositioning and increasing utilization of our distribution network remains a priority. The Company continues to emphasize increasing its customer base by providing a broad offering of services through our existing networks. These efforts have resulted in the total deposits growth previously discussed. The Company's efficiency ratio for the quarter was 74.3 percent in 2012 and 74.2 percent in the third quarter of 2011. The Company continues to invest in technological advances and implement strategies that will help management drive operating efficiencies through improved data analysis and automation. On January 1, 2011, the Company converted to a new financial and human resource software that is integrated and enterprise wide. In addition to the use of automation technology, the Company will continue to evaluate its cost structure for opportunities to moderate expense growth without sacrificing growth initiatives.

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 strives to enhance capital 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. As of September 30, 2012, UMB had total shareholders' equity of \$1.3 billion, an increase of 10.6 percent over September 30, 2011. The Company repurchased 15,758 shares at an average price of \$49.37 per share during the third quarter of 2012.

### **Earnings Summary**

The Company recorded consolidated net income of \$26.1 million for the three-month period ended September 30, 2012, compared to \$26.0 million for the same period a year earlier. This represents a 0.4 percent increase over the three-month period ended September 30, 2011. Basic earnings per share for the third quarter of 2012 were \$0.65 per share (\$0.64 per share fully-diluted) compared to \$0.65 per share (\$0.64 per share fully-diluted) for the third quarter of 2011. Return on average assets and return on average common shareholders' equity for the three-month period ended September 30, 2012 were 0.79 and 8.12 percent, respectively, compared to 0.85 and 8.81 percent for the three-month period ended September 30, 2011.

The Company recorded consolidated net income of \$101.7 million for the nine-month period ended September 30, 2012, compared to \$83.2 million for the same period a year earlier. This represents a 22.2 percent increase over the nine-month period ended September 30, 2011. Basic earnings per share for the nine-month period ended September 30, 2012 were \$2.54 per share (\$2.51 per share fully-diluted) compared to \$2.08 per share (\$2.06 per share fully-diluted) for the period in 2011. Return on average assets and return on average common shareholders' equity for the nine-month period ended September 30, 2012 were 1.03 and 10.90 percent, respectively, compared to 0.90 and 9.89 percent for the same period in 2011.

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Net interest income for the three and nine-month periods ended September 30, 2012 increased \$1.3 million, or 1.6 percent, and \$2.4 million, or 1.0 percent, respectively, compared to the same period in 2011. These increases are primarily due to the reduced level of interest expense on deposits, which outpaced the reduced level of interest income. For the three-month period ended September 30, 2012, average earning assets increased by \$987.9 million, or 8.9 percent, and for the nine-month period ended September 30, 2012, they increased by \$834.8 million, or 7.4 percent, compared to the same periods in 2011. Net interest margin, on a tax-equivalent basis, decreased to 2.80 percent and 2.79 percent for the three and nine-months periods ended September 30, 2012, compared to 2.98 percent and 2.95 percent for the same periods in 2011. These changes are discussed in greater detail below under Net Interest Income.

The provision for loan losses remained flat and decreased by \$3.7 million for the three and nine-month periods ended September 30, 2012, compared to the same periods in 2011. 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 21 basis points to 1.32 percent as of September 30, 2012, compared to September 30, 2011 and decreased 13 basis points compared to December 31, 2011. 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 in the Company's 2011 Annual Report on Form 10-K.

Noninterest income increased by \$5.4 million, or 5.3 percent, for the three-month period ended September 30, 2012 and increased by \$32.3 million, or 10.2 percent, for the nine-month period ended September 30, 2012, compared to the same periods one year ago. These increases are discussed in greater detail below under Noninterest Income.

Noninterest expense increased by \$6.5 million, or 4.7 percent, for the three-month period ended September 30, 2012, and increased by \$12.0 million, or 2.9 percent, for the nine-month period ended September 30, 2012, compared to the same periods in 2011. These increases 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 September 30, 2012, net interest income increased \$1.3 million, or 1.6 percent, compared to the same period in 2011. For the nine-month period ended September 30, 2012, net interest income increased \$2.4 million, or 1.0 percent, compared to the same period in 2011.

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 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 September 30, 2012 decreased by 15 basis points and net interest margin decreased by 18 basis points compared to the same period in 2011. Net interest spread for the nine months ended September 30, 2012 decreased by 15 basis points and net interest margin decreased by 16 basis points compared to the same period in 2011. These results are primarily due to an unfavorable rate variance on loans and securities, offset by a favorable volume 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 flat interest income, or an increase in the Company's net interest income as compared to results one year ago.

The favorable rate variance on deposits is bolstered by the contribution from free funds. For the impact of the contribution from free funds, see the Analysis of Net Interest Margin within Table 2 of this section. Table 2 also illustrates how the changes in volume and rates have resulted in an increase in 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 2.78 percent for the three-month period ended September 30, 2012 and 3.04 percent for the same period in 2011. The average yield on earning assets without the tax equivalent basis adjustment would have been 2.79 percent for the nine-month period ended September 30, 2012 and 3.03 percent for the same period in 2011.

	Three Months Ended September 30,			
	2012		2011	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
<b>Assets</b>				
Loans, net of unearned interest	\$ 5,292,970	4.10%	\$ 4,790,043	4.60%
Securities:				
Taxable	4,617,059	1.75	4,119,391	1.98
Tax-exempt	1,903,490	3.05	1,569,903	3.42
Total securities	6,520,549	2.13	5,689,294	2.37
Federal funds and resell agreements	38,498	0.50	49,159	0.36
Interest-bearing due from banks	248,290	0.36	584,130	0.43
Trading	47,269	1.86	47,098	1.74
Total earning assets	12,147,576	2.94	11,159,724	3.21
Allowance for loan losses	(72,909)		(71,513)	
Other assets	1,097,489		1,069,219	
Total assets	\$ 13,172,156		\$ 12,157,430	
<b>Liabilities and Shareholders' Equity</b>				
Interest-bearing deposits	\$ 6,183,598	0.26%	\$ 5,956,609	0.41%
Federal funds and repurchase agreements	1,315,729	0.14	1,306,627	0.10
Borrowed funds	7,962	4.05	31,155	0.93
Total interest-bearing liabilities	7,507,289	0.24	7,294,391	0.36
Noninterest-bearing demand deposits	4,199,085		3,508,183	
Other liabilities	186,612		183,084	
Shareholders' equity	1,279,170		1,171,772	
Total liabilities and shareholders' equity	\$ 13,172,156		\$ 12,157,430	
Net interest spread		2.70%		2.85%
Net interest margin		2.80		2.98

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	Nine Months Ended September 30,			
	2012		2011	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
<b>Assets</b>				
Loans, net of unearned interest	\$ 5,187,756	4.19%	\$ 4,716,008	4.67%
Securities:				
Taxable	4,525,462	1.82	4,229,389	2.05
Tax-exempt	1,833,229	3.15	1,428,301	3.62
Total securities	6,358,691	2.20	5,657,690	2.45
Federal funds and resell agreements	27,686	0.42	29,913	0.33
Interest-bearing due from banks	573,474	0.33	908,528	0.39
Trading	49,741	2.44	50,384	1.96
Total earning assets	12,197,348	2.95	11,362,523	3.19
Allowance for loan losses	(73,246)		(73,109)	
Other assets	1,099,748		1,084,414	
Total assets	\$ 13,223,850		\$ 12,373,828	
<b>Liabilities and Shareholders' Equity</b>				
Interest-bearing deposits	\$ 6,231,448	0.29%	\$ 6,231,546	0.41%
Federal funds and repurchase agreements	1,445,701	0.13	1,546,097	0.12
Borrowed funds	13,384	3.89	34,917	1.29
Total interest-bearing liabilities	7,690,533	0.26	7,812,560	0.35
Noninterest-bearing demand deposits	4,103,786		3,263,666	
Other liabilities	183,447		172,487	
Shareholders' equity	1,246,084		1,125,115	
Total liabilities and shareholders' equity	\$ 13,223,850		\$ 12,373,828	
Net interest spread		2.69%		2.84%
Net interest margin		2.79		2.95

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 average interest-free funds (total earning assets less interest-bearing liabilities) increased \$775.0 million for the three-month period ended September 30, 2012 compared to the same period in 2011 and increased \$956.9 million for the nine-month period ended September 30, 2012 compared to the same period in 2011, the benefit from interest free funds declined by 3 basis points from the three months ended September 30, 2011, and declined by 1 basis point from the nine months ended September 30, 2011, due to decreases in interest rates.

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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 September 30, 2012 vs 2011			Nine Months Ended September 30, 2012 vs 2011		
	Volume	Rate	Total	Volume	Rate	Total
Change in interest earned on:						
Loans	\$ 5,138	\$ (6,004)	\$ (866)	\$ 14,912	\$ (16,818)	\$ (1,906)
Securities:						
Taxable	2,166	(2,332)	(166)	4,055	(7,299)	(3,244)
Tax-exempt	2,339	(1,562)	777	8,626	(5,526)	3,100
Federal funds sold and resell agreements	(13)	16	3	(7)	22	15
Interest-bearing due from banks	(304)	(97)	(401)	(829)	(382)	(1,211)
Trading	1	9	10	(4)	162	158
Interest income	9,327	(9,970)	(643)	26,753	(29,841)	(3,088)
Change in interest incurred on:						
Interest-bearing deposits	149	(2,209)	(2,060)		(5,525)	(5,525)
Federal funds purchased and repurchase agreements	3	112	115	(96)	93	(3)
Borrowed funds	(236)	244	8	(627)	681	54
Interest expense	(84)	(1,853)	(1,937)	(723)	(4,751)	(5,474)
Net interest income	\$ 9,411	\$ (8,117)	\$ 1,294	\$ 27,476	\$ (25,090)	2,386

**ANALYSIS OF NET INTEREST MARGIN**

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Average earning assets	\$ 12,147,576	\$ 11,159,724	\$ 987,852	\$ 12,197,348	\$ 11,362,523	\$ 834,825
Average interest-bearing liabilities	7,507,289	7,294,391	212,898	7,690,533	7,812,560	(122,027)
Average interest free funds	\$ 4,640,287	\$ 3,865,333	\$ 774,954	\$ 4,506,815	\$ 3,549,963	\$ 956,852
Free funds ratio (free funds to earning assets)	38.20%	34.64%	3.56%	36.95%	31.24%	5.71%
Tax-equivalent yield on earning assets	2.94	3.21	(0.27)%	2.95%	3.19%	(0.24)%
Cost of interest-bearing liabilities	0.24	0.36	(0.12)	0.26	0.35	(0.09)
Net interest spread	2.70%	2.85%	(0.15)%	2.69%	2.84%	(0.15)%
Benefit of interest-free funds	0.10	0.13	(0.03)	0.10	0.11	(0.01)
Net interest margin	2.80%	2.98%	(0.18)%	2.79%	2.95%	(0.16)%

**Table of Contents****Provision and Allowance for Loan Losses**

The allowance for loan losses (ALL) represents management's judgment of the losses inherent in the Company's loan portfolio as of the balance sheet date. An analysis is performed quarterly to determine the appropriate balance of the ALL. This analysis considers items such as historical loss trends, a review of individual loans, migration analysis, current economic conditions, loan growth and characteristics, industry or segment concentration and other factors. This analysis is performed separately for each bank as regulatory agencies require that the adequacy of the ALL be maintained on a bank-by-bank basis. After the balance sheet analysis is performed for the ALL, the provision for loan losses is computed as the amount required to adjust the ALL to the appropriate level.

Based on the factors above, management of the Company expensed \$4.5 million and \$13.5 million related to the provision for loan losses for the three and nine-month periods ended September 30, 2012, compared to \$4.5 million and \$17.2 million for the same periods in 2011. As illustrated in Table 3 below, the ALL decreased to 1.32 percent of total loans as of September 30, 2012, compared to 1.53 percent of total loans as of the same period in 2011.

Table 3 presents a summary of the Company's ALL for the nine months ended September 30, 2012 and 2011 and for the year ended December 31, 2011. Net charge-offs were \$14.1 million for the first nine months of 2012, compared to \$18.3 million for the same period in 2011. See Credit Risk Management under Item 3. Quantitative and Qualitative Disclosures About Market Risk in this report for information relating to nonaccrual loans, past due loans, restructured loans and other credit risk matters.

Table 3

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

	<b>Nine Months Ended September 30,</b>		<b>Year Ended December 31,</b>
	<b>2012</b>	<b>2011</b>	<b>2011</b>
Allowance-January 1	\$ 72,017	\$ 73,952	\$ 73,952
Provision for loan losses	13,500	17,200	22,200
Charge-offs:			
Commercial	(6,385)	(9,456)	(12,693)
Consumer:			
Bankcard	(8,437)	(10,347)	(13,493)
Other	(1,237)	(1,541)	(1,945)
Real estate	(724)	(505)	(532)
Total charge-offs	(16,783)	(21,849)	(28,663)
Recoveries:			
Commercial	401	484	813
Consumer:			
Bankcard	1,383	2,007	2,366
Other	825	1,058	1,317
Real estate	25	24	32
Total recoveries	2,634	3,573	4,528
Net charge-offs	(14,149)	(18,276)	(24,135)
Allowance-end of period	71,368	72,876	72,017
Average loans, net of unearned interest	\$ 5,179,791	\$ 4,709,011	\$ 4,748,909
Loans at end of period, net of unearned interest	5,389,763	4,776,071	4,960,343



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Allowance to loans at end of period	1.32%	1.53%	1.45%
Allowance as a multiple of net charge-offs	3.78x	2.98x	2.98x
Net charge-offs to:			
Provision for loan losses	104.81%	106.25%	108.71%
Average loans	0.36	.52	0.51

**Table of Contents****Noninterest Income**

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

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

Table 4

**SUMMARY OF NONINTEREST INCOME** (unaudited, dollars in thousands)

	<b>Three Months Ended September 30,</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>12-11</b>	<b>12-11</b>
Trust and securities processing	\$ 56,291	\$ 51,928	\$ 4,363	8.40%
Trading and investment banking	7,120	4,952	2,168	43.78
Service charges on deposit accounts	19,171	18,880	291	1.54
Insurance fees and commissions	1,028	1,038	(10)	(0.96)
Brokerage fees	3,104	2,627	477	18.16
Bankcard fees	14,466	15,882	(1,416)	(8.92)
Gains on sales of securities available for sale, net	259	2,411	(2,152)	(89.26)
Other	4,882	3,239	1,643	50.73
<b>Total noninterest income</b>	<b>\$ 106,321</b>	<b>\$ 100,957</b>	<b>\$ 5,364</b>	<b>5.31%</b>

  

	<b>Nine Months Ended September 30,</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>12-11</b>	<b>12-11</b>
Trust and securities processing	\$ 166,756	\$ 157,291	\$ 9,465	6.02%
Trading and investment banking	23,938	20,449	3,489	17.06
Service charges on deposits	58,191	55,669	2,522	4.53
Insurance fees and commissions	2,949	3,407	(458)	(13.44)
Brokerage fees	8,324	7,540	784	10.40
Bankcard fees	46,031	46,869	(838)	(1.79)
Gains on sales of securities available for sale, net	20,022	15,891	4,131	26.00
Other	22,637	9,447	13,190	139.62
<b>Total noninterest income</b>	<b>\$ 348,848</b>	<b>\$ 316,563</b>	<b>\$ 32,285</b>	<b>10.20%</b>

Fee-based, or noninterest income (summarized in Table 4), increased by \$5.4 million, or 5.3 percent, during the three months ended September 30, 2012, and increased by \$32.3 million, or 10.2 percent, during the nine months ended September 30, 2012, compared to the same periods in 2011.

Trust and securities processing consists of fees earned on personal and corporate trust accounts, custody of securities services, trust investments and money management services, and servicing of mutual fund assets. The increase in these fees for the three and nine-month periods compared to the same periods last year was primarily due to changes in the following categories of income: advisory fee income from the Scout Funds and fund administration and custody services. Advisory fee income from the Scout Funds increased by \$2.7 million, or 16.8 percent, during the three months ended September 30, 2012, and increased by \$4.7 million, or 9.8 percent, during the nine months ended September 30, 2012, compared to the same periods in 2011. Fund administration and custody services increased by \$1.3 million, or 7.8 percent, during the three months ended

September 30, 2012, and

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increased by \$3.3 million, or 6.2 percent, during the nine months ended September 30, 2012, compared to the same periods in 2011. Trust and securities processing fees are asset-based. As such, they are highly correlated to the change in market value of the assets. Thus, the related income for the remainder of the year will be affected by changes in the securities markets. Management continues to emphasize sales of services to both new and existing clients as well as increasing and improving the distribution channels, which lead to increased inflows into the Scout Funds.

During the three and nine-month periods ended September 30, 2012, \$0.3 million and \$20.0 million in pre-tax gains were recognized on the sales of securities available for sale, compared to \$2.4 million and \$15.9 million in the same periods one year ago.

Other noninterest income for the nine-month period ended September 30, 2012 increased \$13.2 million, or 139.6 percent, primarily driven by an \$8.7 million adjustment in contingent consideration liabilities on acquisitions.

**Noninterest Expense**

The components of noninterest expense are shown below on Table 5.

Table 5

**SUMMARY OF NONINTEREST EXPENSE** *(unaudited in thousands)*

	<b>Three Months Ended September 30,</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>12-11</b>	<b>12-11</b>
Salaries and employee benefits	\$ 78,813	\$ 74,905	\$ 3,908	5.22%
Occupancy, net	9,870	9,398	472	5.02
Equipment	10,330	10,424	(94)	(0.90)
Supplies and services	4,995	5,513	(518)	(9.40)
Marketing and business development	7,368	4,912	2,456	50.00
Processing fees	12,964	12,704	260	2.05
Legal and consulting	4,311	3,272	1,039	31.75
Bankcard	4,700	4,001	699	17.47
Amortization of other intangible assets	3,643	4,022	(379)	(9.42)
Regulatory fees	2,363	2,130	233	10.94
Class action litigation settlement				
Other	6,548	8,147	(1,599)	(19.63)
<b>Total noninterest expense</b>	<b>\$ 145,905</b>	<b>\$ 139,428</b>	<b>\$ 6,477</b>	<b>4.65%</b>

	<b>Nine Months Ended September 30,</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>12-11</b>	<b>12-11</b>
Salaries and employee benefits	\$ 236,728	\$ 220,726	\$ 16,002	7.25%
Occupancy, net	28,359	28,582	(223)	(0.78)
Equipment	31,999	32,135	(136)	(0.42)
Supplies and services	15,256	16,670	(1,414)	(8.48)
Marketing and business development	17,615	14,192	3,423	24.12
Processing fees	38,372	38,197	175	0.46
Legal and consulting	11,838	9,965	1,873	18.80
Bankcard	13,572	12,072	1,500	12.43
Amortization of other intangible assets	11,228	12,187	(959)	(7.87)
Regulatory fees	7,096	8,241	(1,145)	(13.89)
Class action litigation settlement		7,800	(7,800)	(100.00)

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Other	20,432	19,758	674	3.41
Total noninterest expense	\$ 432,495	\$ 420,525	\$ 11,970	2.85%

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Noninterest expense increased by \$6.5 million, or 4.7 percent, for the three months ended September 30, 2012, and by \$12.0 million, or 2.9 percent, for the nine months ended September 30, 2012, compared to the same periods in 2011. Table 5 above summarizes the components of noninterest expense and the respective year-over-year comparison for each category.

Salaries and employee benefits increased by \$3.9 million, or 5.2 percent, for the three months ended September 30, 2012, and by \$16.0 million, or 7.3 percent, for the nine months ended September 30, 2012, compared to the same periods in 2011. These increases are primarily due to higher base salary, commission, and employee benefits. Salaries increased by \$3.0 million, or 6.4 percent, and \$10.7 million, or 7.8 percent, for the three and nine months ended September 30, 2012, compared to the same periods in 2011. Employee benefits increased by \$1.9 million, or 17.4 percent, and \$4.6 million, or 12.8 percent, for the three and nine months ended September 30, 2012, compared to the same periods in 2011.

Marketing and business development increased by \$2.5 million, or 50.0 percent, for the three months ended September 30, 2012, and by \$3.4 million, or 24.1 percent, for the nine months ended September 30, 2012, compared to the same periods in 2011. The increase is due to timing differences of advertising initiatives in 2012 compared to 2011 as well as increased business development expenses in 2012.

During the second quarter of 2011, the Company and its subsidiaries, UMB Bank, n.a., UMB Bank Colorado, n.a., UMB Bank Arizona, n.a., and UMB National Bank of America entered into an agreement to settle a class action lawsuit, filed in Missouri, in November 2010 and amended in May 2011, arising from the Company's consumer personal deposit account posting practices, which allegedly resulted in excessive overdraft fees in violation of Missouri's consumer protection statute and the account agreement. While admitting no wrongdoing, in order to fully and finally resolve the litigation and avoid any further expense and distraction caused by the litigation, the Company established a \$7.8 million escrow fund in accordance with this agreement.

**Income Tax Expense**

The effective tax rate is 28.8 percent for the nine months ended September 30, 2012, compared to 28.4 percent for the same period in 2011. The increase in the effective tax rate for 2012 is attributable to an increase in the state marginal rate.

**Table of Contents****Strategic Lines of Business***Table 6***Bank Operating Results** (unaudited, dollars in thousands)

	<b>Three Months Ended September 30,</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>12-11</b>	<b>12-11</b>
Net interest income	\$ 69,109	\$ 67,773	\$ 1,336	1.97%
Provision for loan losses	2,168	1,873	295	15.75
Noninterest income	47,851	48,386	(535)	(1.11)
Noninterest expense	94,012	92,768	1,244	1.34
Income before taxes	20,780	21,518	(738)	(3.43)
Income tax expense	5,320	5,818	(498)	(8.56)
Net income	\$ 15,460	\$ 15,700	\$ (240)	(1.53)%

  

	<b>Nine Months Ended September 30,</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>12-11</b>	<b>12-11</b>
Net interest income	\$ 206,611	\$ 204,368	\$ 2,243	1.10%
Provision for loan losses	6,424	8,849	(2,425)	(27.40)
Noninterest income	168,885	158,049	10,836	6.86
Noninterest expense	282,142	281,643	499	0.18
Income before taxes	86,930	71,925	15,005	20.86
Income tax expense	23,772	19,418	4,354	22.42
Net income	\$ 63,158	\$ 52,507	\$ 10,651	20.28%

For the nine-month period ended September 30, 2012, the Bank's net income increased by \$10.7 million, or 20.3 percent, to \$63.1 million compared to the same period in 2011. This increase was driven by increased noninterest income, increased net interest income, a decrease in provision for loan losses and flat noninterest expense. Noninterest income increased \$10.8 million, or 6.9 percent, over the same period in 2011. The noninterest income growth was comprised largely of securities gains, a \$4.1 million increase from prior year, bond trading growth, a \$3.5 million increase from prior year and miscellaneous income, a \$7.1 million increase from prior year. The increase in miscellaneous income was attributable to a \$3.0 million increase related to an adjustment in contingent consideration liabilities on acquisitions and a \$2.3 million increase in interest rate swap fees and related market to market adjustments. These increases were offset by a decrease in consumer card services income of \$5.4 million driven by the impact of the Durbin amendment on interchange income. Provision decreased by \$2.4 million, or 27.4 percent, due to a reduction in the inherent risk in the loan portfolio in this segment. Net interest income increased 1.1 percent to \$206.6 million from the same period in 2011. Average loans increased \$484.7 million, or 11.4 percent, from 2011. Average investment security balances increased by \$704.6 million. These balance increases offset the effect of a declining net interest margin driven by a reduction in yields within the loan and investment portfolio due to the continued low interest rate environment, resulting in the slight increase in net interest income.

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Table 7

**Payment Solutions Operating Results** (unaudited, dollars in thousands)

	Three Months Ended September 30,		Dollar Change	Percent Change
	2012	2011	12-11	12-11
Net interest income	\$ 10,843	\$ 10,832	\$ 11	0.10%
Provision for loan losses	2,332	2,627	(295)	(11.23)
Noninterest income	15,381	14,004	1,377	9.83
Noninterest expense	17,696	13,199	4,497	34.07
Income before taxes	6,196	9,010	(2,814)	(31.23)
Income tax expense	2,060	2,634	(574)	(21.79)
Net income	\$ 4,136	\$ 6,376	\$ (2,240)	(35.13)%

  

	Nine Months Ended September 30,		Dollar Change	Percent Change
	2012	2011	12-11	12-11
Net interest income	\$ 32,124	\$ 31,687	\$ 437	1.38%
Provision for loan losses	7,076	8,351	(1,275)	(15.27)
Noninterest income	48,122	41,757	6,365	15.24
Noninterest expense	49,030	41,135	7,895	19.19
Income before taxes	24,140	23,958	182	0.76
Income tax expense	7,544	7,394	150	2.03
Net income	\$ 16,596	\$ 16,564	\$ 32	0.19%

Payments Solutions net income after taxes for the nine-month period ended September 30, 2012 was flat compared to 2011. Noninterest income increased \$6.4 million, or 15.3 percent, driven by a \$4.5 million, or 15.8 percent increase in cards services income due to increased sales volume for commercial card, retail credit card, and healthcare services. There was also an additional \$1.8 million increase in deposit service charge income from institutional cash management and healthcare services customers driven from new business growth. Noninterest expense increased by \$7.9 million, or 19.19 percent, primarily from increased staffing, advertising, consulting and legal fees, and increased bankcard processing fees associated with the increase in sales volume. Provision expense decreased by \$1.3 million, or 15.3 percent. Net interest margin increased by \$0.4 million, or 1.4 percent, due to growth in earning assets, but offset with a reduction in funds transfer pricing credit on deposits.

Table 8

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

	Three Months Ended September 30,		Dollar Change	Percent Change
	2012	2011	12-11	12-11
Net interest income	\$	\$ 3	\$ (3)	(100.00)%
Provision for loan losses				
Noninterest income	24,789	21,593	3,196	14.80
Noninterest expense	17,186	16,792	394	2.35



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Income before taxes	7,603	4,804	2,799	58.26
Income tax expense	2,130	1,340	790	58.96
Net income	\$ 5,473	\$ 3,464	\$ 2,009	58.00%

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	Nine Months Ended September 30,		Dollar Change	Percent Change
	2012	2011	12-11	12-11
Net interest income	\$ 2	\$ 9	\$ (7)	(77.78)%
Provision for loan losses				
Noninterest income	74,585	64,156	10,429	16.26
Noninterest expense	50,375	49,337	1,038	2.10
Income before taxes	24,212	14,828	9,384	63.29
Income tax expense	6,974	4,217	2,757	65.38
Net income	\$ 17,238	\$ 10,611	\$ 6,627	62.45%

Institutional Investment Management net income for the nine-month period ended September 30, 2012 increased \$6.6 million, or 62.4 percent, to \$17.2 million compared to the prior year. This increase is due to increased noninterest income with a slight increase in noninterest expense. Noninterest income increased \$10.4 million, or 16.3 percent, to \$74.6 million primarily related to a \$4.4 million adjustment in contingent consideration liabilities on acquisitions, a \$3.3 million increase in advisory fees due to increased asset values year to date compared to the prior year and a new administrative fee that was established in April, which increased revenue by \$2.4 million. Noninterest expense increased \$1.0 million, or 2.1 percent, to \$50.4 million compared to a year ago due to a \$1.0 million increase from a contingent consideration liability adjustment related to cash flow estimate changes on acquisitions.

Table 9

**Asset Servicing Operating Results** (unaudited, dollars in thousands)

	Three Months Ended September 30,		Dollar Change	Percent Change
	2012	2011	12-11	12-11
Net interest income	\$ 413	\$ 466	\$ (53)	(11.37)%
Provision for loan losses				
Noninterest income	18,300	16,974	1,326	7.81
Noninterest expense	17,011	16,669	342	2.05
Income before taxes	1,702	771	931	>100.00
Income tax expense	646	296	350	>100.00
Net income	\$ 1,056	\$ 475	\$ 581	>100.00%

	Nine Months Ended September 30,		Dollar Change	Percent Change
	2012	2011	12-11	12-11
Net interest income	\$ 1,090	\$ 1,376	\$ (286)	(20.78)%
Provision for loan losses				
Noninterest income	57,256	52,601	4,655	8.85
Noninterest expense	50,948	48,410	2,538	5.24
Income before taxes	7,398	5,567	1,831	32.89
Income tax expense	2,733	2,043	690	33.77
Net income	\$ 4,665	\$ 3,524	\$ 1,141	32.38%



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For the nine-month period ended September 30, 2012, Asset Servicing net income increased \$1.1 million, or 32.4 percent, to \$4.7 million from the same period last year. Noninterest income increased \$4.7 million, or 8.9 percent, driven primarily by a \$3.3 million increase due to new business added in fund administration, transfer agent and alternative investments services and a contingent consideration liability adjustment of \$1.3 million. Net interest margin declined by \$0.3 million, or 20.8 percent, due to an overall decrease in deposit funds transfer credits while average deposits remained flat. Noninterest expense increased \$2.5 million, or 5.2 percent, primarily from additional staffing to support new business, which equated to \$3.5 million in increased salary and benefits expense.

**Balance Sheet Analysis**

Total assets of the Company as of September 30, 2012 decreased \$255.6 million, or 1.9 percent, compared to December 31, 2011 and increased \$1.1 billion, or 9.4 percent, compared to September 30, 2011. The increase in total assets from September 2011 to September 2012 is primarily a result of an increase in investment securities balances including trading securities of \$710.9 million, or 12.0 percent, and an increase in total loans of \$613.7 million, or 12.8 percent. The overall increase in total assets from September 30, 2011 is directly related to a corresponding increase in deposit balances of \$1.2 billion, or 13.0 percent. The decrease in total assets from December 31, 2011 to September 30, 2012 is primarily a result of decreased due from Federal Reserve balances of \$868.9 million, or 85.8 percent, offset by an increase in loans of \$429.4 million, or 8.7 percent, and an increase in investment securities balances including trading securities of \$373.6 million. The decrease in assets from December to September is related to a decrease in federal funds purchased and securities sold under agreement to repurchase of \$786.6 million, or 40.3 percent, due to the run-off of seasonal public fund tax deposits, as such tax deposits are generally higher around the end of the calendar year. This decrease is offset by an increase in deposit balances of \$442.9 million, or 4.4 percent, from December 31, 2011.

Table 10

**SELECTED BALANCE SHEET INFORMATION** (unaudited, dollars in thousands)

	September 30,		December 31,
	2012	2011	2011
Total assets	\$ 13,285,845	\$ 12,139,084	\$ 13,541,398
Loans, net of unearned interest	5,389,763	4,776,071	4,960,343
Total investment securities	6,651,048	5,940,165	6,277,482
Interest-bearing due from banks	174,012	322,993	1,164,007
Total earning assets	12,198,526	11,064,610	12,406,108
Total deposits	10,612,780	9,395,023	10,169,911
Total borrowed funds	1,169,831	1,379,223	1,969,356

**Loans and Loans Held for Sale**

Loans represent the Company's largest source of interest income. In addition to growing the commercial loan portfolio, management believes its middle market commercial business and its consumer business, including home equity and credit card loan products, are the market niches that represent its best opportunity to cross-sell fee-related services.

Total loan balances have increased \$429.4 million, or 8.7 percent, compared to December 31, 2011 and increased \$613.7 million, or 12.8 percent, compared to September 30, 2011. The increase from December 31, 2011 and September 30, 2011 is primarily a result of a \$456.4 million, or 20.4 percent, and 592.5 million, or 28.2 percent, increase in commercial loans, respectively.

Nonaccrual, past due and restructured loans are discussed under Credit Risk Management within Item 3. Quantitative and Qualitative Disclosures About Market Risk in this report.

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### **Investment Securities**

The Company's securities portfolio provides liquidity as a result of the composition and average life of the underlying securities. This liquidity can be used to fund loan growth or to offset the outflow of traditional funding sources. In addition to providing a potential source of liquidity, the securities portfolio can be used as a tool to manage interest rate sensitivity. The Company's goal in the management of its securities portfolio is to maximize return within the Company's parameters of liquidity goals, interest rate risk and credit risk. The Company maintains strong liquidity levels while investing in only high-grade securities. The securities portfolio generates the Company's second largest component of interest income.

Investment securities totaled \$6.7 billion at September 30, 2012, compared to \$6.3 billion at December 31, 2011, and \$5.9 billion at September 30, 2011. Collateral pledging requirements for public funds, loan demand, and deposit funding are the primary factors impacting changes in the level of security holdings. Investment securities comprised 54.5 percent, 50.6 percent, and 53.7 percent, respectively, of the earning assets as of September 30, 2012, December 31, 2011, and September 30, 2011. There were \$4.5 billion of these securities pledged to secure U.S. Government deposits, other public deposits, securities sold under repurchase agreements, and certain trust deposits as required by law at September 30, 2012.

Investment securities had an average tax-equivalent yield of 2.20 percent for the first nine months of 2012 compared to 2.45 percent for the same period in 2011, or a decrease of 25 basis points. The average life of the securities portfolio was 42.6 months at September 30, 2012 compared to 32.8 months at December 31, 2011 and 33.8 months at September 30, 2011. The increase in average life from September 30, 2011 and December 31, 2011 was related to a strategy of buying longer-term investments in order to increase the average life of the portfolio as well as modifications to mortgage-backed security modeling assumptions.

### **Deposits and Borrowed Funds**

Deposits increased \$442.9 million, or 4.4 percent, from December 31, 2011 to September 30, 2012 and increased \$1.2 billion, or 13.0 percent, from September 30, 2011. Noninterest-bearing deposits increased \$474.3 million offset by decreased interest-bearing deposits of \$31.4 million from December 31, 2011. Noninterest-bearing deposits increased \$798.5 million and interest-bearing deposits increased \$419.3 million from September 30, 2011. The increase in noninterest-bearing deposits from September 30, 2011 and December 31, 2011 came primarily from our public funds, mutual fund processing and treasury management businesses. The increase in interest-bearing deposits compared to September 30, 2011 is primarily related to increases in money market deposit accounts.

Deposits represent the Company's primary funding source for its asset base. In addition to the core deposits garnered by the Company's retail branch structure, the Company continues to focus on its cash management services, as well as its trust and mutual fund services in order to attract and retain additional core deposits. Management believes a strong core deposit composition is one of the Company's key strengths given its competitive product mix.

Borrowed funds decreased \$799.5 million from December 31, 2011 to \$1.2 billion. Borrowed funds are typically higher at year end due to repurchase agreements related to public funds. Borrowings, other than repurchase agreements, are a function of the source and use of funds and will fluctuate to cover short term gaps in funding. Borrowed funds decreased slightly by \$209.4 million from September 30, 2011.

Federal funds purchased and securities sold under agreement to repurchase totaled \$1.2 billion at September 30, 2012, compared to \$2.0 billion at December 31, 2011 and \$1.3 billion at September 30, 2011. Repurchase agreements are transactions involving the exchange of investment funds by the customer for securities by the Company under an agreement to repurchase the same or similar issues at an agreed-upon price and date.

### **Capital and Liquidity**

The Company places a significant emphasis on the maintenance of a strong capital position, which promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company's ability to capitalize on business growth and acquisition opportunities. Higher levels of liquidity, however, bear corresponding costs, measured in terms of lower yields on short-term, more liquid earning assets and higher expenses for extended liability maturities. The Company manages capital for each subsidiary based upon the subsidiary's respective risks and growth opportunities as well as regulatory requirements.

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Total shareholders' equity was \$1.3 billion at September 30, 2012, a \$103.0 million increase compared to December 31, 2011. The Company's Board of Directors authorized, at its April 24, 2012, April 27, 2011, and April 26, 2010 meetings, the repurchase of up to two million shares of the Company's common stock during the twelve months following the meetings. During the nine months ended September 30, 2012 and 2011, the Company acquired 136,213 shares and 219,030 shares, respectively, of its common stock under these plans. The Company has not made any purchases other than through these plans.

On October 23, 2012, the Board of Directors declared a dividend of \$0.215 per share. The dividend will be paid on December 28, 2012 to shareholders of record on December 10, 2012.

Risk-based capital guidelines established by regulatory agencies set minimum capital standards based on the level of risk associated with a financial institution's assets. A financial institution's total capital is required to equal at least 8 percent of risk-weighted assets. At least half of that 8 percent must consist of Tier 1 core capital, and the remainder may be Tier 2 supplementary capital. The risk-based capital guidelines indicate the specific risk weightings by type of asset. Certain off-balance-sheet items (such as standby letters of credit and binding loan commitments) are multiplied by credit conversion factors to translate them into balance sheet equivalents before assigning them specific risk weightings. Due to the Company's high level of core capital and substantial portion of earning assets invested in government securities, the Tier 1 capital ratio of 11.69 percent and total capital ratio of 12.62 percent substantially exceed the regulatory minimums.

For further discussion of capital and liquidity, see "Liquidity Risk" under "Item 3. Quantitative and Qualitative Disclosures About Market Risk" in this report.

*Table 11*

The Company's capital position is summarized in the table below and exceeds regulatory requirements:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>RATIOS</b>				
Return on average assets	0.79%	0.85%	1.03%	0.90%
Return on average equity	8.12	8.81	10.90	9.89
Average equity to assets	9.71	9.64	9.42	9.09
Tier 1 risk-based capital ratio	11.69	11.32	11.69	11.32
Total risk-based capital ratio	12.62	12.37	12.62	12.37
Leverage ratio	7.15	6.76	7.15	6.76

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Per Share Data</b>				
Earnings basic	\$ 0.65	\$ 0.65	\$ 2.54	\$ 2.08
Earnings diluted	0.64	0.64	2.51	2.06
Cash dividends	0.205	0.195	0.615	0.585
Dividend payout ratio	31.54%	30.00%	24.21%	28.13%
Book value	\$ 31.88	\$ 28.97	\$ 31.88	\$ 28.97

**Off-balance Sheet Arrangements**

The Company's main off-balance sheet arrangements are loan commitments, commercial and standby letters of credit, futures contracts and forward exchange contracts, which have maturity dates rather than payment due dates. Please see Note 7, "Commitments, Contingencies and Guarantees" in the Notes to Condensed Consolidated Financial Statements for detailed information on these arrangements.



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**Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to allowance for loan losses, investments, long-lived assets, contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which have formed the basis for making such judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the recorded estimates under different assumptions or conditions. A summary of critical accounting policies is listed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's Annual Report Form 10-K for the fiscal year ended December 31, 2011.



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### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Risk Management**

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of financial instruments. These changes may be the result of various factors, including interest rates, foreign exchange prices, commodity prices or equity prices. Financial instruments that are subject to market risk can be classified either as held for trading or held for purposes other than trading.

The Company is subject to market risk primarily through the effect of changes in interest rates of its assets held for purposes other than trading. The following discussion of interest rate risk, however, combines instruments held for trading and instruments held for purposes other than trading, because the instruments held for trading represent such a small portion of the Company's portfolio that the interest rate risk associated with them is immaterial.

#### **Interest Rate Risk**

In the banking industry, a major risk exposure is changing interest rates. To minimize the effect of interest rate changes to net interest income and exposure levels to economic losses, the Company manages its exposure to changes in interest rates through asset and liability management within guidelines established by its Funds Management Committee ( FMC ) and approved by the Company's Board of Directors. The FMC has the responsibility for approving and ensuring compliance with asset/liability management policies, including interest rate exposure. The Company's primary method for measuring and analyzing consolidated interest rate risk is the Net Interest Income Simulation Analysis. The Company also uses a Net Portfolio Value model to measure market value risk under various rate change scenarios and a gap analysis to measure maturity and repricing relationships between interest-earning assets and interest-bearing liabilities at specific points in time. On a limited basis, the Company uses hedges or swaps to manage interest rate risk by using futures contracts on certain loans and trading securities.

Overall, the Company manages interest rate risk by positioning the balance sheet to maximize net interest income while maintaining an acceptable level of interest rate and credit risk, remaining mindful of the relationship among profitability, liquidity, interest rate risk and credit risk.

#### **Net Interest Income Modeling**

The Company's primary interest rate risk tool, the Net Interest Income Simulation Analysis, measures interest rate risk and the effect of interest rate changes on net interest income and net interest margin. This analysis incorporates substantially all of the Company's assets and liabilities together with forecasted changes in the balance sheet and assumptions that reflect the current interest rate environment. Through these simulations, management estimates the impact on net interest income of a 300 basis point upward and a 100 basis point downward gradual change of market interest rates over a one year period. Assumptions are made to project rates for new loans and deposits based on historical analysis, management outlook, and repricing strategies. Asset prepayments and other market risks are developed from industry estimates of prepayment speeds and other market changes. Since the results of these simulations can be significantly influenced by assumptions utilized, management evaluates the sensitivity of the simulation results to changes in assumptions.

Table 9 shows the net interest income increase or decrease over the next twelve months as of September 30, 2012 and 2011 based on hypothetical changes in interest rates.

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Table 12

**MARKET RISK** (unaudited, dollars in thousands)

Hypothetical change in interest rate	September 30, 2012	September 30, 2011
(Rates in Basis Points)	Amount of change	Amount of change
300	\$14,253	\$31,741
200	9,448	20,701
100	4,133	9,935
Static		
(100)	N/A	N/A

The Company is positioned close to neutral with respect to interest rate changes and slightly positive in rising rate environments at September 30, 2012. Large increases in interest rates are projected to cause increases in net interest income with smaller changes having little impact. Due to the already low interest rate environment interest rates on liabilities are so low that there is little room for further rate reductions. The Company did not include a 100 basis point falling scenario. For projected increases in rates, net interest income is projected to increase due to the Company being positioned to adjust yields on assets with changes in market rates more than the cost of paying liabilities is projected to increase.

**Trading Account**

The Company's subsidiary UMB Bank, n.a. carries taxable government securities in a trading account that is maintained according to a board-approved policy and relevant procedures. The policy limits the amount and type of securities that UMB Bank, n.a. can carry in the trading account and also requires that UMB Bank, n.a. comply with any limits under applicable law and regulations. The policy also mandates the use of a value at risk methodology to manage price volatility risks within financial parameters. The risk associated with carrying trading securities is offset by the sale of exchange traded futures contracts, with both the trading account and futures contracts marked to market daily. This account had a balance of \$39.9 million as of September 30, 2012 compared to \$58.1 million as of December 31, 2011.

Documentation of the methodology used in determining value at risk is maintained and reviewed in compliance banking laws and regulations. The aggregate value at risk is reviewed quarterly. The aggregate value at risk in the trading account was insignificant as of September 30, 2012 and December 31, 2011.

**Other Market Risk**

The Company does not have material commodity price risks or derivative risks. The Company does have minimal foreign currency risk as a result of foreign exchange contracts. See Note 8 Commitments, Contingencies and Guarantees in the notes to the Condensed Consolidated Financial Statements.

**Credit Risk Management**

Credit risk represents the risk that a customer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers. The Company utilizes a centralized credit administration function, which provides information on affiliate bank risk levels, delinquencies, an internal ranking system and overall credit exposure. In addition, the Company centrally reviews loan requests to ensure the consistent application of the loan policy and standards. The Company has an internal loan review staff that operates independently of the affiliate banks. This review team performs periodic examinations of each bank's loans for credit quality, documentation and loan administration. The respective regulatory authority of each affiliate bank also reviews loan portfolios.

A primary indicator of credit quality and risk management is the level of nonperforming loans. Nonperforming loans include both nonaccrual loans and restructured loans. The Company's nonperforming loans increased \$7.2 million to \$27.4 million at September 30, 2012, compared to September 30, 2011 and increased \$1.8 million, compared to December 31, 2011.



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The Company had \$5.6 million of other real estate owned as of September 30, 2012 compared to \$5.3 million as of September 30, 2011 and \$6.0 million as of December 31, 2011. Loans past due more than 90 days totaled \$4.2 million as of September 30, 2012, compared to \$6.4 million at September 30, 2011 and \$6.0 million as of December 31, 2011.

A loan is generally placed on nonaccrual status when payments are past due 90 days or more and/or when management has considerable doubt about the borrower's ability to repay on the terms originally contracted. The accrual of interest is discontinued and recorded thereafter only when actually received in cash.

Certain loans are restructured to provide a reduction or deferral of interest or principal due to deterioration in the financial condition of the respective borrowers. The Company had \$8.4 million of restructured loans at September 30, 2012, \$4.1 million at September 30, 2011 and \$6.0 million at December 31, 2011.

Table 13

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

	September 30,		December 31,
	2012	2011	2011
Nonaccrual loans	\$ 22,246	\$ 16,070	\$ 22,650
Restructured loans on non-accrual	5,143	4,070	2,931
Total nonperforming loans	27,389	20,140	25,581
Other real estate owned	5,567	5,299	5,959
Total nonperforming assets	\$ 32,956	\$ 25,439	\$ 31,540
Loans past due 90 days or more	\$ 4,160	\$ 6,387	\$ 5,998
Restructured loans accruing	3,209		3,089
Allowance for Loan Losses	71,368	72,876	72,017
<b>Ratios</b>			
Nonperforming loans as a percent of loans	0.51%	0.42%	0.52%
Nonperforming assets as a percent of loans plus other real estate owned	0.61	0.53	0.64
Nonperforming assets as a percent of total assets	0.25	0.21	0.23
Loans past due 90 days or more as a percent of loans	0.08	0.13	0.12
Allowance for loan losses as a percent of loans	1.32	1.53	1.45
Allowance for loan losses as a multiple of nonperforming loans	2.61x	3.62x	2.82x

**Liquidity Risk**

Liquidity represents the Company's ability to meet financial commitments through the maturity and sale of existing assets or availability of additional funds. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of a large, stable supply of core deposits and wholesale funds. Ultimately, public confidence is generated through profitable operations, sound credit quality and a strong capital position. The primary source of liquidity for the Company is regularly scheduled payments and maturity of assets, which include \$6.5 billion of high-quality securities available for sale. Investment securities with a market value of \$4.5 billion at September 30, 2012 were pledged to secure U.S. Government deposits, other public deposits, certain trust deposits, and other potential borrowings as required by law. The liquidity of the Company and its affiliate banks is also enhanced by its activity in the federal funds market and by its core deposits. Neither the Company nor its subsidiaries are active in the debt market. The traditional funding source for the Company's subsidiary banks has been core deposits. Based upon regular contact with investment banking firms, management believes it can raise debt or equity capital on favorable terms, should the need arise.

The Company also has other commercial commitments that may impact liquidity. These commitments include unused commitments to extend credit, standby letters of credit and financial guarantees, and commercial letters of credit. The total amount of these commercial commitments at September 30, 2012 was \$4.9 billion. Since many of these commitments expire without being drawn upon, the total amount of these commercial commitments does not necessarily represent the future cash requirements of the Company.



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The Company's cash requirements consist primarily of dividends to shareholders, debt service and treasury stock purchases. Management fees and dividends received from subsidiary banks traditionally have been sufficient to satisfy these requirements and are expected to be sufficient in the future. The Company's subsidiary banks are subject to various rules regarding payment of dividends to the Company. For the most part, all banks can pay dividends at least equal to their current year's earnings without seeking prior regulatory approval. From time to time, approvals have been requested to allow a subsidiary bank to pay a dividend in excess of its current earnings.

### **Operational Risk**

Operational risk generally refers to the risk of loss resulting from the Company's operations, including those operations performed for the Company by third parties. This would include but is not limited to the risk of fraud by employees or persons outside the Company, the execution of unauthorized transactions by employees or others, errors relating to transaction processing, breaches of the internal control system and compliance requirements, and unplanned interruptions in service. This risk of loss also includes the potential legal or regulatory actions that could arise as a result of an operational deficiency, or as a result of noncompliance with applicable regulatory standards. Included in the legal and regulatory issues with which the Company must comply are a number of imposed rules resulting from the enactment of the Sarbanes-Oxley Act of 2002.

The Company operates in many markets and places reliance on the ability of its employees and systems to properly process a high number of transactions. In the event of a breakdown in the internal control systems, improper operation of systems or improper employee actions, the Company could suffer financial loss, face regulatory action and suffer damage to its reputation. In order to address this risk, management maintains a system of internal controls with the objective of providing proper transaction authorization and execution, safeguarding of assets from misuse or theft, and ensuring the reliability of financial and other data.

The Company maintains systems of controls that provide management with timely and accurate information about the Company's operations. These systems have been designed to manage operational risk at appropriate levels given the Company's financial strength, the environment in which it operates, and considering factors such as competition and regulation. The Company has also established procedures that are designed to ensure that policies relating to conduct, ethics and business practices are followed on a uniform basis. In certain cases, the Company has experienced losses from operational risk. Such losses have included the effects of operational errors that the Company has discovered and included as expense in the statement of income. While there can be no assurance that the Company will not suffer such losses in the future, management continually monitors and works to improve its internal controls, systems and corporate-wide processes and procedures.

### **ITEM 4. CONTROLS AND PROCEDURES**

The Sarbanes-Oxley Act of 2002 requires Chief Executive Officers and Chief Financial Officers to make certain certifications with respect to this report and to the Company's disclosure controls and procedures and internal control over financial reporting. The Company has a Code of Ethics that expresses the values that drive employee behavior and maintains the Company's commitment to the highest standards of ethics.

#### **Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's Disclosure Controls and Procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by the report, the Company's disclosure controls and procedures are effective for ensuring the following criteria for the information the Company is required to report in its periodic SEC filings. SEC filings are recorded, processed, summarized, and reported within the time period required and that information required to be disclosed by the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

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**Internal Control Over Financial Reporting**

There has been no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

In the normal course of business, the Company and its subsidiaries are named defendants in various lawsuits and counter-claims. In the opinion of management, after consultation with legal counsel, none of these lawsuits are expected to have a material effect on the financial position, results of operations, or cash flows of the Company.

**ITEM 1A. RISK FACTORS**

There were no material changes to the risk factors as previously disclosed in response to Item 1A to Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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

The table below sets forth the information with respect to purchases made by or on behalf of the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the three months ended September 30, 2012.

**ISSUER PURCHASE OF EQUITY SECURITIES**

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1-July 31, 2012	7,865	\$ 49.30	7,865	1,958,958
August 1-August 31, 2012	4,535	47.94	4,535	1,954,423
September 1-September 30, 2012	3,358	51.45	3,358	1,951,065
Total	15,758	\$ 49.37	15,758	

On April 24, 2012, the Company announced a plan to repurchase up to two million shares of common stock. This plan will terminate on April 23, 2013. All open market share purchases under the share repurchase plans are intended to be within the scope of Rule 10b-18 promulgated under the Exchange Act. Rule 10b-18 provides a safe harbor for purchases in a given day if the Company satisfies the manner, timing and volume conditions of the rule when purchasing its own common shares. The Company has not made any repurchases other than through this plan.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**



None.

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**ITEM 6. EXHIBITS**

a) The following exhibits are filed herewith:

- i. 3.1 Articles of Incorporation restated as of April 25, 2006. Amended Article III was filed with the Missouri Secretary of State on May 18, 2006 and incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 and filed with the Commission on May 9, 2006.
- ii. 3.2 Bylaws, amended and restated as of July 26, 2011 incorporated by reference to Exhibit 3 (ii).2 to the Company's Current Report on Form 8-K and filed with the Commission on July 27, 2011.
- iii. 4 Description of the Registrant's common stock in Amendment No. 1 on Form 8, incorporated by reference to its General Form for Registration of Securities on Form 10 dated March 5, 1993.
- iv. 31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
- v. 31.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
- vi. 32.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act.
- vii. 32.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act.
- viii. 101.INS\* XBRL Instance
- ix. 101.SCH\* XBRL Taxonomy Extension Schema
- x. 101.CAL\* XBRL Taxonomy Extension Calculation
- xi. 101.DEF\* XBRL Taxonomy Extension Definition
- xii. 101.LAB\* XBRL Taxonomy Extension Labels
- xiii. 101.PRE\* XBRL Taxonomy Extension Presentation

\* XBRL information will be considered to be furnished, not filed, for the first two years of a company's submission of XBRL information.

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**SIGNATURES**

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

**UMB FINANCIAL CORPORATION**

/s/ Brian J. Walker

Brian J. Walker

Senior Vice President, Corporate Controller

(Authorized Officer and Chief Accounting Officer)

Date: November 1, 2012