UMB FINANCIAL CORP
Form 10-Q
November 08, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 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 ¨ No x

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

As of October 31, 2006, UMB Financial Corporation had 42,684,525 shares of common stock outstanding.

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FORM 10-Q

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2006	December 31, 2005
ASSETS		
Loans	$ 3,797,999	$ 3,373,944
Allowance for loan losses	(43,538)	(40,825)
Net loans	3,754,461	3,333,119
Loans held for sale	17,658	19,460
Investment Securities:		
Available for sale	2,636,811	3,323,198
Held to maturity (market value of $51,687 and $67,365, respectively)	51,606	67,037
Federal Reserve Bank stock and other	15,158	15,094
Trading securities	48,160	58,488
Total investment securities	2,751,735	3,463,817
Federal funds sold and securities purchased under agreements to resell	280,910	426,578
Cash and due from banks	408,094	599,580
Bank premises and equipment, net	241,290	236,038
Accrued income	56,300	51,848
Goodwill on purchased affiliates	96,017	59,727
Other intangibles	19,136	4,078
Other assets	47,156	53,544
Total assets	$ 7,672,757	$ 8,247,789
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 1,900,220	$ 2,051,922
Interest-bearing demand and savings	2,493,922	2,654,637
Time deposits under $100,000	797,068	713,249
Time deposits of $100,000 or more	344,716	501,014
Total deposits	5,535,926	5,920,822
Federal funds purchased and repurchase agreements	1,148,677	1,360,942
Short-term debt	22,644	35,091
Long-term debt	36,798	38,471
Accrued expenses and taxes	46,039	39,247
Other liabilities	27,834	19,753
Total liabilities	6,817,918	7,414,326

SHAREHOLDERS' EQUITY		
Common stock, $1.00 par value; authorized 80,000,000 shares, 55,056,730 issued, 42,685,009 and 42,981,122 shares outstanding, respectively	55,057	27,528
Capital surplus	699,029	726,204
Retained earnings	370,184	342,675
Accumulated other comprehensive loss	(15,765)	(21,550)
Treasury stock, 12,371,721 and 12,075,608 shares, at cost, respectively	(253,666)	(241,394)
Total shareholders' equity	854,839	833,463
Total liabilities and shareholders' equity	$ 7,672,757	$ 8,247,789

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
INTEREST INCOME				
Loans	$ 62,157	$ 48,081	$ 172,931	$ 128,726
Securities:				
Taxable interest	21,004	15,043	61,937	46,641
Tax-exempt interest	5,864	5,330	17,388	14,459
Total securities income	26,868	20,373	79,325	61,100
Federal funds and resell agreements	5,025	2,382	15,152	5,057
Trading securities and other	579	581	2,029	1,734
Total interest income	94,629	71,417	269,437	196,617
INTEREST EXPENSE				
Deposits	25,942	14,233	69,533	34,480
Federal funds and repurchase agreements	13,443	7,833	37,686	20,409
Short-term debt	105	108	429	283
Long-term debt	311	518	1,206	1,309
Total interest expense	39,801	22,692	108,854	56,481
Net interest income	54,828	48,725	160,583	140,136
Provision for loan losses	1,500	1,454	7,734	2,954
Net interest income after provision for loan losses	53,328	47,271	152,849	137,182
NONINTEREST INCOME				
Trust and securities processing	25,038	20,590	72,698	61,056
Trading and investment banking	4,757	3,897	13,437	13,166
Service charges on deposits	18,581	20,716	55,191	60,210
Insurance fees and commissions	1,056	837	3,149	2,580
Brokerage fees	1,508	1,515	4,626	4,575
Bankcard fees	9,945	8,592	28,750	24,705
Gain (loss) on sale of other assets, net	(188)	4,801	408	8,772
Gain on sale of employee benefit accounts				3,600
Gain (loss) on sales of securities available for sale, net	37	(190)	120	(223)
Other	3,669	3,978	11,553	12,526
Total noninterest income	64,403	64,736	189,932	190,967
NONINTEREST EXPENSE				
Salaries and employee benefits	48,894	47,821	143,928	148,232
Occupancy, net	6,932	6,841	20,288	19,728
Equipment	12,623	11,115	36,086	32,843
Supplies and services	5,514	5,288	16,988	16,518

Marketing and business development	4,001	3,473	11,645	10,040
Processing fees	7,137	6,233	20,692	17,320
Legal and consulting	2,080	1,890	5,736	5,613
Bankcard	3,410	2,694	10,220	8,227
Amortization of other intangibles	365	185	868	557
Other	5,309	4,396	16,238	12,084
Total noninterest expense	96,265	89,936	282,689	271,162
Income before income taxes	21,466	22,071	60,092	56,987
Income tax provision	5,601	5,900	16,127	15,624
NET INCOME	$ 15,865	$ 16,171	$ 43,965	$ 41,363
PER SHARE DATA				
Net income - basic	$ 0.37	$ 0.38	$ 1.03	$ 0.96
Net income - diluted	0.37	0.37	1.03	0.95
Dividends	0.13	0.11	0.39	0.33
Weighted average shares outstanding	42,531,525	43,026,608	42,675,173	43,158,277

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance - January 1, 2005	$ 27,528	$ 726,595	$ 305,986	$ (10,619)	$ (230,308)	$ 819,182
Comprehensive income						
Net income			41,363			41,363
Change in unrealized losses on securities				(7,954)		(7,954)
Total comprehensive income						33,409
Cash dividends ($0.33 per share)			(14,253)			(14,253)
Purchase of treasury stock					(8,506)	(8,506)
Issuance of stock awards		(1,239)			1,239	
Recognition of equity based compensation		289				289
Sale of treasury stock		131			128	259
Exercise of stock options		121			445	566
Balance - September 30, 2005	$ 27,528	$ 725,897	$ 333,096	$ (18,573)	$ (237,002)	$ 830,946
Balance - January 1, 2006	$ 27,528	$ 726,204	$ 342,675	$ (21,550)	$ (241,394)	$ 833,463
Comprehensive income						
Net income			43,965			43,965
Change in unrealized losses on securities				5,785		5,785
Total comprehensive income						49,750
Cash dividends ($0.39 per share)			(16,456)			(16,456)
Stock split two-for-one	27,529	(27,529)				
Purchase of treasury stock					(13,813)	(13,813)
Issuance of stock awards		(938)			1,088	150
Recognition of equity based compensation		1,046				1,046
Sale of treasury stock		182			132	314
Exercise of stock options		64			321	385
Balance - September 30, 2006	$ 55,057	$ 699,029	$ 370,184	$ (15,765)	$ (253,666)	$ 854,839

See Notes to Condensed Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	Nine Months Ended September 30, 2006	2005
Operating Activities		
Net income	$ 43,965	$ 41,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	7,734	2,954
Depreciation and amortization	25,323	23,255
Deferred income tax (benefit) expense	(877)	1,167
Net decrease in trading securities and other earning assets	10,328	1,933
(Gains)/loss on sales of securities available for sale	(120)	224
Amortization of securities premiums, net of discount accretion	384	13,172
Net decrease in loans held for sale	1,802	3,702
Issuance of stock awards	150	
Recognition of stock based compensation	1,046	289
Gains on sales of other assets, net	(408)	(8,772)
Changes in:		
Accrued income	(2,890)	(9,707)
Accrued expenses and taxes	(528)	15,917
Other assets and liabilities, net	13,626	11,203
Net cash provided by operating activities	99,535	96,700
Investing Activities		
Proceeds from maturities of securities held to maturity	52,570	68,961
Proceeds from sales of securities available for sale	103,741	15,006
Proceeds from maturities of securities available for sale	7,947,300	8,370,418
Purchases of securities held to maturity	(36,964)	(12,020)
Purchases of securities available for sale	(7,274,356)	(7,342,097)
Net increase in loans	(254,147)	(508,847)
Net decrease in fed funds and resell agreements	145,668	8,390
Net change in unsettled securities transactions		2,849
Purchases of bank premises and equipment	(30,960)	(28,091)
Net cash paid for acquisitions and branch sales	(41,929)	(95,400)
Proceeds from sales of bank premises and equipment	1,619	7,516
Net cash provided by investing activities	612,542	486,685
Financing Activities		
Net decrease in demand and savings deposits	(514,604)	(348,363)
Net (decrease) increase in time deposits	(122,996)	67,798
Net decrease in fed funds/repurchase agreements	(222,446)	(378,889)
Net decrease in short-term debt	(12,447)	(20,935)
Proceeds from long-term debt		20,110
Repayment of long-term debt	(1,673)	(2,078)
Cash dividends	(16,283)	(14,274)
Proceeds from exercise of stock options and sales of treasury shares	699	825
Purchases of treasury stock	(13,813)	(8,506)

Net cash used in financing activities	(903,563)	(684,312)
Decrease in cash and due from banks	(191,486)	(100,927)
Cash and due from banks at beginning of period	599,580	497,427
Cash and due from banks at end of period	$ 408,094	$ 396,500
Supplemental Disclosures:		
Income taxes paid	$ 18,930	$ 5,390
Total interest paid	107,949	53,636

See Notes to Condensed Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

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.

On May 30, 2006, the Company s common stock was split 2-for-1 in the form of a stock dividend. Stockholders received one additional share for every share owned. The Board of Directors declared the stock split April 25, 2006 and the record date was May 16, 2006. All share and per share amounts (including stock options and restricted stock) in the Consolidated Financial Statements and accompanying notes were restated to reflect the split.

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 quarterly per share data includes the diluted effect of 223,389 and 229,107 shares issueable under options granted by the Company at September 30, 2006 and 2005, respectively. Diluted year-to-date income per share includes the diluted effect of 213,831 and 190,748 shares issueable upon the exercise of stock options granted by the Company at September 30, 2006 and 2005, respectively.

Options issued under employee benefit plans to purchase 243,811 shares of common stock were outstanding at September 30, 2006, but were not included in the computation of diluted EPS because the options were anti-dilutive.

Accounting for Stock-Based Compensation

Effective with the first quarter of 2006, the Company has adopted Statement of Financial Accounting Standards (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 costs generally is 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.

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UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

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. The assumptions for stock based awards granted since the adoption of SFAS No. 123 (R) utilized in the model are shown in the table below.

	2006
Black-Scholes pricing model:	
Weighted average fair value of the granted options	$ 8.21
Weighted average risk-free interest rate	4.91%
Expected option life in years	6.25
Expected volatility	16.94%
Expected dividend yield	1.61%

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.

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 $0.7 million in expense related to outstanding stock options and $0.6 million in expense related to outstanding restricted stock grants for the nine months ended September 30, 2006. The Company has $2.7 million of unrecognized compensation expense related to the outstanding options and $3.9 million of unrecognized compensation expense related to outstanding restricted stock grants at September 30, 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 (R) to stock-based employee compensation in 2005.

	Three Months Ended September 30,	Nine Months Ended September 30,
(dollars in thousands)	2005	2005
Net income, as reported	$ 16,171	$ 41,363
Stock based compensation expense included in reported net income, net of tax	90	184
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	280	800
Pro forma net income	$ 15,981	$ 40,747
Earnings per share:		
Basic-as reported	0.38	0.96
Basic-pro forma	0.37	0.94

Diluted-as reported	0.37	0.95
Diluted-pro forma	0.37	0.94

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UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

Reclassification

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

3. New Accounting Pronouncements

Accounting for Uncertainty in Income Taxes an Interpretation of Financial Accounting Standards Board, (FASB) Statement No. 109 In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 . FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or to be taken on a tax return. This interpretation also provides additional guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years after December 15, 2006. The Company is currently evaluating the potential impact of this interpretation on its consolidated financial statements.

Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 . The Statement permits fair value measurement for certain hybrid financial instruments containing embedded derivatives, and clarifies the derivative accounting requirements for interest and principal-only strip securities and interests in securitized financial assets. It also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and eliminates a previous prohibition on qualifying special-purpose entities from holding certain derivative financial instruments. For calendar year companies, the Statement is effective for all financial instruments acquired or issued after January 1, 2007. The Company is currently evaluating the potential impact of this interpretation on its consolidated financial statements.

Fair Value Measurement In September, 2006 the FASB issued Financial Accounting Standards No. 157, Fair Value Measurement . The Statement establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. This Statement is applicable under other accounting pronouncements that require fair value recognition. It does not create new fair value measurements, however, provides increased consistency in the application of various fair value measurements. The Company does not expect that adoption of the Statement will have a material effect on its consolidated financial statements.

4. Business Combination

The following acquisition, which is not considered to be a material business combination, was completed during the third quarter of 2006:

On September 15, 2006, UMB Financial Corporation completed the acquisition of Mountain States Bancorporation, Inc., a bank holding company headquartered in Denver, Colorado which had consolidated assets of $284.1 million at the time of the merger. Total cash consideration in this transaction amounted to $81.3 million. Mountain States Bancorporation, and its subsidiary, Mountain States Bank were merged with and into UMB Bank Colorado on September 15, 2006. Mountain States Bank operated from a single location in Denver, Colorado. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to $35.3 million. The estimated identifiable intangible asset, subject to the completion of appraisals and valuation, to be amortized (core deposits) with an estimated weighted average life of 7.0 years amounted to $13.0 million. The goodwill and intangibles resulting from this transaction are not deductible for tax purposes.

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UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

5. Loans and Allowance for Loan Losses

This table provides a summary of the major categories of loans as of September 30, 2006 and December 31, 2005 *(dollars in thousands)*:

	September 30, 2006	December 31, 2005
Commercial, financial, and agricultural	$ 1,659,939	$ 1,497,496
Real estate construction	72,198	47,403
Consumer	999,183	987,770
Real Estate	1,060,893	835,207
Leases	5,786	6,068
Total loans	$ 3,797,999	$ 3,373,944

This table is an analysis of the allowance for loan losses for the three and nine months ended September 30, 2006 and 2005 *(dollars in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Beginning allowance - July 1 and January 1	$ 42,120	$ 39,756	$ 40,825	$ 42,723
Allowance for banks and loans acquired	2,358		2,358	
Additions (deductions):				
Charge-offs	(3,595)	(2,032)	(9,946)	(7,687)
Recoveries	1,155	537	2,567	1,725
Net charge-offs	(2,440)	(1,495)	(7,379)	(5,962)
Provision charged to expense	1,500	1,454	7,734	2,954
Ending allowance - September 30	$ 43,538	$ 39,715	$ 43,538	$ 39,715

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 nine months ended September 30, 2006 and December 31, 2005 *(dollars in thousands)*:

	September 30, 2006	December 31, 2005
Total impaired loans as of September 30 and December 31	$ 7,204	$ 6,650
Amount of impaired loans which have a related allowance	1,469	1,134

Amount of related allowance	799	502
Remaining impaired loans with no allowance	5,735	5,516
Average recorded investment in impaired loans during the period	6,781	7,690

6. Securities

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

	September 30, 2006	December 31, 2005
Available for sale		
U.S. Treasuries	$ 494,539	$ 531,798
U.S. Agencies	550,962	1,256,227
State and political subdivisions	669,484	614,505
Mortgage backed	921,826	920,668
Total available for sale	2,636,811	3,323,198
Federal Reserve Bank stock and other	15,158	15,094
Trading securities	48,160	58,488
Total investments at fair value	$ 2,700,129	$ 3,396,780

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UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

7. Goodwill and other intangibles

Changes in the carrying amount of goodwill for the periods ended September 30, 2006 and December 31, 2005 by operating segment are as follows *(dollars in thousands)*:

	Consumer Services	Asset Management	Commercial Banking and Lending	Investment Services Group	Total
Balances as of January 1, 2005	$ 34,981	$ 10,479	$ 0	$ 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	$ 0	$ 14,505	$ 59,727
Balances as of January 1, 2006	$ 34,743	$ 10,479	$ 0	$ 14,505	$ 59,727
Acquisition of Mountain States Bank	17,568		17,718		35,286
Additional earn-out payment for 2001 acquisition of Sunstone Financial Group, Inc.				1,004	1,004
Balances as of September 30, 2006	$ 52,311	$ 10,479	$ 17,718	$ 15,509	$ 96,017

Following are the intangible assets that continue to be subject to amortization as of September 30, 2006 and December 31, 2005 *(dollars in thousands)*:

	As of September 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible assets	$ 16,777	$ 16,777	$
Core deposit premium from acquisition of Mountain States Bank	13,000	77	12,923
Core deposit premium from branch deposits acquired during period	2,912	243	2,669
Total core deposit intangible Assets	32,689	17,097	15,592
Other intangible assets	7,200	3,669	3,531
Other intangible assets acquired during period	14	1	13

Total other intangible assets	7,214		3,670		3,544
Total intangible assets	$ 39,903	$	20,767	$	19,136

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UMB FINANCIAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

	As of December 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible 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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Aggregate amortization expense	$ 365	$ 185	$ 868	$ 557

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

For the year ending December 31, 2006	$ 1,621
For the year ending December 31, 2007	3,011
For the year ending December 31, 2008	3,008
For the year ending December 31, 2009	3,004
For the year ending December 31, 2010	3,004

8. Other Comprehensive Loss

The Company s only component of other comprehensive loss for the three months and nine months ended September 30, 2006 and 2005 was the net unrealized gains and losses on available for sale securities *(dollars in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Change in unrealized holding gains (losses), net	$ 34,565	$ (11,060)	$ 9,253	$ (12,841)
Less: Reclassification adjustments for (gains) losses included in income	(37)	190	(120)	223
Net unrealized holding gains (losses)	34,528	(10,870)	9,133	(12,618)
Income tax expense (benefit)	(12,703)	4,008	(3,348)	4,664
Other comprehensive income (loss)	$ 21,825	$ (6,862)	$ 5,785	$ (7,954)

9. 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

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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 September 30, 2006 and December 31, 2005 were $320.3 million and $200.2 million, respectively. As of September 30, 2006 and December 31, 2005, standby letters of credit totaling $57.7 million and $44.1 million, respectively were with related parties to the Company.

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 limited to offset interest rate risk on specific securities held in the trading portfolio. Open futures contract positions averaged $47.0 million and $45.2 million during the periods ended September 30, 2006 and December 31, 2005, respectively. Net futures activity resulted in gains of $0.3 million and $0.5 million for the nine months ended September 30, 2006 and 2005. Net futures activity resulted in losses of $0.6 million and gains of $0.4 million for the three months ended September 30, 2006 and 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. 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 nine months ended September 30, 2006, contracts to purchase and to sell foreign currency averaged approximately $17.4 million compared to $19.6 million at December 31, 2005. The net gains on these foreign exchange contracts for the nine months ended September 30, 2006 and 2005 were $1.2 million. The net gains on these foreign exchange contracts for the three months ended September 30, 2006 and 2005 were $0.4 million.

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, Illinois and Arizona. At September 30, 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.

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

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

	September 30, 2006	December 31, 2005
Commitments to extend credit for loans (excluding credit card loans)	$ 1,421,475	$ 1,271,717
Commitments to extend credit under credit card loans	908,407	940,290
Commercial letters of credit	11,072	13,311
Standby letters of credit	320,310	200,232
Futures contracts	26,145	50,700
Forward foreign exchange contracts	13,815	15,791
Spot foreign exchange contracts	2,815	1,302

10. 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 UMB Financial Services (formerly known as 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.

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.

Payment and Technology Solutions meets the treasury management, treasury services, health care services and security transfer needs of our commercial clients. Treasury management products and services include account reconciliation services, automated clearing house, controlled disbursements, lockbox services, wire transfer services and various card products and services. 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 an eight 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 investment management, estate planning, trust, retirement planning, corporate trust, brokerage and custody services. The Private Banking division offers full trust and personal banking services

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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. Corporate Trust services include serving as corporate and municipal bond trustee as well as the paying agent/registrar for issued bonds and notes.

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 are also allocated to this segment.

Business Segment Information

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

	Three Months Ended September 30,			
	Commercial Banking and Lending		Payment and Technology Solutions	
	2006	2005	2006	2005
Net interest income	$ 14,110	$ 12,941	$ 14,078	$ 11,455
Provision for loan losses	975	945		
Noninterest income	513	847	12,818	14,052
Noninterest expense	6,652	6,615	19,186	19,640
Income before income taxes	$ 6,996	$ 6,228	$ 7,710	$ 5,867
Average assets	$ 2,087	$ 1,969	$ 47	$ 45
Depreciation and amortization	538	354	1,729	1,449
Expenditures for additions to premises and equipment	464	320	1,518	2,875

	Banking Services		Consumer Services	
	2006	2005	2006	2005
Net interest income	$ 683	$ 925	$ 23,711	$ 21,074
Provision for loan losses			525	509
Noninterest income	7,679	7,082	15,598	18,036
Noninterest expense	7,539	7,602	36,714	31,965
Income before income taxes	$ 823	$ 405	$ 2,070	$ 6,636
Average assets	$ 86	$ 81	$ 1,242	$ 1,171
Depreciation and amortization	388	315	4,237	3,793
Expenditures for additions to premises and equipment	296			