UMB FINANCIAL CORP
Form 10-Q
May 09, 2006
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______to ______

Commission file number 0-4887

UMB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(Address of principal executive offices) **(ZIP Code)**

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

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

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

Large accelerated filer x Accelerated filer ¨ Non- accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x 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 April 30, 2006, UMB Financial Corporation had 21,428,338 shares of common stock outstanding.

Table of Contents

UMB FINANCIAL CORPORATION

FORM 10-Q

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	March 31, 2006	December 31, 2005
ASSETS		
Loans	$ 3,418,106	$ 3,373,944
Allowance for loan losses	(40,679)	(40,825)
Net loans	3,377,427	3,333,119
Loans held for sale	17,960	19,460
Investment Securities:		
Available for sale	2,524,736	3,323,198
Held to maturity (market value of $62,651 and $67,365, respectively)	62,453	67,037
Federal Reserve Bank stock and other	15,022	15,094
Trading securities	62,736	58,488
Total investment securities	2,664,947	3,463,817
Federal funds sold and securities purchased under agreements to resell	759,879	426,578
Cash and due from banks	418,125	599,580
Bank premises and equipment, net	234,198	236,038
Accrued income	49,896	51,848
Goodwill on purchased affiliates	59,727	59,727
Other intangibles	6,857	4,078
Other assets	48,296	53,544
Total assets	$ 7,637,312	$ 8,247,789
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 2,065,218	$ 2,051,922
Interest-bearing demand and savings	2,418,597	2,654,637
Time deposits under $100,000	791,661	713,249
Time deposits of $100,000 or more	351,717	501,014
Total deposits	5,627,193	5,920,822
Federal funds purchased and repurchase agreements	1,088,953	1,360,942
Short-term debt	5,671	35,091
Long-term debt	37,879	38,471
Accrued expenses and taxes	33,638	39,247
Other liabilities	16,155	19,753
Total liabilities	6,809,489	7,414,326

SHAREHOLDERS EQUITY		
Common stock, $1.00 par value; authorized 33,000,000 shares, 27,528,365 issued, 21,396,059 and 21,490,561 shares outstanding, respectively	27,528	27,528
Capital surplus	726,244	726,204
Retained earnings	350,568	342,675
Accumulated other comprehensive loss	(28,485)	(21,550)
Treasury stock, 6,132,306 and 6,037,804 shares, at cost, respectively	(248,032)	(241,394)
Total shareholders equity	827,823	833,463
Total liabilities and shareholders equity	$ 7,637,312	$ 8,247,789

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended March 31, 2006	2005
INTEREST INCOME		
Loans	$ 53,234	$ 37,722
Securities:		
Taxable interest	21,753	16,664
Tax-exempt interest	5,683	4,372
Total securities income	27,436	21,036
Federal funds and resell agreements	5,088	1,315
Trading securities and other	715	520
Total interest income	86,473	60,593
INTEREST EXPENSE		
Deposits	20,762	9,727
Federal funds and repurchase agreements	12,835	6,231
Short-term debt	152	69
Long-term debt	478	275
Total interest expense	34,227	16,302
Net interest income	52,246	44,291
Provision for loan losses	3,159	750
Net interest income after provision for loan losses	49,087	43,541
NONINTEREST INCOME		
Trust and securities processing	22,670	20,498
Trading and investment banking	4,113	4,529
Service charges on deposits	17,607	17,976
Insurance fees and commissions	991	828
Brokerage fees	1,518	1,550
Bankcard fees	8,946	7,622
Gain on sale of other assets, net	22	2,592
Gain on sale of employee benefit accounts		3,600
Gain on sales of securities available for sale, net	9	
Other	3,944	4,502
Total noninterest income	59,820	63,697
NONINTEREST EXPENSE		
Salaries and employee benefits	47,238	52,060
Occupancy, net	6,554	6,417

Equipment	11,115	10,476
Supplies and services	5,775	5,549
Marketing and business development	3,622	2,960
Processing fees	6,311	5,564
Legal and consulting	1,649	1,827
Bankcard	3,291	2,442
Amortization of other intangibles	218	186
Other	5,260	3,844
Total noninterest expense	91,033	91,325
Income before income taxes	17,874	15,913
Income tax provision	4,633	4,333
NET INCOME	$ 13,241	$ 11,580
PER SHARE DATA		
Net income - basic	$ 0.62	$ 0.54
Net income - diluted	0.62	0.53
Dividends	0.25	0.22
Weighted average shares outstanding	21,409,760	21,636,200

See Notes to Condensed Consolidated Financial Statements.

4

Table of Contents

UMB FINANCIAL CORPORATION

STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS EQUITY

(unaudited, dollars in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance - January 1, 2005	$ 27,528	$ 726,595	$ 305,986	$ (10,619)	$ (230,308)	$ 819,182
Comprehensive income						
Net income			11,580			11,580
Change in unrealized losses on securities -				(10,407)		(10,407)
Total comprehensive income						1,173
Cash dividends ($0.22 per share)			(4,759)			(4,759)
Purchase of treasury stock					(835)	(835)
Recognition of restricted stock compensation		18			23	41
Sale of treasury stock		39			39	78
Exercise of stock options		21			82	103
Balance - March 31, 2005	$ 27,528	$ 726,673	$ 312,807	$ (21,026)	$ (230,999)	$ 814,983
Balance - January 1, 2006	$ 27,528	$ 726,204	$ 342,675	$ (21,550)	$ (241,394)	$ 833,463
Comprehensive income						
Net income			13,241			13,241
Change in unrealized losses on securities				(6,935)		(6,935)
Total comprehensive income						6,306
Cash dividends ($0.25 per share)			(5,348)			(5,348)
Purchase of treasury stock					(6,812)	(6,812)
Issuance of stock awards		89			61	150
Recognition of equity based compensation		(126)				(126)
Sale of treasury stock		62			46	108
Exercise of stock options		15			67	82
Balance - March 31, 2006	$ 27,528	$ 726,244	$ 350,568	$ (28,485)	$ (248,032)	$ 827,823

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	Three Months Ended March 31, 2006	2005
Operating Activities		
Net Income	$ 13,241	$ 11,580
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,159	750
Depreciation and amortization	7,851	7,716
Deferred income taxes	60	1,108
Net decrease/(increase) in trading securities and other earning assets	(4,248)	4,767
Gains on sales of securities available for sale	(9)	
Amortization of securities premiums, net of discount accretion	(1,510)	3,571
Net decrease in loans held for sale	1,500	3,030
Issuance of stock awards	150	
Recognition of stock based compensation	(126)	
Gains on sales of other assets, net	(22)	(2,592)
Changes in:		
Accrued income	1,952	(1,473)
Accrued expenses and taxes	(5,609)	4,201
Other assets and liabilities, net	5,503	12,953
Net cash provided by operating activities	21,892	45,611
Investing Activities		
Proceeds from maturities of securities held to maturity	8,864	23,476
Proceeds from sales of securities available for sale	18	
Proceeds from maturities of securities available for sale	7,487,181	6,701,240
Purchases of securities held to maturity	(4,252)	(3,818)
Purchases of securities available for sale	(6,698,222)	(5,816,392)
Net increase in loans	(47,467)	(58,911)
Net increase in fed funds and resell agreements	(333,301)	(3,935)
Purchases of bank premises and equipment	(5,802)	(5,070)
Cash received for branch deposits, net of cash paid	19,998	
Net change in unsettled securities transactions	239	(7,294)
Proceeds from sales of bank premises and equipment	18	3,428
Net cash provided by investing activities	427,274	832,724
Financing Activities		
Net decrease in demand and savings deposits	(230,594)	(288,727)
Net decrease in time deposits	(86,030)	(103,209)
Net decrease in fed funds/ repurchase agreements	(271,989)	(501,977)
Net decrease in short-term debt	(29,420)	(29,256)
Proceeds from long-term debt		19,000
Repayment of long-term debt	(592)	(318)
Cash dividends	(5,374)	(4,762)
Proceeds from exercise of stock options and sales of treasury shares	190	222
Purchases of treasury stock	(6,812)	(835)

Net cash used in financing activities	(630,621)	(909,862)
Decrease in cash and due from banks	(181,455)	(31,527)
Cash and due from banks at beginning of period	599,580	497,427
Cash and due from banks at end of period	$ 418,125	$ 465,900

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

UMB FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2006 (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 material 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 the 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, 2005.

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 and Wisconsin. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also impact reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A summary of the significant accounting policies to assist the reader in understanding the financial presentation are 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, 2005.

Per Share Data

Basic income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted income per share includes the diluted effect of 106,393 and 84,202 shares issueable upon the exercise of stock options granted by the Company at March 31, 2006 and 2005, respectively.

Accounting for Stock-Based Compensation

Effective with the first quarter of 2006, the Company has adopted Statement of Financial Accounting Standard (SFAS) No. 123 (R) Share Based Payment . SFAS No. 123 (R) establishes accounting standards for all transactions in which the Company exchanges its equity instruments for goods and services. SFAS No. 123 (R) focuses primarily on accounting for transactions with employees, and carries forward without change prior guidance for share-based payments for transactions with non-employees.

SFAS No. 123 (R) eliminates the intrinsic value measurement objective in APB Opinion No. 25 and generally requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of the grant. The standard requires the grant date fair value to be estimated using either an option-pricing model which is consistent with the terms of the award or a market observed price, if such a price exists. Such cost must generally be recognized over the vesting period during which an employee is required to provide service in exchange for the award. The standard also requires the Company to estimate the number of instruments that will ultimately be issued, rather than accounting for forfeitures as they occur.

The Company uses the Black Scholes pricing model to determine the fair value of its options. The assumptions utilized in the model for stock based awards granted prior to the adoption of SFAS No. 123 (R) are provided in the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005. No new stock based grants have been issued since the adoption of SFAS No. 123 (R).

The modified prospective method of adoption was chosen by the Company. This method requires the provisions of SFAS No. 123 (R) to be generally applied to share based awards granted after the adoption of the new standard. The financial statements for periods prior to the adoption of SFAS No. 123 (R) are not changed under this method.

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED)

As noted above, prior to adoption of SFAS No. 123 (R), forfeitures were recognized as they actually occurred. Under the new standard an estimate of forfeitures is made for all share based compensation outstanding and applied to compensation expense starting at the initial grant date. Forfeiture adjustments are required over the term of each grant s service period to account for changes in the Company s actual forfeitures of share based instruments. The Company recognized a benefit to compensation expense in the first quarter of 2006 for changes in expected forfeitures for outstanding share based awards. This transition adjustment was not material to the Company s first quarter earnings.

The Company recognized $0.2 million in expense related to outstanding stock options and $0.1 million in expense related to outstanding restricted stock grants for the three months ended March 31, 2006. The Company has $2.6 million of unrecognized compensation expense related to the outstanding options and $1.6 million of unrecognized compensation expense related to outstanding restricted stock grants at March 31, 2006.

The following table illustrates the effect on net income and earnings per share, if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	Three Months Ended March 31,
(dollars in thousands)	2005
Net income, as reported	$ 11,580
Add: Stock based compensation expense included in reported net income, net of tax	41
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	156
Pro forma net income	$ 11,465
Earnings per share:	
Basic-as reported	0.54
Basic-pro forma	0.53
Diluted-as reported	0.53
Diluted-pro forma	0.53

Reclassifications

Certain reclassifications were made to the 2005 Condensed Consolidated Financial Statements to conform to the current year presentation.

3. Loans and Allowance for Loan Losses

This table provides a summary of the major categories of loans as of March 31, 2006 and December 31, 2005 *(dollars in thousands)*:

	March 31, 2006	December 31, 2005
Commercial, financial, and agricultural	$ 1,562,679	$ 1,497,496
Real estate construction	49,014	47,403
Consumer	957,033	987,770
Real Estate	843,425	835,207
Leases	5,955	6,068

Total loans	$ 3,418,106	$ 3,373,944

8

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED)

This table provides an analysis of the allowance for loan losses for the three months ended March 31, 2006 and 2005 *(dollars in thousands)*:

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Allowance - January 1	$ 40,825	$ 42,723
Additions (deductions):		
Charge-offs	(4,024)	(3,117)
Recoveries	719	524
Net charge-offs	(3,305)	(2,593)
Provision charged to expense	3,159	750
Allowance - March 31	$ 40,679	$ 40,880

Impaired loans under SFAS No. 114. SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or at the fair value of the collateral securing the loan. The summary below provides an analysis of impaired loans under SFAS No. 114 for the three months ended March 31, 2006 and December 31, 2005 *(dollars in thousands)*:

	March 31, 2006	December 31, 2005
Total impaired loans as of March 31 and December 31	$ 5,384	$ 6,650
Amount of impaired loans which have a related allowance	2,042	1,134
Amount of related allowance	1,261	502
Remaining impaired loans with no allowance	3,342	5,516
Average recorded investment in impaired loans during the period	6,017	7,690

4. Securities

Investment securities at fair value consist of the following *(dollars in thousands)*:

	March 31, 2006	December 31, 2005
Available for sale		
U.S. Treasuries	$ 511,443	$ 531,798
U.S. Agencies	474,350	1,256,227
State and political subdivisions	616,485	614,505
Mortgage backed	922,458	920,668
Total available for sale	2,524,736	3,323,198
Federal Reserve Bank stock and other	15,022	15,094

Trading securities	62,736	58,488
Total investments at fair value	$ 2,602,494	$ 3,396,780

Investment securities held to maturity at book value consist of the following *(dollars in thousands)*:

	March 31, 2006	**December 31, 2005**
State and political subdivisions	$ 62,453	$ 67,037

9

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED)

5. Goodwill and other intangibles

Changes in the carrying amount of goodwill for the periods ended March 31, 2006 and December 31, 2005 by operating segment are as follows *(dollars in thousands)*:

	Consumer Services	Asset Management	Investment Services Group	Total
Balances as of January 1, 2005	$ 34,981	$ 10,479	$ 13,655	$ 59,115
Additional earn-out payment for 2001 acquisition of Sunstone Financial Group, Inc.			843	843
Other changes to prior years acquisitions	(238)		7	(231)
Balances as of December 31, 2005	$ 34,743	$ 10,479	$ 14,505	$ 59,727
Balances as of January 1, 2006	$ 34,743	$ 10,479	$ 14,505	$ 59,727
Goodwill acquired during period				
Balances as of March 31, 2006	$ 34,743	$ 10,479	$ 14,505	$ 59,727

Following are the intangible assets that continue to be subject to amortization as of March 31, 2006 and December 31, 2005 *(dollars in thousands)*:

	As of March, 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Beginning core deposit intangible assets	$ 16,777	$ 16,777	$
Core deposit premium acquired during period	2,997	36	2,961
Ending core deposit intangible assets	19,774	16,813	2,961
Other intangible assets	7,200	3,304	3,896
Total	$ 26,974	$ 20,117	$ 6,857

	As of December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles assets	$ 16,777	$ 16,777	$
Other intangible assets	7,200	3,122	4,078
Total	$ 23,977	$ 19,899	$ 4,078

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

	Three Months Ended March 31, 2006	2005
Aggregate amortization expense	$ 218	$ 186

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

For the year ended December 31, 2006	$ 1,087
For the year ended December 31, 2007	1,159
For the year ended December 31, 2008	1,159
For the year ended December 31, 2009	1,159
For the year ended December 31, 2010	854

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED)

6. Other Comprehensive Loss

The Company s only component of other comprehensive loss for the three months ended March 31, 2006 and 2005 was the net unrealized gains and losses on available for sale securities *(dollars in thousands)*:

	Three Months Ended March 31,	
	2006	2005
Change in unrealized holding losses, net	$ (10,960)	$ (16,480)
Less: Reclassification adjustments for gains included in income	(9)	
Net unrealized holding loss	(10,969)	(16,480)
Income tax benefit	4,034	6,073
Other comprehensive loss	$ (6,935)	$ (10,407)

7. Commitments, Contingencies and Guarantees

In the normal course of business, the Company is a 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, and futures contracts. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount 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.

The Company s exposure to credit loss in the event of nonperformance by the other party 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.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the agreement. These conditions generally include, but are not limited to, each customer being current as to repayment terms of existing loans and no deterioration in the customer s financial condition. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The interest rate is generally a variable rate. If the commitment has a fixed interest rate, the rate is generally not set at current market conditions until such time as credit is extended. For credit card customers, the Company has the right to change or terminate terms or conditions of the credit card account at any time. Since a large portion of the commitments and unused credit card lines are never actually drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on an individual basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation. Collateral held varies but may include accounts receivable, inventory, real estate, plant and equipment, stock, securities and certificates of deposit.

Commercial letters of credit are issued specifically to facilitate trade or commerce. Under the terms of a commercial letter of credit, as a general rule, drafts will be drawn when the underlying transaction is consummated as intended.

Standby letters of credit are conditional commitments issued by the Company payable upon the non-performance of a customer s obligations to a third party. The Company issues standby letters of credit for terms ranging from three months to three years. The maximum liability to the Company under standby letters of credit at March 31, 2006 and December 31, 2005 were $273.2 million and $200.2 million, respectively. As of March 31, 2006 and December 31, 2005, standby letters of credit totaling $47.7 million and $44.1 million, respectively were with related parties to the Company.

11

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED)

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities. The Company holds collateral supporting those commitments when deemed necessary. Collateral varies but may include such items as those described for commitments to extend credit.

Futures contracts are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date, of a specified instrument, at a specified yield. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in securities values and interest rates. Instruments used in trading activities are carried at market value and gains and losses on futures contracts are settled in cash daily. Any changes in the market value are recognized in trading and investment banking income.

The Company s use of futures contracts is very limited. The Company uses contracts to offset interest rate risk on specific securities held in the trading portfolio. Open futures contract positions averaged $54.1 million and $45.2 million during the periods ended March 31, 2006 and December 31, 2005, respectively. Net futures activity resulted in gains of $0.5 million for the three months ended March 31, 2006 and gains of $0.5 million for the same period in 2005. The Company controls the credit risk of its futures contracts through credit approvals, limits and monitoring procedures.

The Company also enters into foreign exchange contracts on a limited basis. For operating purposes, the Company maintains certain balances with foreign banks. Foreign exchange contracts are purchased on a monthly basis to avoid foreign exchange risk on these foreign balances. The Company will also enter into foreign exchange contracts to facilitate foreign exchange needs of customers. The Company will enter into a contract to buy or sell a foreign currency at a future date only as part of a contract to sell or buy the foreign currency at the same future date to a customer. During the three months ended March 31, 2006, contracts to purchase and to sell foreign currency averaged approximately $18.7 million compared to $19.6 million at December 31, 2005. The net gains on these foreign exchange contracts for the three months ended March 31, 2006 and 2005 were $0.4 million and $0.4 million, respectively.

With respect to group concentrations of credit risk, most of the Company s business activity is with customers in the states of Missouri, Kansas, Colorado, Oklahoma, Nebraska and Illinois. At March 31, 2006, the Company did not have any significant credit concentrations in any particular industry.

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 materially adverse effect on the financial position, results of operations or cash flows of the Company.

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

Contract or Notional Amount *(dollars in thousands):*

	March 31, 2006	December 31, 2005
Commitments to extend credit for loans (excluding credit card loans)	$ 1,261,440	$ 1,271,717
Commitments to extend credit under credit card loans	960,493	940,290
Commercial letters of credit	15,179	13,311
Standby letters of credit	273,151	200,232
Futures contracts	57,400	50,700
Forward foreign exchange contracts	14,644	15,791
Spot foreign exchange contracts	2,766	1,302

8. Business Segment Reporting

The Company has strategically aligned its operations into six major segments, as shown below (collectively, Business Segments). In the first quarter of 2006, the Company moved its Corporate Trust group from the Corporate Services segment to the Asset Management segment. Further, it changed the name of Corporate Services to Payment and Technology Solutions. In addition, the Company moved the Scout Brokerage group from the Consumer Services segment to the Asset Management segment. The prior year information has been reclassified to conform to the 2006 reporting structure.

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED)

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

Commercial Banking and Lending serves the commercial lending/leasing as well as the capital markets needs of the Company s mid market businesses and governmental entities by offering various products and services. The commercial loan and leasing group provides commercial loans and lines of credit, letters of credit, and loan syndication services. Capital Markets provides consultative services and offers a variety of financing for companies that need non-traditional banking services. The services provided by Capital Markets include asset based financing, asset securitization, equity and mezzanine financing, factoring, private and public placement of senior debt, as well as merger and acquisition consulting.

Payment and Technology Solutions meets the treasury management, treasury services, corporate trust, and security transfer needs of our commercial clients. Treasury management products and services include account reconciliation services, automated clearing house, controlled disbursements, lockbox services and various card products and services. Corporate Trust services include serving as corporate and municipal bond trustee as well as the paying agent/registrar for issued bonds and notes. Securities Transfer services include dividend disbursing/reinvestment, employee stock purchase plans, proxy services, as well as acting as transfer agent.

Banking Services provides products and services to both the Company s customer base as well as selling the same products and services through its correspondent banking network in the Midwest. Products and services include bank stock loans, cash letter collections, FiServ account processing, international payments, foreign exchange, investment portfolio accounting and safekeeping. Additionally, consulting services are provided on a variety of issues including compliance, human resources, management, investment portfolio and asset/liability management.

Consumer Services delivers products and services through the Company s bank branches, Call Center, Internet Banking and ATM network. These services are distributed over a seven state area, as well as through on-line and telephone banking. Consumer Services is a major provider of funds and assets for the Company. This segment offers a variety of consumer products, including deposit accounts, installment loans, credit cards, home equity lines of credit, residential mortgages, small business loans, and insurance services for individuals.

Asset Management provides a full spectrum of trust and custody services to both personal and institutional clients of the Company focusing on estate planning, trust, retirement planning, corporate trust, brokerage and investment management services. The private client services division offers full trust and personal banking services to high net worth individuals. The Company s investment advisory and other services provided to the Company s proprietary funds, UMB Scout Funds, are also included in this segment.

Investment Services Group provides a full range of services for mutual funds, hedge funds, separate accounts and commingled funds to a wide range of investment advisors, independent money managers, broker/dealers, banks, third-party administrators, insurance companies and other financial service providers. Services provided include administration and fund accounting, investor services and transfer agency, cash management, custody, marketing, and distribution services.

Treasury and Other Adjustments includes asset and liability management activities and miscellaneous other items of a corporate nature not allocated to specific business lines. Corporate eliminations and taxes are also allocated to this segment.

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED)

Business Segment Information

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

	Three Months Ended March 31,			
	Commercial Banking and Lending		Payment and Technology Solutions	
	2006	2005	2006	2005
Net interest income	$ 13,152	$ 10,986	$ 12,716	$ 10,016
Provision for loan losses	2,365	487		
Noninterest income	546	313	11,604	12,463
Noninterest expense	6,363	7,244	17,556	17,777
Net income (loss) before tax	$ 4,970	$ 3,568	$ 6,764	$ 4,702
Average assets	$ 1,904,000	$ 1,767,000	$ 51,000	$ 47,000
Depreciation and amortization	399	375	1,334	1,348
Expenditures for additions to premises and equipment	299	174	777	1,114

	Banking Services		Consumer Services	
	2006	2005	2006	2005
Net interest income	$ 1,363	$ 1,047	$ 22,423	$ 19,588
Provision for loan losses			878	263
Noninterest income	7,065	7,583	14,824	16,038
Noninterest expense	7,134	7,892	36,398	35,603
Net income (loss) before tax	$ 1,294	$ 738	$ (29)	$ (240)
Average assets	$ 66,000	$ 61,000	$ 1,164,000	$ 1,080,000
Depreciation and amortization	335	352	3,927	3,888
Expenditures for additions to premises and equipment	205	154	3,168	2,400

	Asset Management		Investment Services Group	
	2006	2005	2006	2005
Net interest income	$ (20)	$ 52	$ 2,612	$ 2,246
Provision for loan losses				
Noninterest income	16,533	16,757	10,019	8,696
Noninterest expense	13,541	14,935	9,595	8,426
Net income (loss) before tax	$ 2,972	$ 1,874	$ 3,036	$ 2,516
Average assets	$ 13,000	$ 12,000	$ 28,000	$ 26,000
Depreciation and amortization	756	751	798	654
Expenditures for additions to premises and equipment	532	645	551	466

	Treasury and Other Adjustments		Total Consolidated Company	

	2006	2005	2006	2005
Net interest income	$	$ 356	$ 52,246	$ 44,291
Provision for loan losses	(84)		3,159	750
Noninterest income	(771)	1,847	59,820	63,697
Noninterest expense	446	(552)	91,033	91,325
Net income (loss) before tax	$ (1,133)	$ 2,755	$ 17,874	$ 15,913
Average assets	$ 4,497,000	$ 4,175,000	$ 7,723,000	$ 7,168,000
Depreciation and amortization	302	348	7,851	7,716
Expenditures for additions to premises and equipment	270	117	5,802	5,070

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED)

9. Employee Benefit Plans

The Company has a qualified 401(k) profit sharing plan that permits participants to make contributions by salary deduction. The Company made a matching contribution to this plan of $1,907,966 in March 2006 for the 2005 year and $1,905,580 in 2005 for the 2004 year.

On April 18, 2002, the shareholders of the Company approved the 2002 Incentive Stock Options Plan (the 2002 Plan), which provides incentive options to certain key employees for up to 1,000,000 common shares of the Company. All options that are issued under the 2002 plan are in effect for 10 years (except for any option granted to a person holding more than 10 percent of the Company s stock, in which case the option is in effect for five years). All options issued prior to 2005 under the 2002 plan cannot be exercised until at least four years 11 months after the date they are granted. Options issued in 2005 under the 2002 plan have a vesting schedule of 50 percent after three years; 75 percent after four years and 100 percent after four years and eleven months. Except under circumstances of death, disability or certain retirements, the options cannot be exercised after the grantee has left the employment of the Company or its subsidiaries. The Board Compensation Committee is empowered to issue such incentive options under an agreement that accelerates the exercise period for an option upon the optionee s qualified disability, retirement or death. All options expire at the end of the exercise period. Prior to 2006, the Company made no recognition in the balance sheet of the options until such options were exercised and no amounts applicable thereto were reflected in net income. Effective January 1, 2006, SFAS No. 123 (R) requires compensation expense to be recognized on unvested options outstanding. Options are granted at exercise prices of no less than 100 percent of the fair market value of the underlying shares at date of grant. The plan terminates April 17, 2012. The table below discloses the activity during the three months ended March 31, 2006 relating to the options granted in 2002 through 2005 under this plan.

Stock Options Under the 2002 Plan	Number of Shares	Option Price Per Share	Weighted Average Price Per Share
Outstanding - December 31, 2005	284,580	$ 38.11 to $ 65.99	$ 53.96
Canceled	(7,725)	38.11 to 65.99	49.52
Outstanding - March 31, 2006	276,855	38.11 to 65.99	55.47
Exercisable - March 31, 2006			

On April 16, 1992, the shareholders of the Company approved the 1992 Incentive Stock Option Plan (the 1992 plan), which provides incentive options to certain key employees for up to 500,000 common shares of the Company. Of the options granted prior to 1998, 40 percent are exercisable two years from the date of the grant and are thereafter exercisable in 20 percent increments annually, or for such periods or vesting increments as the Board of Directors, or a committee thereof, specify (which may not exceed 10 years or in the case of a recipient holding more than 10 percent of the Company s stock, 5 years), provided that the optionee has remained in the employment of the Company or its subsidiaries. None of the options granted during or after 1998 are exercisable until four years eleven months after the grant date. The exercise period may be accelerated for an option upon the optionee s qualified disability, retirement or death. All options expire at the end of the exercise period. Prior to 2006, the Company made no recognition in the balance sheet of the options until such options were exercised and no amounts applicable thereto were reflected in net income. Effective January 1, 2006, SFAS No. 123 (R) requires compensation expense to be recognized on unvested options outstanding. Options are granted at exercise prices of no less than 100 percent of the fair market value of the underlying shares at date of grant. No further options may be granted under the 1992 plan. The table below discloses the activity during the three months ended March 31, 2006 relating to the options granted under this plan.

Stock Options Under the 1992 Plan	Number of Shares	Option Price Per Share	Weighted Average Price Per Share
Outstanding December 31, 2005	138,287	$ 30.17 to 43.69	$ 37.28
Canceled	(6,239)	30.41 to 43.57	37.83
Exercised	(2,366)	30.33 to 43.69	34.23

Outstanding - March 31, 2006	129,682	30.17 to 43.69	39.75
Exercisable - March 31, 2006	85,222	30.17 to 43.69	38.13

15

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED)

On May 4, 2004, the Company entered into an agreement with Peter J. deSilva, President and Chief Operating Officer of the Company to issue 4,000 shares of Common Stock of the Company (the Restricted Stock). The shares vest 20 percent per year of employment through January 20, 2009. The restricted shares are automatically enrolled in the dividend reinvestment plan of the Company. Dividends paid on the restricted shares are used to purchase new shares which contain the same restriction. If Mr. deSilva terminates employment all non-vested shares are forfeited. The fair market value of the stock on the grant date of May 4, 2004, was $51.03

At the April 26, 2005, shareholders meeting, the shareholders approved the UMB Financial Corporation Long-Term Incentive Compensation Plan (LTIP) which became effective as of January 1, 2005. The Plan permits the issuance to selected officers of the Company service based restricted stock grants, performance-based restricted stock grants and non-qualified stock options. Service-based restricted stock grants will contain a service requirement. The performance-based restricted grants will contain a performance and service requirements. The non-qualified stock options will contain a service requirement.

The Plan reserves up to 600,000 shares of the Company s Stock. Of the total no more than 200,000 shares can be issued as restricted stock. These two requirements will be in effect with the 2006 LTIP issuance. In 2005, the service and performance based restricted stock grants were issued out of treasury stock. No one eligible employee may receive more than $1,000,000 in benefits under the Plan during any one fiscal year taking into account the value of all Stock Options and Restricted Stock received during such fiscal year.

The service-based restricted stock grants contain a service requirement. The vesting requirement is 50 percent of the shares after three years of service, 75 percent after four years of service and 100 percent after five years of service. In 2005, the Company issued a total of 22,400 of service-based restricted grants to 28 officers at an average cost of $54.17 per grant. The shares will vest through April 28, 2010. No service-based restricted grants were issued in the first three months of 2006.

The performance-based restricted stock grants contain a service and a performance requirement. The performance requirement is based on a pre-determined performance requirement over a three year period. The service requirement portion is a 3 year cliff vesting. If the performance requirement is not met, the executives do not receive the shares. In 2005, the Company issued a total of 17,746 of performance-based restricted stock grants to 28 officers at an average cost of $54.19 per grant. No performance-based restricted grants were issued in the first three months of 2006.

The dividends on service and performance-based restricted stock grants are treated as two separate transactions. First cash dividends are paid on the restricted stock. Those cash dividends are then paid to purchase additional shares of restricted stocks. The dividends paid on the stock are recorded as a reduction to retained earnings (similar to all dividend transactions).

In 2005, the Company issued 67,270 shares of non-qualified stock options to 28 officers. The non-qualified stock options carry a service performance requirement and will vest 50 percent after three years, 75 percent after four years and 100 percent after five years. The options will expire April 28, 2015. The table below discloses the activity during the three months ended March 31, 2006 relating to the options granted under this plan.

Stock Options Under the LTIP	Number of Shares	Option Price Per Share	Weighted Average Price Per Share
Outstanding - December 31, 2005	65,286	$ 54.13 to $ 57.55	$ 54.19
Outstanding - March 31, 2006	65,286	54.13 to 57.55	54.19
Exercisable - March 31, 2006			

16

Table of Contents

UMB FINANCIAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED)

The table below shows the stock options outstanding and exercisable as of March 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 3/31/06	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 3/31/06	Weighted Average Exercise Price
$30.17 to $30.41	8,051	1 year	$ 30.32	8,051	$ 30.32
43.34 to 43.69	12,188	2 years	43.59	12,188	43.59
38.73 to 38.96	17,484	3 years	38.87	17,484	38.87
34.58 to 35.25	20,830	4 years	34.89	20,830	34.89
32.60 to 32.91	26,669	5 years	32.89	26,669	32.89
40.02 to 40.02	44,460	6 years	40.02		
38.11 to 38.11	52,475	7 years	38.11		
48.65 to 48.65	62,475	8 years	48.65		
50.85 to 57.85	86,186	9 years	57.54		
54.13 to 65.99	141,005	10 years	60.37		
	471,823			85,222	

The Company recognized $0.2 million in expense related to outstanding stock options and $0.1 million in expense related to outstanding restricted stock grants for the three months ended March 31, 2006. The Company has $2.6 million of unrecognized compensation expense related to the outstanding options and $1.6 million of unrecognized compensation expense related to outstanding restricted stock grants at March 31, 2006.

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

This review highlights the material changes in the results of operations and changes in financial condition for the three month period ended March 31, 2006. 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;
- Statements preceded by, followed by or that include the words believes, expects, may, will, should, could, anticipates, intends, or similar words or expressions; and

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:

- changes in the interest rate environment;
- general economic and political conditions, either nationally, internationally or in the Company s markets, may be less favorable than expected;
- changes in the securities markets;

Table of Contents

changes in operations;

competitive pressures among financial services companies may increase significantly;

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

legislative or regulatory changes may adversely affect the Company s business;

changes in the ability of customers to repay loans;

changes in loan demand may adversely affect liquidity needs;

changes in employee costs;

changes in accounting rules.

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.

Results of Operations

Overview

The average loan to deposit ratio of the Company s subsidiary banks has been, and is expected to continue be lower than industry average. The Company plans to continue its efforts to further diversify its fee-based operations to help reduce the Company s exposure to changes in interest rates. This includes asset and treasury management, investment services, deposit service charges and other fee-based services.

As some of the revenue from the Company s fee-based businesses is the direct result of the market value of its customers investments, the overall health of the equity and financial markets plays an important role in the recognition of fee income, particularly in trust, mutual fund servicing and investment management areas of the Company. The Company benefited from record net flows of $460 million into the UMB Scout Funds (which are managed by a subsidiary of the Company) during the first quarter of 2006 compared to $842 million for all of 2005.

The Company continues to focus on helping customers transition from paper payment options to electronic payment solutions by providing innovative products and services such as paycard and remote deposit capture. Additionally, the Company is investing in a significantly upgraded treasury management platform in order to enable enhanced information reporting and transaction initiation via the Internet; improve control of service through online self-administration; and strengthen system security. The Company has also adopted a wholesale health savings and flexible spending account strategy focusing on healthcare providers and third-party administrators.

The interest rate environment has a direct impact on the Company s net interest income as the Company s balance sheet is structured to be both very liquid and short in duration. This position adversely impacts the Company s net interest income in a declining rate environment. As rates increase, liabilities will typically reprice more quickly than assets which puts pressure on overall net interest income. However, in an increasing rate environment, this position should, over time, benefit the Company. Management believes that once rates stabilize at a higher rate, then net interest income will improve. Item 3, Quantitative and Qualitative Disclosures about Market Risk, discusses in detail the impact of rising and declining rates on net interest income.

The Company encounters competition from other banks in its markets as well as other competitors such as non-bank financial institutions, brokers, insurance companies and investment advisory firms. The Company faces intense local, regional and national competition for retail customers and competes nationally with respect to its trust and asset management business. This competition continues to have the impact of compressing margins and income from the Company s fee based businesses. As this competition is anticipated to continue, management is better enabling our employees to respond to this competition through the use of improved technology. In particular, the Company is implementating or improving core systems in 2006 including customer relationship management; corporate treasury management; imaging and other network improvements.

Table of Contents

Earnings Summary

The Company recorded consolidated net income of $13.2 million for the three-months ended March 31, 2006 compared to $11.6 million for the same period a year earlier. This represents a 14.3 percent increase over the three-month period ended March 31, 2005, which was primarily driven by increases in net interest income. Basic earnings per share for the first quarter 2006 were $0.62 per share ($0.62 per share fully-diluted) compared to $0.54 per share ($0.53 per share fully-diluted) for the first quarter 2005. Return on average assets and return on average common shareholders equity for the three-month period ended March 31, 2006 was 0.70 percent and 6.42 percent respectively, as compared to 0.66 percent and 5.70 percent for the three-month period ended March 31, 2005.

Net interest income for the first quarter of 2006 increased by 18.0 percent from the first quarter 2005. The increase is a result of higher earning assets, as well as a more favorable asset mix. Loans comprise 49.3 percent of the Company s earning asset base, as compared to 45.1 percent for the same quarter a year ago. Further, net interest margin on a tax-equivalent basis increased to 3.23 percent for the first three months of 2006 as compared to 2.97 percent for the same period in 2005. Although net interest spread decreased by 9 basis points, net interest margin increased as a result of the contribution from noninterest-bearing demand deposits.

Provision for loan losses increased by $2.4 million in the first quarter of 2006 compared to the same period in 2005. The increase was a result of a larger adjustment in 2006 than in 2005 with respect to maintaining the allowance for loan losses at a level consistent with management s estimate of inherent losses within the loan portfolio. 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 of the Company s 2005 Annual Report of Form 10-K for the fiscal year ended December 31, 2005.

Noninterest income decreased by $3.9 million, or 6.1 percent in the first quarter of 2006 compared the same period last year. This decrease is primarily due to $6.2 million in additional gains in 2005 as compared to 2006. Most of this gain is attributable to two transactions. First, a $2.4 million gain was recognized in 2005 related to the condemnation sale of a downtown Kansas City branch. Second, there was a $3.6 million gain in 2005 related to the sale of employee benefit accounts to Marshall & Ilsley Trust Company, n.a. This reduction of noninterest income due to these gains was partially offset by increases in Trust and Securities Processing and Bankcard fee income.

Noninterest expense remained relatively flat in 2006 as compared to 2005. Salaries and employee benefits decreased by $4.8 million, or 9.3 percent in the first quarter of 2006, compared to 2005. This decrease was primarily due to a $4.2 million charge associated with a voluntary separation program (VSP) initiated by the Company in the first quarter of 2005. The decrease in salary and benefit expense was offset by increases in other categories including equipment, marketing and business development, processing fees, bankcard expense and other 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, affects net interest income. For the three-month period ended March 31, 2006 net interest income increased by $8.0 million, or 18.0 percent as compared to the same period in 2005. Table 1 shows the impact of earnings asset rate increases as compared to increases in the cost of interest-bearing liabilities. As illustrated on this table, net interest spread decreased by 9 basis points, yet overall net interest margin increased by 26 basis points primarily due to the contribution from noninterest bearing demand deposits (free funds). For impact of the contribution from free funds see the Analysis of Net Interest Margin within Table 2 below. Table 2 also illustrates that the increase in net interest income is a result of both volume and rate increases.

Table of Contents

Management believes that the overall outlook in its net interest income is positive. Commercial and consumer loans are expected to continue to grow as management is continuing a strategic initiative to emphasize commercial and consumer loan growth through marketing, product enhancements and streamlining the approval process for its consumer loan product suite. These efforts are designed to increase volumes of new applications and booked loans. Loan-related earning assets tend to have a higher spread than those earned in the Company s investment portfolio. Further, management believes that the lag between liability costs and asset yields should not continue which would increase the net interest spread as assets will continue to reprice over a longer period once rates stabilize. Given the term of the Company s earning assets, a sustained higher rate environment has historically had a positive impact on the Company s net interest income and management expects that this will occur in the future.

Table 1

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

The following table presents, for the periods indicated, the total dollar amount of interest income from average interest-earning assets and resulting yields, as well as the interest expense on average interest-bearing liabilities, 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 5.08 percent for the three-months ended March 31, 2006 and 3.87 percent for the same period in 2005:

	Three Months Ended March 31,			
	2006		2005	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Assets				
Loans, net of unearned interest	$ 3,403,016	6.35%	$ 2,864,770	5.35%
Securities:				
Taxable	2,312,665	3.81	2,633,108	2.57
Tax-exempt	666,494	5.06	580,097	4.57
Total securities	2,979,159	4.09	3,213,205	2.93
Federal funds and resell agreements	455,737	4.53	210,718	2.53
Other earning assets	62,587	4.78	60,946	3.53
Total earning assets	6,900,499	5.24	6,349,639	4.02
Allowance for loan losses	(40,281)		(41,485)	
Other assets	862,681		860,132	
Total assets	$ 7,722,899		$ 7,168,286	
Liabilities and Shareholders Equity				
Interest-bearing deposits	$ 3,631,366	2.32%	$ 3,226,635	1.22%
Federal funds and repurchase agreements	1,271,599	4.09	1,165,526	2.17
Borrowed funds	53,340	4.79	35,640	3.91
Total interest-bearing liabilities	4,956,305	2.80	4,427,801	1.49
Noninterest-bearing demand deposits	1,875,395		1,881,065	
Other liabilities	55,308		35,659	
Shareholders equity	835,891		823,761	
Total liabilities and shareholders equity	$ 7,722,899		$ 7,168,286	
Net interest spread		2.44%		2.53%
Net interest margin		3.23		2.97

Table 2 presents the dollar amount of change in the 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. Interest free funds (total earning assets less interest-bearing liabilities) increased $22.4 million for the three-month period ended March 31, 2006 compared to the same period in 2005.

Table of Contents

Table 2
ANALYSIS OF CHANGES IN NET INTEREST INCOME AND MARGIN *(dollars in thousands)*

ANALYSIS OF CHANGES IN NET INTEREST INCOME

	Three Months Ended March 31, 2006 and 2005		
	Volume	**Rate**	**Total**
Change in interest earned on:			
Loans	$ 8,445	$ 7,067	$ 15,512
Securities:			
Taxable	(3,014)	8,103	5,089
Tax-exempt	796	515	1,311
Federal funds sold and resell agreements	2,735	1,038	3,773
Other	18	177	195
Interest income	8,980	16,900	25,880
Change in interest incurred on:			
Interest-bearing deposits	2,314	8,721	11,035
Federal funds purchased and repurchase agreements	1,071	5,533	6,604
Other borrowed funds	209	77	286
Interest expense	3,594	14,331	17,925
Net interest income	$ 5,386	$ 2,569	$ 7,955

ANALYSIS OF NET INTEREST MARGIN

	Three Months Ended March 31,		
	2006	**2005**	**Change**
Average earning assets	$ 6,900,499	$ 6,349,639	$ 550,860
Interest-bearing liabilities	4,956,305	4,427,801	528,504
Interest free funds	$ 1,944,194	$ 1,921,838	$ 22,356
Free funds ratio (free funds to earning assets)	28.17%	30.27%	(2.09)%
Tax-equivalent yield on earning assets	5.24%	4.02%	1.22%
Cost of interest-bearing liabilities	2.80	1.49	1.31
Net interest spread	2.44%	2.53%	(0.09)%
Benefit of interest free funds	0.79	0.44	0.35
Net interest margin	3.23%	2.97%	0.26%

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. The provision for loan losses is the amount necessary to adjust its ALL to the level considered appropriate by management. The adequacy of the ALL is reviewed quarterly, considering such items as historical loss trends, a review of individual loans, statistical analysis, migration analysis, current economic conditions, loan growth, industry or segment concentration and other factors. Bank regulatory agencies require that the adequacy of the ALL be maintained on a bank-by-bank basis for each of the Company s subsidiaries. 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, large loan requests are centrally reviewed to ensure the consistent application of the loan policy and standards.

The Company recorded a provision for loan losses of $3.2 million for the first quarter 2006 to adjust its ALL to the level considered appropriate by management. This compares to a $0.8 million provision in 2005. This decreased ALL to 1.19 percent of total loans at March 31, 2006 as compared to 1.41 percent at March 31, 2005. Although the decrease in the ALL as a percent of total loans is due to several factors within the analysis, one of the primary factors is the decline in nonperforming loans as a percent of total loans in 2006 which represents a continued trend.

Table of Contents

Table 3 presents a summary of the Company s ALL for the first quarter ended March 31, 2006 and first quarter ended March 31, 2005 and for the year ended December 31, 2005. Net charge-offs were $0.7 million higher in the first quarter of 2006 as compared to the same period in 2005 due primarily to one large commercial charge-off in 2006. See Credit Risk Management under Risk Management section of Item 3 in this report for information relating to non-accrual, past due, restructured loans and other credit risk matters.

Table 3

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

	Three Months Ended March 31,		Year Ended December 31,
	2006	**2005**	**2005**
Allowance-January 1	$ 40,825	$ 42,723	$ 42,723
Provision for loan losses	3,159	750	5,775
Charge-offs:			
Commercial	(2,602)	(1,462)	(2,261)
Consumer:			
Bankcard	(1,002)	(1,287)	(5,925)
Other	(420)	(365)	(1,918)
Real estate		(3)	(3)
Agricultural			
Total charge-offs	(4,024)	(3,117)	(10,107)
Recoveries:			
Commercial	155	21	443
Consumer:			
Bankcard	278	230	1,008
Other	286	273	981
Real estate			2
Agricultural			
Total recoveries	719	524	2,434
Net charge-offs	(3,305)	(2,593)	(7,673)
Allowance-end of period	40,679	40,880	40,825
Average loans, net of unearned interest	$ 3,403,016	$ 2,864,770	$ 3,130,813
Loans at end of period, net of unearned interest	3,418,106	2,901,514	3,373,944
Allowance to loans at end of period	1.19%	1.41%	1.21%
Allowance as a multiple of net charge-offs	3.03x	3.89x	5.32x
Net charge-offs to:			
Provision for loan losses	104.62%	345.73%	132.87%
Average loans	0.40	0.37	0.25

Noninterest Income

A key objective of the Company is the growth of noninterest income to enhance profitability and provide steady income, as fee-based services are non-credit related and are not directly affected by fluctuations in interest rates. Fee-based services provide the opportunity to offer multiple products and services to customers and, therefore, more closely align the customer with the Company. The Company s ongoing focus is to develop and offer multiple products and services to its customers. Fee-based services that have been emphasized include trust and securities processing, securities trading/brokerage and cash/treasury management. Management believes that it can offer these products and services both efficiently and profitably as most of these are driven off of common platforms and support structures.

Table of Contents

Table 4

SUMMARY OF NONINTEREST INCOME *(dollars in thousands)*

	Three Months Ended March 31, 2006	2005
Trust and securities processing fees	$ 22,670	$ 20,498
Trading and investment banking	4,113	4,529
Service charge on deposits	17,607	17,976
Insurance fees and commissions	991	828
Brokerage fees	1,518	1,550
Bankcard fees	8,946	7,622
Gains on sale of other assets, net	22	2,592
Gain on sale of employee benefit accounts		3,600
Gains on sales of securities available for sale, net	9	
Other	3,944	4,502
Total noninterest income	$ 59,820	$ 63,697

Noninterest income (summarized in Table 4) decreased by $3.9 million, or 6.1 percent for the first quarter 2006 compared to the same period in 2005. The decrease in 2006 is primarily from gains recognized in the prior year on two separate transactions. First, a $2.4 million gain on a condemnation sale of a downtown Kansas City branch was recognized. Second, there was a $3.6 million gain in 2005 related to the sale of employee benefit accounts to Marshall & Ilsley Trust Company, n.a. (Marshall & Ilsley). Under the terms of the contract for the sale of the employee benefit accounts, this final earnout payment was due to the Company based upon gross revenues received by those employee benefit accounts retained by Marshall & Ilsley from February 2004 to February 2005. These decreases in noninterest income were offset by increases in other categories of noninterest income, most notably trust and securities processing and bankcard fees as explained below.

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. These fees increased $2.2 million, or 10.6 percent, in the first quarter of 2006 compared to the first quarter of 2005. The increase is primarily attributable to $1.2 million in higher fee income related to the UMB Scout Funds as compared to the same period last year. Assets inside the UMB Scout Funds grew from approximately $2.6 billion at March 31, 2005 to $4.3 billion at March 31, 2006. Additional increases in income are primarily attributable to fund administration fees due to both sales growth and asset increases within asset based fee clients. As many of the trust and securities processing fees are asset-based, management believes that if the securities market and public and market confidence in mutual funds continue, the Company s fees for custody of securities and the servicing of mutual fund assets will increase. In addition, management believes that the overall quality and performance of both its investment management and UMB Scout Funds will continue to attract both increased and new investable dollars to it as assets under management. The Company continues to put a special emphasis on selling the UMB Scout Funds through its institutional channels by a dedicated sales force. Although any forecast of future growth of such funds is uncertain, it is believed that the continued efforts of the sales force will positively affect such future growth.

Bankcard fees consist primarily of interchange fees on credit cards, debit cards, ATM and other point-of-sale fees. Bankcard fees increased by $1.3 million, or 17.4 percent for the three months of 2006 as compared to the same period in 2005. This fee growth is primarily attributable to an increase in activity by corporate and individual credit card customers. In 2005, the credit card rebate programs were modified to encourage increased usage by both consumer and commercial customers. Further, the general health of the economy impacts transaction activity. Based on these factors, management anticipates that bankcard fee income should continue at this higher level or increase further.

Table of Contents

Noninterest Expense

Table 5

SUMMARY OF NONINTEREST EXPENSE *(dollars in thousands)*

	Three Months Ended March 31, 2006	2005
Salaries and employee benefits	$ 47,238	$ 52,060
Occupancy, net	6,554	6,417
Equipment	11,115	10,476
Supplies and services	5,775	5,549
Marketing and business development	3,622	2,960
Processing fees	6,311	5,564
Legal and consulting	1,649	1,827
Bankcard	3,291	2,442
Amortization of other intangibles	218	186
Other	5,260	3,844
Total noninterest expense	$ 91,033	$ 91,325

Noninterest expense decreased by $0.3 million, or 0.3 percent for the three months ended March 31, 2006 compared to the same period in 2005. Although noninterest expense remained relatively flat year over year, certain line items did change significantly. In particular, salaries and employee benefits decreased in 2006 as compared to 2005. This decrease in salary cost was offset by smaller increases in equipment, marketing and business development, processing fees, bankcard and other expense as described below.

Salaries and employee benefits decreased by $4.8 million, or 9.3 percent, for the three months ended March 31, 2006 compared to the same period in 2005. In January 2005, the Company offered a VSP to certain employees. Most eligible employees had until March 31, 2005 to accept the terms of such program. In the first quarter of 2005, a charge of $4.3 million was taken related to such program. The remaining decrease from 2006 as compared to 2005 is attributable to lower staffing levels in 2006 as compared to 2005. The number of full-time equivalent employees declined by 100 to 3,436 at March 31, 2006 as compared to March 31, 2005. Management anticipates salary expense to increase slightly each quarter in 2006 as compared to the first quarter of 2006 due to annual salary increases in the second quarter, the expensing of additional restricted stock and non-qualified stock options granted in April 2006 and the hiring of certain key strategic sales personnel in 2006.

Equipment expense increased by $0.6 million, or 6.1 percent, for the first quarter of 2006 as compared to 2005. The increase is attributable to equal increases in equipment and software maintenance costs. The equipment maintenance costs are seasonal and are not anticipated to continue at the higher rate. Commitments related to acquire or upgrade core software systems (commercial management software upgrades; voice over internet protocol software; customer relationship management software, interactive voice response software) are anticipated to continue to increase software maintenance related expense.

Marketing and business development increased by $0.7 million, or 22.4 percent for the first three months of 2006 as compared to the same period in 2005. This is primarily attributable to the timing of marketing campaigns in 2006 as compared to 2005. In the first quarter of 2006, separate consumer deposit and loan campaigns were launched increasing total advertising costs of the company in 2006 as compared to 2005.

Processing fees include purchased electronic data processing charges, federal reserve and other bank service charges and shareholder servicing and other administrative fees paid to investment advisors related to the Scout Funds. Processing fees increased by $0.7 million, or 13.4 percent for the first quarter of 2006 as compared to the same period in 2005. The increase is primarily attributable to higher shareholder servicing and other administrative fees paid to investment advisors related to the Scout Funds due to the increased net inflows into the funds and related assets within the funds. The amount of such fees paid in future years is dependent upon assets under management (affected by both fund inflows and market values), and is expected to generally correlate to trends in the equity markets.

Bankcard fees include fees paid related to administration of the bankcard program, rebates paid to customers and losses related to the bankcard product. Bankcard fees increased by $0.8 million, or 34.8 percent, for the three months ended March 31, 2006 as compared to 2005. The increase is mostly due to two items. First, there was an increase in credit and debit card fraud losses. Management is working with the card companies to mitigate future exposure to fraud losses. Second, there was a $0.4 million increase in both the consumer and commercial rebate programs. Changes were made to both the consumer and commercial rebate programs in 2005 to encourage increased usage by customers.

Table of Contents

Other expense includes corporate level insurance, contributions, taxes other than income, provision for allowance for off-balance sheet commitments, directors fees, regulatory fees and other miscellaneous losses and expenses. Other expense is $1.4 million, or 36.8 percent, higher for the first quarter of 2006 as compared to 2005. The higher amount of expense in 2006 is attributable to several factors including increases in deposit fee charge-offs, increases in directors fees, an increase in the reserve for off-balance sheet commitments and an increase in miscellaneous non-operating losses.

Income Tax Expense

The effective tax rate is 25.9 percent in 2006 as compared to 27.2 percent in 2005. The decrease in effective tax rate is primarily attributable to tax-exempt income representing a larger percentage of total income in 2006 as compared to 2005. The impact of the change in tax-exempt income as a percent of total income had a 117 basis point impact on the 2006 effective tax rate as compared to 2005.

Strategic Segments

The Company s operations are strategically aligned into six major segments: Commercial Banking and Lending, Payment and Technology Solutions (formerly Corporate Services), Banking Services, Consumer Services, Asset Management, and Investment Services Group. In the first quarter of 2006, the Company moved its Corporate Trust group from the Corporate Services segment to the Asset Management segment. Further, it changed the name of Corporate Services to Payment and Technology Solutions to better reflect that segment s business strategy. In addition, the Company moved the Scout Brokerage group from the Consumer Services segment to the Asset Management segment in order to create a unified approach to sales and relationship management to the wealth marketplace. Under Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information , the prior year information has been reclassified to conform to the 2006 reporting structure. The segments are differentiated by both the customers and the products and services offered. The Treasury and Other Adjustments category includes items not directly associated with the other segments.

Table 6

NET INCOME (LOSS) BEFORE TAXES BY SEGMENT *(dollars in thousands)*:

	Three Months Ended March 31,	
	2006	**2005**
Segment		
Commercial Banking & Lending	$ 4,970	$ 3,568
Payment and Technology Solutions	6,764	4,702
Banking Services	1,294	738
Consumer Services	(29)	(240)
Asset Management	2,972	1,874
Investment Services Group	3,036	2,516
Treasury and Other Adjustments	(1,133)	2,755
Total Consolidated Company	$ 17,874	$ 15,913

Commercial Banking and Lending s net income before tax increased by $1.4 million, or 39.3 percent for the first quarter of 2006 compared to the same period in 2005. Net interest income increased by $2.2 million, or 19.8 percent compared to 2005 due primarily to loan growth and rate increases. Noninterest income increased by $0.2 million, or 74.4 percent, from the first quarter of 2005 primarily from additional loan fees on new loans. Noninterest expense decreased by $0.9 million, or 12.1 percent, from the first three months of 2005. The decrease is mostly attributable to decreases in salary expense due to the VSP charge in the first quarter of 2005. Management believes that the Company s focus on sales incentives program for commercial officers should continue to fuel loan growth. The impact of this program is uncertain as loan growth is also affected by loan demand and general economic conditions.

Table of Contents

Payment and Technology Solutions net income before tax increased $2.1 million, or 43.9 percent, in the first quarter of 2006 compared to the same period in 2005. Net interest income increased by $2.7 million, or 27.0 percent as compared to 2005. This increase is attributable to an increase in demand deposit growth which is partially attributable to a new tiered earnings credit pricing structure implemented in 2006. Noninterest income decreased by $0.9 million, or 6.9 percent, as compared to the first quarter of 2005. This decrease is primarily due to a decline in service charge income, primarily due to higher earnings credits in 2006 as compared to 2005. This decline in service charge income was partially offset by increases in commercial card services income due to greater usage of commercial cards. Management anticipates that card volume should increase as the Healthcare Services division grows. The company is continuing to focus significant resources in this segment to develop new products to meet the changing customer needs including remote deposit capture and improved user portal technology.

Banking Services net income before tax increased by $0.6 million, or 75.3 percent, as compared to the first quarter of 2005. This increase was primarily due to higher net interest income and lower noninterest expense. Noninterest income declined by $0.5 million, or 6.8 percent, as compared to 2005. This decrease is due to lower bond trading income, as well as lower deposit service charges as a result of higher earnings credits on compensating balances. Noninterest expense declined by $0.8 million, or 9.6 percent, as compared to 2005. This decrease is due mostly to salary decreases as a result of the VSP charge in the first quarter of 2005. Management believes that investors have been reluctant to commit substantially to the bond market in the recent rising interest rate environment which has put continued pressure on bond trading income. If the Federal Reserve ends its interest rate increase program as some economists believe, management anticipates that more investment will be made in bonds which should increase the Company s income from this segment.

Consumer Services net loss before tax decreased by $0.2 million as compared to 2005. For the first three months of 2006, the net loss from this segment was nominal. Net interest income increased by $2.8 million, or 14.5 percent, as compared to the first three months of 2005 due primarily to increases in both consumer loans and deposits from recent marketing campaigns. Noninterest income decreased by $1.2 million, primarily due to a gain of $2.4 million recognized in 2005 from the condemnation sale of a downtown Kansas City branch facility. This decrease was partially offset by increases in deposit fee income from changes in overdraft and collection procedures, as well as higher per item fees in 2006 as compared to the first quarter of 2005. Noninterest expense increased by $0.8 million, or 2.2 percent, as compared to 2005. This increase is primarily attributable to bankcard and other operating charge-offs. Management believes this segment will continue to improve net interest margin by growing deposits and having an additional sales focus on variable rate loan products. Management continues to evaluate operational efficiencies and branch realignment to better manage expenses.

Asset Management s net income before tax increased by $1.1 million, or 58.6 percent, for the first three months of 2006 as compared to the same period in 2005. This increase is primarily attributable to a decrease in noninterest expense of $1.4 million, or 9.3 percent, as compared to 2005. This decrease is attributable to several factors including a $0.5 million decrease in salaries and benefits due primarily to the VSP charge in 2005 and a $0.5 million decrease in legal and consulting fees related to the Scout Fund shareholder meeting expenses in 2005 discussing the unbundling of fees. In March 2005, the UMB Scout Funds held a shareholder meeting to approve changes to the individual fund structures and organization. The most significant change related to fee unbundling. In the past, Scout Investment Advisors, a wholly-owned subsidiary of the Company, collected a fee from the funds and was responsible for paying expenses on behalf of the funds. Effective April 1, 2005, Scout Investment Advisors is paid an advisory fee and the individual funds are responsible for paying direct expenses including accounting, administration, transfer agency and legal fees. Although this reduces the overall gross fee collected by Scout Investment Advisors, the Company anticipates that the decrease in related expenses will be even greater. Therefore, overall net income should increase. The remainder of the decrease in noninterest expense in 2006 as compared to 2005 is mostly due to this unbundling of fees. The overall decrease in noninterest expense was partially offset by a $0.2 million decrease in noninterest income in the first three months of 2006 as compared to 2005. Even with the fee unbundling, fee income related to the Scout Funds increased due to record quarterly net inflows of approximately $460 million into the Scout Funds. Management will continue to focus sales efforts to increase net flows into the Scout Funds.

Table of Contents

Investment Services Group s net income before tax increased $0.5 million, or 20.7 percent, in the first quarter of 2006 compared to the same period in 2005. Net interest income increased by $0.4 million in 2006 as compared to 2005. Overall deposits from mutual fund customers in this segment increased year over year, but there was a shift of some deposits to higher paying repurchase agreements. This shift lowered the overall increase in net interest income. Noninterest income increased by $1.3 million, or 15.2 percent for the first quarter of 2006 as compared to the same period in 2005. This increase is mostly due to growth in the mutual fund and alternative services client base, as well as an increase in overall net assets of the clients of this segment. Noninterest expense increase by $1.2 million, or 13.9 percent, as compared to 2005 mostly due to salary increases and increases in third-party custody fees. Management believes that increased income from new customers added in 2005 will continue throughout 2006, depending upon the overall uncertainties within the mutual fund industry and the overall health of the equity markets.

The net loss before tax for the Treasury and Other category was $1.1 million for the first quarter of 2006, compared to a net gain before tax of $2.8 million for the same period in 2005. This is a change of $3.9 million. This change includes $3.6 million in income in 2005 from the gain recognized on the sale of employee benefit accounts to Marshall & Ilsley.

Balance Sheet Analysis

Table 7
SELECTED BALANCE SHEET INFORMATION *(dollars in thousands)*

	March 31, 2006	December 31, 2005
Total assets	$ 7,637,312	$ 8,247,789
Loans, net of unearned interest	3,436,066	3,393,404
Total investment securities	2,664,947	3,463,817
Total deposits	5,627,193	5,920,822
Total borrowed funds	1,132,503	1,434,504

Loans

Total loan balances have increased $42.7 million, or 1.3 percent, compared to December 31, 2005. This is primarily a result of a 4.4 percent increase in commercial loans offset by a decrease in consumer loans, primarily indirect consumer loans. The increase in commercial loans is a result of a continued sales focus, as well as the overall improvement in the economy.

Loans represent the Company s largest source of interest income. In addition to growing the Commercial Loan Portfolio, management plans to focus on its middle market business and consumer areas as these market niches represent its best opportunity to cross-sell fee-related services, such as cash management.

Nonaccrual, past due and restructured loans are discussed under Credit Risk Management within the quantitative and qualitative disclosure about market risk in Item 3 of this report.

Securities

The Company s security 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 security 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 very high liquidity levels while investing in only high-grade securities. The security portfolio generates the Company s second largest component of interest income.

Table of Contents

Investment securities comprised 39.1 percent and 47.8 percent respectively, of the earning assets as of March 31, 2006 and December 31, 2005. The decline is primarily a result of the seasonality within the Company s balance sheet. At year end, there is an increase in public fund deposits and repurchase agreements as governmental units receive tax dollars. These deposits are then withdrawn over the first quarter. The Company generally offsets these short-term public fund deposits with short-term investments such as discount agency notes. This increases the percent of earning assets related to securities at year-end as compared to the end of the first quarter. Loan demand and collateral pledging requirements for public fund deposits are expected to be the primary factors impacting changes in the level of security holdings.

Investment securities had an average tax-equivalent yield of 4.09 percent for the first three months of 2006 as compared to 2.93 percent for the same period in 2005, an increase of 116 basis points. The average life of the securities portfolio was 31.0 months at March 31, 2006 as compared to 23.0 months at December 31, 2005. The most significant reason for the increase in average life was the large number of extremely short-term discount notes held at December 31, 2005. These short-term securities are held due to the seasonal fluctuation related to public fund deposits which are expected to flow out of the bank in a relatively short period. At December 31, 2005, the amount of such discount notes was approximately $840 million, and without these discount notes, the average life of the core investment portfolio would have been 30.4 months. At March 31, 2006, the amount of such discount notes was approximately $2.5 million, and without these discount notes, the average life of the core investment portfolio would have been 31.1 months.

Deposits and Borrowed Funds

Deposits decreased $293.6 million, or 5.0 percent, from December 31, 2005 to March 31, 2006. Noninterest bearing deposits increased $13.3 million, or 0.7 percent, and interest bearing deposits decreased $306.9 million, or 7.9 percent, from December 31, 2005. The interest bearing deposits decreased primarily as a result of seasonal public fund deposit decreases during the first quarter of 2006. At March 31, 2005, total deposits were $5.0 billion, or 11.2 percent lower than the balance as of March 31, 2006.

Deposits represent the Company s primary funding source for its asset base. In addition to the core deposits garnered by the Company s retail branch structure, the Company continues to focus on its cash management services, as well as its trust and mutual fund servicing segments in order to attract and retain additional core deposits and commercial funding customers. Management believes it is one of the Company s core competencies given both its scale and competitive product mix.

Borrowed funds decreased $302.0 million from December 31, 2005. 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.

Federal funds purchased and securities sold under agreement to repurchase totaled $1.1 billion at March 31, 2006, compared to $1.4 billion at December 31, 2005. 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. Management manages capital for each subsidiary based upon the subsidiary s respective risks and growth opportunities as well as regulatory requirements.

Total shareholders equity was $827.8 million at March 31, 2006, compared to $833.5 million at December 31, 2005. The Company s Board of Directors authorized at its April 26, 2005 and April 29, 2004 meetings the repurchase of the Company s common stock up to one million shares during the 12 months following each respective meeting. During the three months ended March 31, 2006 and 2005, the Company acquired 100,681 shares and 15,294 shares, respectively, of its common stock. The Company has not made any purchases other than through these plans. On April 25, 2006, the Company announced a plan to repurchase up to two million shares of common stock. This plan will terminate on April 25, 2007.

Table of Contents

On April 25, 2006, the Company announced an amendment to the company s Articles of Incorporation authorizing an increase in the company s authorized shares of common stock from 33 million shares to 80 million shares. The Board of Directors subsequently declared a two-for-one stock split of UMB Financial Corporation common stock. The stock will be distributed on May 30, 2006, to shareholders of record on May 16, 2006.

On April 25, 2006, the Board of Directors also declared a dividend of $0.13 per share on the post-split shares, which is an increase of 4 percent over the fourth quarter of 2005. The dividend will be paid on July 3, 2006 to shareholders of record on June 12, 2006.

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 16.19 percent and total capital ratio of 17.04 percent substantially exceed the regulatory minimums.

For further discussion of capital and liquidity, please see Liquidity Risk under Risk Management of Item 3 in this report.

Table 8

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

	Three Months Ended March 31,	
RATIOS	**2006**	**2005**
Return on average assets	0.70%	0.66%
Return on average equity	6.42	5.70
Average equity to assets	10.82	11.49
Tier 1 risk-based capital ratio	16.19	18.80
Total risk-based capital ratio	17.04	19.79
Leverage ratio	10.31	10.87

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

	Three Months Ended March 31,	
Per Share Data	**2006**	**2005**
Earnings basic	$ 0.62	$ 0.54
Earnings diluted	0.62	0.53
Cash dividends	0.25	0.22
Dividend payout ratio	40.32%	40.74%
Book value	$ 38.69	$ 37.68

Off-balance Sheet Arrangements

The Company s main off-balance sheet arrangements are loan commitments, commercial and standby letters of credit, futures contracts and forward exchange contracts, which have maturity dates rather than payment due dates. Please see note 6, Commitments, Contingencies and Guarantees in the Notes to Condensed Consolidated Financial Statements for detailed information on these arrangements. There was no material change from December 31, 2005.

Table of Contents

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 customers and suppliers, allowance for loan losses, bad debts, investments, financing operations, 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 are listed in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of the Company s 2005 Annual Report Form 10-K for the fiscal year ended December 31, 2005.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

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

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

Interest Rate Risk

In the banking industry, a major risk exposure is changing interest rates. To minimize the effect of interest rate changes to net interest income and exposure levels to economic losses, the Company manages its exposure to changes in interest rates through asset and liability management within guidelines established by its 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. The Company does not use hedges or swaps to manage interest rate risk except for limited use of futures contracts to offset interest rate risk on certain securities held in its trading portfolio.

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 200 basis point upward or downward gradual change (e.g. ramp) 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 10 shows the net interest income increase or decrease over the next twelve months as of March 31, 2006 and 2005 based on hypothetical changes in interest rates.

Table of Contents

Table 10

MARKET RISK *(dollars in thousands)*

Hypothetical change in interest rate (Rates in Basis Points)	March 31, 2006 Amount of change	March 31, 2005 Amount of change
200	$ 3,722	$ 5,748
100	1,861	2,874
Static		
(100)	(1,085)	(3,265)
(200)	(2,169)	(6,529)

The Company is less sensitive to an increase or decrease in rates than a year ago. This is due to the fact that overall rates were higher in 2006 than in 2005, the Company s average life of the investment portfolio has gradually lengthened and the Company has more time-deposits than a year ago. Overall, the Company remains susceptible to a decrease in interest rates because of this increase in time-deposits as well as an increase in the amount of variable rate loans. These variable rate loans could reprice downward in a falling interest rate environment. However, the same asset sensitivity projects the Company to be favorably affected by a gradual increase in interest rates.

Repricing Mismatch Analysis

The Company also evaluates its interest rate sensitivity position in an attempt to maintain a balance between the amount of interest-bearing assets and interest-bearing liabilities which are expected to mature or reprice at any point in time. While a traditional repricing mismatch analysis (gap analysis) provides a snapshot of interest rate risk, it does not take into consideration that assets and liabilities with similar repricing characteristics may not in fact reprice at the same time or the same degree. Also, it does not necessarily predict the impact of changes in general levels of interest rates on net interest income.

Management attempts to structure the balance sheet to provide for the repricing of approximately equal amounts of assets and liabilities within specific time intervals. The Company is in a positive gap position because assets maturing or repricing exceed liabilities.

Trading Account

The Company s subsidiary UMB Bank, n.a. carries taxable governmental 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 can be carried in the trading account as well as requiring that any limits under applicable law and regulations also be complied with, and mandates the use of a value at risk methodology to manage price volatility risks within financial parameters. The risk associated with the carrying of trading securities is offset by the sale of exchange traded financial futures contracts, with both the trading account and futures contracts marked to market daily. This account had a balance of $62.7 million as of March 31, 2006 compared to $58.5 million as of December 31, 2005.

The Manager of the Investment Banking Division of UMB Bank, n.a. presents documentation of the methodology used in determining value at risk at least annually to the Board for approval in compliance with OCC Banking Circular 277, Risk Management of Financial Derivatives, and other 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 March 31, 2006 and December 31, 2005.

Other Market Risk

The Company does not have material commodity price risks or derivative risks. The Company also has foreign currency risks as a result of foreign exchange contracts. Please see Note 6 Commitments, Contingencies and Guarantees in the notes to the Condensed Consolidated Financial Statements.

Table of Contents

Credit Risk Management

Credit risk represents the risk that a customer or counterparty may not perform in accordance with contractual terms. 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, loan requests are centrally reviewed 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.

Another means of ensuring loan quality is diversification. By keeping its loan portfolio diversified, the Company has avoided problems associated with undue concentrations of loans within particular industries. The Company has no significant exposure to highly leveraged transactions and has no foreign credits in its loan portfolio.

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 $0.9 million at March 31, 2006, compared to December 31, 2005.

The Company had $40,000 of other real estate owned as of March 31, 2006 compared to none as of December 31, 2005. Loans past due more than 90 days totaled $3.9 million as of March 31, 2006, compared to $4.8 million as of December 31, 2005.

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 no restructured loans at March 31, 2006 or December 31, 2005.

TABLE 11
LOAN QUALITY *(dollars in thousands)*

	March 31, 2006	December 31, 2005
Nonaccrual loans	$ 6,369	$ 5,439
Restructured loans		
Total nonperforming loans	6,369	5,439
Other real estate owned	40	
Total nonperforming assets	$ 6,409	$ 5,439
Loans past due 90 days or more	$ 3,879	$ 4,829
Allowance for Loans Losses	40,679	40,825
Ratios		
Nonperforming loans as a percent of loans	0.19%	0.16%
Nonperforming assets as a percent of loans plus other real estate owned	0.19	0.16
Nonperforming assets as a percent of total assets	0.08	0.07
Loans past due 90 days or more as a percent of loans	0.11	0.14
Allowance for loan losses as a percent of loans	1.19	1.21
Allowance for loan losses as a multiple of nonperforming loans	6.39x	7.51x

33

Table of Contents

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 on and maturity of assets, which include $2.5 billion of high-quality securities available for sale. 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. The Company has not issued any debt since 1993 when $25 million of medium-term notes were issued to fund bank acquisitions. Prior to being paid off in February 2003 these notes were rated A3 by Moody s Investor Service and A- by Standard and Poor s. Based upon regular contact with investment banking firms, management is confident in its ability to 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 March 31, 2006 was $2.5 billion. Since many of these commitments expire without being drawn upon, the total amount of these commercial commitments does not necessarily represent the future cash requirements of the Company.

The Company s cash requirements consist primarily of dividends to shareholders, debt service 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. All such requests have been approved.

Operational Risk

The Company is exposed to numerous types of operational risk. Operational risk generally refers to the risk of loss resulting from the Company s operations, including, but 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 and systems; and breaches of the internal control system and compliance requirements. 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 recently 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. Furthermore, management believes the plans to streamline the organization through further systems integration and policies enacted to push down reporting accountabilities further in the organization have improved the Company s ability to identify and limit operational risk.

Table of Contents

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 such period, the Company s disclosure controls and procedures are effective for recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports it files under the Exchange Act. Disclosure Controls and Procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

While the Company believes that its existing disclosure controls and procedures have been effective to accomplish the Company s objectives, the Company intends to continue to examine, refine, and formalize its disclosure controls and procedures and to monitor ongoing developments in this area.

Internal Control Over Financial Reporting

There have not been any significant changes 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 period to which this report relates that have materially affected, or are 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 materially adverse effect on the financial position or results of operations 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 1 of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

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 Securities Exchange Act of 1934) of our common stock during the three months ended March 31, 2006.

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
January 1-January 31, 2006		$		792,775
February 1-February 28, 2006	66,325	67.58	66,325	726,450
March 1-March 31, 2006	34,356	67.81	34,356	692,094

On April 26, 2005, the Company announced a plan to repurchase up to one million shares of common stock. This plan terminated on April 26, 2006. The Company has not made any repurchases other than through this plan. All shares purchased under the share repurchase plan are intended to be within the scope of Rule 10b-18 promulgated under the Securities Exchange Act of 1934. 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. On April 25, 2006 the Company announced a plan to repurchase up to two million shares of common stock. This plan will terminate on April 25, 2007.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

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 will be filed with the Missouri Secretary of State.

ii. 3.2 Bylaws, restated as of January 25, 2005 incorporated by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004 and filed with the Commission on March 14, 2005.

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.

Table of Contents

SIGNATURES

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

UMB FINANCIAL CORPORATION

/s/ Christopher G. Treece
Christopher G. Treece
Chief Accounting Officer
Senior Vice President, Controller

Date: May 9, 2006