UMB FINANCIAL CORP
Form 10-K
March 01, 2007
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2006

¨ 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 No.)**
1010 Grand Boulevard, Kansas City, Missouri	**64106**
(Address of principal executive offices)	**(ZIP Code)**

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 Par Value	**The Nasdaq Global Select Market**

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No

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. x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

As of June 30, 2006, the aggregate market value of common stock outstanding held by nonaffiliates of the registrant was approximately $1,172,198,501 based on the NASDAQ closing price of that date.

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

Class	Outstanding at February 21, 2007
Common Stock, $1.00 Par Value	42,227,719

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on April 24, 2007, are incorporated by reference into Part III of this Form 10K.

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PART I

ITEM 1. *BUSINESS*

General

UMB Financial Corporation (the Company) was organized as a corporation in 1967 under Missouri law for the purpose of becoming a bank holding company registered under the Bank Holding Company Act of 1956 (BHCA). In 2001, the Company elected to become a financial holding company under the Gramm-Leach-Bliley Act of 1999 (GBL Act). The Company owns all of the outstanding stock of five commercial banks, a brokerage company, a community development corporation, a consulting company, a mutual fund servicing company and sixteen other subsidiaries.

The five commercial banks are engaged in general commercial banking business entirely in domestic markets. Two of the banks are in Missouri, one bank in Kansas, one bank in Colorado, and one bank in Arizona. The principal subsidiary bank, UMB Bank, n.a., whose principal office is in Missouri, also has branches in Illinois, Kansas, Nebraska and Oklahoma. The banks offer a full range of banking services to commercial, retail, government and correspondent bank customers. In addition to standard banking functions, the principal subsidiary bank, UMB Bank, n.a., provides international banking services, investment and cash management services, data processing services for correspondent banks and a full range of trust activities for individuals, estates, business corporations, governmental bodies and public authorities.

The table below sets forth the names and locations of the Company s affiliate banks, as well as their respective total assets, total loans, deposits and shareholders equity as of December 31, 2006.

SELECTED FINANCIAL DATA OF AFFILIATE BANKS (in thousands)

	December 31, 2006				
	Number of Locations	Total Assets	Loans	Total Deposits	Shareholders Equity
Missouri					
UMB Bank, n.a.	118	$ 7,557,075	$ 2,973,009	$ 5,192,820	$ 555,429
UMB Bank, Warsaw, n.a.	4	84,543	35,484	66,905	6,356
Colorado					
UMB Bank Colorado, n.a.	11	$ 875,438	$ 521,640	$ 642,959	$ 125,148
Kansas					
UMB National Bank of America, n.a.	5	$ 679,960	$ 212,685	$ 423,402	$ 55,196
Arizona					
UMB Bank Arizona, n.a.	1	$ 18,955	$ 15,683	$ 7,796	$ 9,511

Other Subsidiaries
UMB Community Development Corporation
UMB Banc Leasing Corp.
UMB Financial Services, Inc.
UMB Scout Insurance Services, Inc.
UMB Capital Corporation
United Missouri Insurance Company
UMB Trust Company of South Dakota
Scout Investment Advisors, Inc.
UMB Fund Services, Inc.
UMB Consulting Services, Inc.

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UMB Bank and Trust, n.a.
Kansas City Realty Company
Kansas City Financial Corporation
UMB Redevelopment Corporation
UMB Realty Company, LLC
UMB National Sales Corporation
Grand Distribution Services, LLC
UMB Distribution Services, LLC
Warsaw Financial Corporation

UMB Fund Services, Inc, located in Milwaukee, Wisconsin and Media, Pennsylvania, provides services to nearly 35 mutual fund groups representing approximately 140 funds and administrative and support services for a growing number of alternative investment products.

UMB Community Development Corporation provides loans to qualified small businesses in low to moderate income areas in Missouri, Kansas, Illinois, Nebraska, Oklahoma and Colorado.

On a full-time equivalent basis at December 31, 2006, the Company and its subsidiaries employed 3,432 persons.

Segment Information. Financial information regarding the Company s six segments is included in Note 13 to the Consolidated Financial Statements provided in Item 8, pages 73 through 76 of this report.

Competition. The Company faces intense competition from hundreds of financial service providers in the markets served. The Company competes with other traditional and non-traditional financial service providers including banks, savings and loan associations, finance companies, mutual funds, mortgage banking companies and credit unions. Customers for banking services and other financial services offered by the Company are generally influenced by convenience of location, quality of service, personal contact, price of services and availability of products. The impact from competition is critical not only to pricing, but also to transaction execution, products and services offered, innovation and reputation. Within the Kansas City banking market, the Company ranks third as of based on the amount of deposits at June 30, 2006-the most recent date for which deposit information is available from the Federal Deposit Insurance Corporation (FDIC). At June 30, 2006, the Company had 9.2 percent of the deposits in the Kansas City metropolitan area, compare to 8.3 percent at June 30, 2005.

Monetary Policy and Economic Conditions. The operations of the Company's affiliate banks are affected by general economic conditions, as well as the monetary policy of the Board of Governors of the Federal Reserve System (the Federal Reserve Board or FRB), which affects interest rates and the supply of money available to commercial banks. Monetary policy measures by the FRB are affected through open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements.

Supervision and Regulation. As a bank holding company and a financial holding company, the Company (and its subsidiaries) are subject to extensive regulation and are affected by numerous federal and state laws and regulations.

Supervision. The Company is subject to regulation and examination by the FRB and the Federal Reserve Bank of Kansas City. Its five subsidiary banks are subject to regulation and examination by the Office of the Comptroller of the Currency (OCC). UMB Scout Insurance Services, Inc. is regulated by state agencies in the states in which it operates. Scout Investment Advisors and UMB Fund Services are subject to the rules and regulations of the Securities and Exchange Commission (SEC) and the National Association of Securities Dealers, Inc. (NASD) because of the UMB Scout Funds and the servicing of other mutual fund groups and alternative investment products. The FRB possesses cease and desist powers over bank holding companies if their actions represent unsafe or unsound practices or violations of law. In addition, the FRB is empowered to

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impose civil money penalties for violations of banking statutes and regulations. Regulation by the FRB is intended to protect depositors of the Company s banks, not the Company s shareholders. The Company is subject to a number of restrictions and requirements imposed by the Sarbanes-Oxley Act of 2002 relating to internal controls over financial reporting, disclosure controls and procedures, loans to directors or executive officers of the Company and its subsidiaries, the preparation and certification of the Company s consolidated financial statements, the duties of the Company s audit committee, relations with and functions performed by the Company s independent auditors, and various accounting and corporate governance matters. The Company's brokerage affiliate, UMB Financial Services, Inc., is regulated by the SEC, the National Association of Securities Dealers, Inc., and the Missouri Division of Securities; it is also subject to certain regulations of the various states in which it transacts business. It is subject to regulations covering all aspects of the securities business, including sales methods, trade practices among broker/dealers, capital structure of securities firms, uses and safekeeping of customers' funds and securities, recordkeeping, and the conduct of directors, officers and employees. The SEC and the self-regulatory organizations to which it has delegated certain regulatory authority may conduct administrative proceedings that can result in censure, fines, suspension or expulsion of a broker/dealer, its directors, officers and employees. The principal purpose of regulation of securities broker/dealers is the protection of customers and the securities market, rather than the protection of stockholders of broker/dealers.

Limitation on Acquisitions and Activities. The Company is subject to the BHCA, which requires the Company to obtain the prior approval of the Federal Reserve Board to (i) acquire substantially all the assets of any bank, (ii) acquire more than 5% of any class of voting stock of a bank or bank holding company which is not already majority owned, or (iii) merge or consolidate with another bank holding company. The BHCA also imposes significant limitations on the scope and type of activities in which the Company and its subsidiaries may engage. The activities of bank holding companies are generally limited to the business of banking, managing or controlling banks, and other activities that the FRB has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In addition, under the GLB Act, a bank holding company, all of whose controlled depository institutions are well-capitalized and well-managed (as defined in federal banking regulations) and which obtains satisfactory Community Reinvestment Act (CRA) ratings, may declare itself to be a financial holding company and engage in a broader range of activities.

A financial holding company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. "Financial in nature" activities include:

- securities underwriting, dealing and market making;
- sponsoring mutual funds and investment companies;
- insurance underwriting and insurance agency activities;
- merchant banking; and
- activities that the FRB determines to be financial in nature or incidental to a financial activity, or which are complementary to a financial activity and do not pose a safety and soundness risk.

A financial holding company that desires to engage in activities that are financial in nature or incidental to a financial activity but not previously authorized by the FRB must obtain approval from the FRB before engaging in such activity. Also, a financial holding company may seek FRB approval to engage in an activity that is complementary to a financial activity if it shows that the activity does not pose a substantial risk to the safety and soundness of insured depository institutions or the financial system. Under the GLB Act, subsidiaries of financial holding companies engaged in non-bank activities are supervised and regulated by the federal and state agencies which normally supervise and regulate such functions outside of the financial holding company context.

A financial holding company may acquire a company (other than a bank holding company, bank or savings association) engaged in activities that are financial in nature or incidental to activities that are financial in nature without prior approval from the FRB. Prior FRB approval is required, however, before the financial holding

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company may acquire control of more than 5% of the voting shares or substantially all of the assets of a bank holding company, bank or savings association. In addition, under the FRB's merchant banking regulations, a financial holding company is authorized to invest in companies that engage in activities that are not financial in nature, as long as the financial holding company makes its investment with the intention of limiting the duration of the investment, does not manage the company on a day-to-day basis, and the company does not cross market its products or services with any of the financial holding company's controlled depository institutions. If any subsidiary bank of a financial holding company receives a rating under the CRA of less than "satisfactory", then the financial holding company is limited with respect to its engaging in new activities or acquiring other companies, until the rating is raised to at least satisfactory.

Other Regulatory Restrictions & Requirements. A bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with the extension of credit, with limited exceptions. There are also various legal restrictions on the extent to which a bank holding company and certain of its non-bank subsidiaries can borrow or otherwise obtain credit from its bank subsidiaries. The Company and its subsidiaries are also subject to certain restrictions on issuance, underwriting and distribution of securities. FRB policy requires a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. Under this source of strength doctrine, a bank holding company is expected to stand ready to use its available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity, and to maintain resources and the capacity to raise capital that it can commit to its subsidiary banks. Furthermore, the FRB has the right to order a bank holding company to terminate any activity that the FRB believes is a serious risk to the financial safety, soundness or stability of any subsidiary bank. Also, under cross-guaranty provisions of the Federal Deposit Insurance Act (FDIA), bank subsidiaries of a bank holding company are liable for any loss incurred by the FDIC insurance fund in connection with the failure of any other bank subsidiary of the bank holding company.

The Company s bank subsidiaries are subject to a number of laws regulating depository institutions, including the Federal Deposit Insurance Corporation Improvement Act of 1991, which expanded the regulatory and enforcement powers of the federal bank regulatory agencies. These laws require that such agencies prescribe standards relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, and mandated annual examinations of banks by their primary regulators. The Company s bank subsidiaries are also subject to a number of consumer protection laws and regulations of general applicability, as well as the Bank Secrecy Act and USA Patriot Act, which is designed to identify, prevent and deter international money laundering and terrorist financing.

The rate of interest a bank may charge on certain classes of loans is limited by law. At certain times in the past, such limitations have resulted in reductions of net interest margins on certain classes of loans. Federal laws also impose additional restrictions on the lending activities of banks, including the amount that can be loaned to one borrower or related group.

All five of the commercial banks owned by the Company are national banks and are subject to supervision and examination by the OCC. In addition, the national banks are subject to examination by The Federal Reserve System. All such banks are members of, and subject to examination by, the FDIC.

Payment of dividends by the Company s affiliate banks to the Company is subject to various regulatory restrictions. For national banks, the OCC must approve the declaration of any dividends generally in excess of the sum of net income for that year and retained net income for the preceding two years. At December 31, 2006, approximately $32,432,000 of the equity of the Company s bank and non-bank subsidiaries was available for distribution as dividends to the Company without prior regulatory approval or without reducing the capital of the respective banks below prudent levels.

Each of the Company s subsidiary banks are subject to the CRA and implementing regulations. CRA regulations establish the framework and criteria by which the bank regulatory agencies assess an institution s

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record of helping to meet the credit needs of its community, including low- and moderate-income neighborhoods. CRA ratings are taken into account by regulators in reviewing certain applications made by the Company and its bank subsidiaries.

Regulatory Capital Requirements Applicable to the Company. The FRB has promulgated capital adequacy guidelines for use in its examination and supervision of bank holding companies. If a bank holding company s capital falls below minimum required levels, then the bank holding company must implement a plan to increase its capital, and its ability to pay dividends and make acquisitions of new bank subsidiaries may be restricted or prohibited. The FRB s capital adequacy guidelines provide for the following types of capital:

Tier 1 capital, also referred to as core capital, calculated as:

common stockholders' equity;

plus, non-cumulative perpetual preferred stock and any related surplus;

plus, minority interests in the equity accounts of consolidated subsidiaries;

less, all intangible assets (other than certain mortgage servicing assets, non-mortgage servicing assets and purchased credit card relationships);

less, certain credit-enhanced interest-only strips and non-financial equity investments required to be deducted from capital; and

less, certain deferred tax assets.

Tier 2 capital, also referred to as supplementary capital, calculated as:

allowances for loan and lease losses (limited to 1.25% of risk-weighted assets);

plus, unrealized gains on certain equity securities (limited to 45% of pre-tax net unrealized gains);

plus, cumulative perpetual and long-term preferred stock (original maturity of 20 years or more) and any related surplus;

plus, auction rate and similar preferred stock (both cumulative and non-cumulative);

plus, hybrid capital instruments (including mandatory convertible debt securities); and plus, term subordinated debt and intermediate-term preferred stock with an original weighted average maturity of five years or more (limited to 50% of Tier 1 capital).

The maximum amount of supplementary capital that qualifies as Tier 2 capital is limited to 100% of Tier 1 capital.

Total capital, calculated as:

Tier 1 capital;

plus, qualifying Tier 2 capital;

less, investments in banking and finance subsidiaries that are not consolidated for regulatory capital purposes;

less, intentional, reciprocal cross-holdings of capital securities issued by banks; and

less, other deductions (such as investments in other subsidiaries and joint ventures) as determined by supervising authority.

The Company is required to maintain minimum amounts of capital to various categories of assets, as defined by the banking regulators. See Table 13, Risk-Based Capital, on page 40 for additional detail on the computation of risk-based assets and the related capital ratios.

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At December 31, 2006, the Company was required to have minimum Tier 1 capital, Total capital, and leverage ratios of 4.00%, 8.00%, and 4.00% respectively. The Company s actual ratios at that date were 13.81%, 14.65%, and 9.83%, respectively.

Regulatory Capital Requirements Applicable to the Company s Subsidiary Banks. In addition to the minimum capital requirements of the FRB applicable to the Company, there are separate minimum capital requirements applicable to its subsidiary national banks.

Federal banking laws classify an insured financial institution in one of the following five categories, depending upon the amount of its regulatory capital:

- well-capitalized if it has a total Tier 1 leverage ratio of 5% or greater, a Tier 1 risk-based capital ratio of 6% or greater and a total risk-based capital ratio of 10% or greater (and is not subject to any order or written directive specifying any higher capital ratio);
- adequately capitalized if it has a total Tier 1 leverage ratio of 4% or greater (or a Tier 1 leverage ratio of 3% or greater, if the bank has a CAMELS rating of 1), a Tier 1 risk-based capital ratio of 4% or greater, and a total risk-based capital ratio of 8% or greater;
- undercapitalized if it has a total Tier 1 leverage ratio that is less than 4% (or a Tier 1 leverage ratio that is less than 3%, if the bank has a CAMELS rating of 1), a Tier 1 risk-based capital ratio that is less than 4% or a total risk-based capital ratio that is less than 8%;
- significantly undercapitalized if it has a total Tier 1 leverage ratio that is less than 3%, a Tier 1 risk based capital ratio that is less than 3% or a total risk-based capital ratio that is less than 6%; and
- critically undercapitalized if it has a Tier 1 leverage ratio that is equal to or less than 2%.

Federal banking laws require the federal regulatory agencies to take prompt corrective action against undercapitalized financial institutions. The Company s banks must be well-capitalized and well-managed in order for the Company to remain a financial holding company. To be well-capitalized, a bank must maintain a total Tier 1 leverage ratio of 5% or greater, a Tier 1 risk-based capital ratio of 6% or greater and a total risk-based capital ratio of 10% or greater. The capital ratios and classifications for the Company and each of the Company s five banks as of December 31, 2006, are set forth below:

Bank	**Total Tier 1 Leverage Ratio (5% or greater)**	**Tier 1 (6% or greater)**	**Total Risk-Based (10% or greater)**
UMB Financial Corporation	9.83%	13.81%	14.65%
UMB Bank, n.a.	8.37%	11.61%	12.41%
UMB Bank Colorado, n.a.	9.85%	12.29%	13.41%
UMB National Bank of America, n.a.	9.18%	18.76%	19.36%
UMB Bank, Warsaw, n.a.	8.18%	15.39%	16.32%
UMB Bank Arizona, n.a.	48.74%	56.73%	57.98%

The Company is required to maintain minimum balances with the FRB for each of its subsidiary banks, and no interest is paid by the FRB on such balances. These balances are calculated from reports filed with the respective FRB for each affiliate. At December 31, 2006, the Company held $31,823,000 at the FRB.

Deposit Insurance and Assessments. The deposits of each of the Company s five subsidiary banks are insured by an insurance fund administered by the FDIC, in general up to a maximum of $100,000 per insured deposit ($250,000 for certain retirement plan deposits). Under federal banking regulations, insured banks are required to pay semi-annual assessments to the FDIC for deposit insurance. The FDIC s risk-based assessment system requires members to pay varying assessment rates depending upon the level of the institution s capital and the degree of supervisory concern over the institution. The FDIC s assessment rates range from zero cents to 27 cents per $100 of insured deposits. The FDIC has authority to increase the annual assessment rate and there is no cap on the annual assessment rate which the FDIC may impose.

Limitations on Transactions with Affiliates. The Company and its non-bank subsidiaries are affiliates within the meaning of Sections 23A and 23B of the Federal Reserve Act (FRA). The amount of loans or extensions of credit which a bank may make to non-bank affiliates, or to third parties secured by securities or obligations of the non-bank affiliates, are substantially limited by the FRA and the FDIA. Such acts further restrict the range of permissible transactions between a bank and an affiliated company. A bank and subsidiaries of a bank may engage in certain transactions, including loans and purchases of assets, with an affiliated company only if the terms and conditions of the transaction, including credit standards, are substantially the same as, or at least as favorable to the bank as, those prevailing at the time for comparable transactions with non-affiliated companies or, in the absence of comparable transactions, on terms and conditions that would be offered to non-affiliated companies.

Other Banking Activities. The investments and activities of the Company s subsidiary banks are also subject to regulation by federal banking agencies, regarding investments in subsidiaries, investments for their own account (including limitations in investments in junk bonds and equity securities), loans to officers, directors and their affiliates, security requirements, anti-tying limitations, anti-money laundering, financial privacy and customer identity verification requirements, truth-in-lending, types of interest bearing deposit accounts offered, trust department operations, brokered deposits, audit requirements, issuance of securities, branching and mergers and acquisitions.

Fiscal & Monetary Policies. The Company s business and earnings are affected significantly by the fiscal and monetary policies of the federal government and its agencies. It is particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the FRB are: conducting open market operations in United States government securities; changing the discount rates of borrowings of depository institutions; imposing or changing reserve requirements against depository institutions' deposits; and imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the FRB have a material effect on the Company s business, results of operations and financial condition.

Future Legislation. Various legislation, including proposals to change the financial institution regulatory system, is from time to time introduced in Congress. This legislation may change banking statutes and the Company s (and its subsidiaries) operating environment in substantial and unpredictable ways. If enacted, this legislation could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Company cannot predict whether any of this potential legislation will be enacted and, if enacted, the effect that it, or any implementing regulations, could have on the business, results of operations or financial condition of the Company or its subsidiaries.

The references in the foregoing discussion to various aspects of statutes and regulations are merely summaries which do not purport to be complete and which are qualified in their entirety by reference to the actual statutes and regulations.

Statistical Disclosure. The information required by Guide 3, Statistical Disclosure by Bank Holding Companies, has been included in Items 6, 7, and 7A, pages 16 through 48 of this report.

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Executive Officers of the Registrants. The following are the executive officers of the Company, each of whom is elected annually, and there are no arrangements or understandings between any of the persons so named and any other person pursuant to which such person was elected as an officer.

Name	Age	Position with Registrant
J. Mariner Kemper	34	Chairman and CEO of the Company since May 2004. Chairman of the Company s Western Region since January 2004. Chairman and CEO of UMB Bank Colorado, n.a. (a subsidiary of the Company) since 2000. President of UMB Bank Colorado from 1997 to 2000.
Peter J. deSilva	45	President and Chief Operating Officer of the Company since January 2004 and Chairman and Chief Executive Officer of UMB Bank, n.a. since May 2004. Previously with Fidelity Investments from 1987-2004, the last seven years as Senior Vice President with principal responsibility for brokerage operations.
Peter J. Genovese	60	Vice Chairman of the Eastern Region UMB Bank, n.a. since January 2004. President of the Company from January 2000 to January 2004. Vice Chairman of the Board of the Company since 1982. Chairman and Chief Executive Officer of UMB Bank of St. Louis, n.a. (a former subsidiary of the Company) from 1979 to 1999.
Michael D. Hagedorn	40	Executive Vice President and Chief Financial Officer of the Company since March 2005. Senior Vice President and Chief Financial Officer of Wells Fargo, Midwest Banking Group from April 2001 to March 2005. Senior Vice President and Chief Financial Officer of Wells Fargo Bank Iowa, n.a. from April 1999 to April 2001.
Bradley J. Smith	51	Executive Vice President of Consumer Services, UMB Bank, n.a. since January 2005. Executive Vice President of Retail and Corporate Services, St. Francis Bank/Mid America Bank, Milwaukee, Wisconsin from 2000 through 2005. Executive Vice President of Retail Banking, St. Francis Bank/Mid America Bank, Milwaukee, Wisconsin from 1997 through 2003.
James A. Sangster	52	President of UMB Bank, n.a. since 1999. Divisional Executive Vice President of UMB Bank, n.a. from 1993 to 1999. Executive Vice President prior thereto.
Douglas F. Page	63	Executive Vice President of the Company since 1984 and Divisional Executive Vice President, Loan Administration, of UMB Bank, n.a. since 1989.
Clyde F. Wendell	59	President of the Asset Management Division of UMB Bank, n.a. since June, 2006, Vice Chairman of UMB Bank, n.a. since June, 2006. Regional President, Bank of America Private Bank and Senior Bank Executive for Iowa, Kansas, and Western Missouri from 2000-2006.
James C. Thompson	64	Divisional Executive Vice President of UMB Bank, n.a. since July 1994.
Dennis R. Rilinger	59	Divisional Executive Vice President and General Counsel of the Company and of UMB Bank, n.a. since 1996.
David D. Kling	60	Divisional Executive Vice President of UMB Bank, n.a. since 1997.

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Name	Age	Position with Registrant
Vince J. Ciavardini	51	Vice Chairman of the Board of the Company and President and CEO of Investment Services Group since 2002. President and CEO of PFPC, Inc. 1982 to 2001, which provides fund services to the investment management industry. Mr. Ciavardini left the Company in January 2007.
Christopher G. Treece	38	Senior Vice President, Controller, and Tax Director of the Company since December 2004. Vice President and Tax Director of the Company from September 2003 to December 2004. Director of RSM McGladrey, Inc. from September 1996 to September 2003.

A discussion of recent acquisitions is included in Note 16 to the Consolidated Financial Statements provided in Item 8 on page 79 of this report.

The Company makes available free of charge on its website at *www.umb.com/investor*, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports, as soon as reasonably practicable after it electronically files or furnishes such material with or to the SEC.

ITEM 1A. ***RISK FACTORS***

Our business routinely encounters and addresses risks. Some of such risks may give rise to occurrences that cause our future results to be materially different than we presently anticipate. In the following paragraphs, we describe our present view of certain important strategic risks, although the risks below are not the only risks we face. If any such risks actually occur, our business, results of operations, financial condition and prospects could be affected materially and adversely. These risk factors should be read in conjunction with our management s discussion and analysis, beginning on page 17 hereof, and our consolidated financial statements, beginning on page 49 hereof.

General economic conditions, such as economic downturns or recessions, could materially impair our customers ability to repay loans, harm our operating results and reduce our volume of new loans. Our profitability depends significantly on economic conditions. Economic downturns or recessions, either nationally, internationally or in the states within our footprint, could materially reduce our operating results. An economic downturn could negatively impact demand for our loan and deposit products, the demand for insurance and brokerage products and the amount of credit related losses due to customers who cannot pay interest or principal on their loans. To the extent loan charge-offs exceed our estimates, an increase to the amount of expense provided related to the allowance for loans would reduce income. See Quantitative and Qualitative Disclosures About Market Risk Credit Risk in Part II, Item 7A for a discussion of how we monitor and manage credit risk.

General economic conditions, such as a stock market decline, could materially impair the number of investors in the equity and bond markets, the level of assets under management and the demand for our other fee-based services. Economic downturns or recessions could affect the volume of income from and demand for our other fee-based services. The fee revenue of our asset management segments including income from our Scout Investment Advisors and UMB Fund Services, Inc. subsidiaries, are largely dependent on both inflows to, and the fair value of, assets invested in the UMB Scout Funds and the fund clients to whom we provide services. General economic conditions can affect investor sentiment and confidence in the overall securities markets which could adversely affect asset values, net flows to these funds and other assets under management. Our bankcard revenues are dependent on transaction volumes from consumer and corporate spending to generate interchange fees. An economic downturn could negatively affect the amount of such fee income. Our banking services group is affected by corporate and consumer demand for debt securities which can be adversely affected by changes in general economic conditions.

Changes in interest rates could affect our results of operations. A significant portion of our net income is based on the difference between interest earned on earning assets (such as loans and investments) and interest

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paid on deposits and borrowings. These rates are sensitive to many factors that are beyond our control, such as general economic conditions, policies of various governmental and regulatory agencies, such as the Federal Reserve Board. For example, policies and regulations of the Federal Reserve Board influence, directly and indirectly, the rate of interest paid by commercial banks on their interest-bearing deposits and also may affect the value of financial instruments held by us. The actions of the Federal Reserve Board also determine to a significant degree our cost of funds for lending and investing. In addition, these policies and conditions can adversely affect our customers and counterparties, which may increase the risk that such customers or counterparties default on their obligations to us. Changes in interest rates greatly affect the amount of income earned and the amount of interest paid. Changes in interest rates also affect loan demand, the prepayment speed of loans, the purchase and sale of investment bonds and the generation and retention of customer deposits. A rapid increase in interest rates could result in interest expense increasing faster than interest income because of differences in maturities of assets and liabilities. See Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk in Part II, Item 7A for a discussion of how we monitor and manage interest rate risk.

We rely on our systems, employees and certain counterparties, and certain failures could adversely affect our operations. Our Company is dependent on our ability to process a large number of increasingly complex transactions. If any of our financial, accounting, or other data processing systems fail or have other significant shortcomings, we could be adversely affected. We are similarly dependent on our employees. We could be adversely affected if an employee causes a significant operational break-down or failure, either as a result of human error, purposeful sabotage or fraudulent manipulation of our operations or systems. Third parties with which we do business could also be sources of operational risk to us, including break-downs or failures of such parties' own systems or employees. Any of these occurrences could result in a diminished ability of the Company to operate, potential liability to clients, reputational damage and regulatory intervention, which could adversely affect us. Operational risk also includes our ability to successfully integrate acquisitions into existing charters as an acquired entity will most likely be on a different system than ours. See Quantitative and Qualitative Disclosures About Market Risk Operational Risk in Part II, Item 7A for a discussion of how we monitor and manage operational risk.

In a firm as large and complex as the Company, lapses or deficiencies in internal control over financial reporting are likely to occur from time to time and there is no assurance that significant deficiencies or material weaknesses in internal controls may not occur in the future.

In addition, there is the risk that our controls and procedures as well as business continuity and data security systems prove to be inadequate. Any such failure could affect our operations and could adversely affect our results of operations by requiring the Company to expend significant resources to correct the defect, as well as by exposing us to litigation or losses not covered by insurance.

If we do not successfully handle issues that may arise in the conduct of our business and operations our reputation could be damaged, which could in turn negatively affect our business. Our ability to attract and retain customers and transact with its counterparties could be adversely affected to the extent our reputation is damaged. The failure of the Company to deal with various issues that could give rise to reputational risk could cause harm to the Company and our business prospects. These issues include, but are not limited to potential conflicts of interest, legal and regulatory requirements, ethical issues, money-laundering, privacy, recordkeeping, sales and trading practices and proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. The failure to appropriately address these issues could make our clients unwilling to do business with us, which could adversely affect our results.

We face strong competition from other financial services firms, which could lead to pricing pressures that could materially adversely affect our revenue and profitability. In addition to the challenge of competing against local, regional and national banks in attracting and retaining customers, our competitors also include brokers, mortgage bankers, mutual fund sponsors, securities dealers, investment advisors and specialty finance and insurance companies. The financial services industry is intensely competitive, and we expect it to

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remain so. We compete on the basis of several factors, including transaction execution, products and services, innovation, reputation and price. We may experience pricing pressures as a result of these factors and as some of our competitors seek to increase market share by reducing prices on products and services or increasing rates paid on deposits.

The shift from paper-based to electronic-based payment business may be difficult and negatively affect earnings. In today s payment environment, checks continue to be the payment of choice; however, checks as a percent of the total payment volume are declining and the payment volume is shifting to electronic alternatives. Check products are serviced regionally due to the physical constraints of the paper document; however, electronic documents are not bound by the same constraints, thus opening the geographic markets to all providers of electronic services. To address this shift, new systems are being developed and marketed which involve significant software and hardware costs. It is anticipated that we will encounter new competition, and any competitor that attracts the payments business of our existing customers will compete strongly for the remainder of such customers banking business.

We are subject to extensive regulation in the jurisdictions in which we conduct our businesses. We are subject to extensive state and federal regulation, supervision and legislation that govern most aspects of our operations. Laws and regulations, and in particular banking, securities and tax laws, may change from time to time. For example, current federal law prohibits the payment of interest on corporate demand deposit account. Although a change to permit interest on corporate accounts would have a favorable impact on service-charge income, it would adversely affect net interest income as the cost of funds would increase. Changes in laws and regulations, lawsuits or actions by regulatory agencies could cause us to devote significant time and resources to compliance and could lead to fines, penalties, judgments, settlements, withdrawal of certain products or services offered in the market or other results adverse to us which could affect our business, financial condition or results of operation, or cause us serious reputational harm.

Our framework for managing our risks may not be effective in mitigating risk and loss to the Company. Our risk management framework is made up of various processes and strategies to manage our risk exposure. Types of risk to which we are subject include liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and reputation risk and fiduciary risk, among others. There can be no assurance that our framework to manage risk, including such framework's underlying assumptions, will be effective under all conditions and circumstances. If our risk management framework proves ineffective, we could suffer unexpected losses and could be materially adversely affected.

Liquidity is essential to our businesses and we rely on the securities market and other external sources to finance a significant portion of our operations. Liquidity affects our ability to meet our financial commitments. Our liquidity could be negatively affected should the need arise to increase deposits or obtain additional funds through borrowing to augment current liquidity sources. Factors that we cannot control, such as disruption of the financial markets or negative views about the general financial services industry could impair our ability to raise funding. If we are unable to raise funding using the methods described above, we would likely need to sell assets, such as our investment and trading portfolios, to meet maturing liabilities. We may be unable to sell some of our assets on a timely basis, or we may have to sell assets at a discount from market value, either of which could adversely affect our results of operations. Our liquidity and funding policies have been designed to ensure that we maintain sufficient liquid financial resources to continue to conduct our business for an extended period in a stressed liquidity environment. If our liquidity and funding policies are not adequate, we may be unable to access sufficient financing to service our financial obligations when they come due, which could have a material adverse franchise or business impact. See Quantitative and Qualitative Disclosures About Market Risk Liquidity Risk in Part II, Item 7A for a discussion of how we monitor and manage liquidity risk.

Inability to hire or retain qualified employees could adversely affect our performance. Our people are our most important resource and competition for qualified employees is intense. Employee compensation is our greatest expense. We rely on key personnel to manage and operate our business, including major revenue generating functions such as our loan and deposit portfolios. The loss of key staff may adversely affect our

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ability to maintain and manage these portfolios effectively, which could negatively affect our results of operations. If compensation costs required to attract and retain employees become unreasonably expensive, our performance, including our competitive position, could be adversely affected.

Changes in accounting standards could impact reported earnings. The accounting standard setting bodies, including the Financial Accounting Standards Board and other regulatory bodies periodically change the financial accounting and reporting standards affecting the preparation of our consolidated financial statements. These changes are not within our control and could materially impact our consolidated financial statements.

Future events may be different than those anticipated by our management assumptions and estimates, which may cause unexpected losses in the future. Pursuant to current Generally Accepted Accounting Principles, we are required to use certain estimates in preparing our financial statements, including accounting estimates to determine loan loss reserves, and the fair value of certain assets and liabilities, among other items. Should our determined values for such items prove substantially inaccurate we may experience unexpected losses which could be material.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

There are no unresolved comments from the staff of the SEC required to be disclosed herein as of the date of this Form 10-K.

ITEM 2. ***PROPERTIES***

The Company s headquarters building, the UMB Bank Building, is located at 1010 Grand Boulevard in downtown Kansas City, Missouri, and was opened in July 1986. Of the 250,000 square feet, 218,000 square feet is occupied by offices of the parent company, UMB Financial Corporation, as well as some customer service functions. The remaining 32,000 square feet of space is either leased or available for lease to third parties. Presently, the Company is seeking to lease 9,000 square feet of the headquarters building.

Other main facilities of UMB Bank, n.a. are located at 928 Grand Boulevard (185,000 square feet), 906 Grand Boulevard (140,000 square feet), and 1008 Oak Street (180,000 square feet) all in downtown Kansas City, Missouri. The 928 Grand and 906 Grand buildings house support functions. The 928 Grand building underwent a major rehabilitation during 2004 and 2005. The 928 building is also connected to the company s headquarters building by an enclosed elevated pedestrian walkway. The 1008 Oak building, which opened during the second quarter of 1999, houses the Company s operations, item processing, and data processing functions.

UMB Bank, n.a. is leasing 64,263 square feet in the Equitable Building, which is located in the heart of the commercial sector of downtown St. Louis, Missouri. This location has a full-service banking center and is home to operations and administrative support functions as well. UMB Bank, Colorado, is leasing 9,003 square feet on the first and third floors at 1670 Broadway located in the financial district of downtown Denver, Colorado. The location has a full-service banking center and is home to the operations and administrative support functions of UMB Bank, Colorado.

UMB Fund Services, Inc., a subsidiary of the Company, leases 72,135 square feet in Milwaukee, Wisconsin, at which its fund services operations are headquartered.

At December 31, 2006, the Company s affiliate banks operated a total of five main banking centers with 134 detached branch facilities, the majority of which are owned by the Company. The ability to obtain strategic new banking facilities in key growth areas within the Company s footprint could affect future performance.

Additional information with respect to premises and equipment is presented in Note 1 and 8 to the Consolidated Financial Statements in Item 8, pages 54 and 65 of this report.

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ITEM 3. ***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, results of operations, or cash flows of the Company.

ITEM 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

No matters were submitted to the shareholders for a vote during the fourth quarter ended December 31, 2006.

PART II

ITEM 5. ***MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

The Company's stock is traded on the NASDAQ Stock Market (specifically the NASDAQ Global Select Market) under the symbol UMBF. As of February 21, 2007, the Company had 1,901 shareholders of record. Company stock information for each full quarter period within the two most recent fiscal years is set forth in the table below.

Per Share 2006	Three Months Ended March 31	June 30	Sept. 30	Dec. 31
Dividend	$ 0.13	$ 0.13	$ 0.13	$ 0.13
Book value	19.35	19.28	20.03	20.08
Market price:				
High	35.12	35.45	37.09	38.04
Low	31.96	31.80	31.81	35.32
Close	35.12	33.34	36.57	36.51

Per Share 2005	March 31	June 30	Sept. 30	Dec. 31
Dividend	$ 0.11	$ 0.11	$ 0.11	$ 0.13
Book value	18.84	19.18	19.28	19.39
Market price:				
High	29.00	29.24	33.31	34.25
Low	26.45	26.73	28.48	30.75
Close	28.46	28.52	32.84	31.96

Information concerning restrictions on the ability of the Registrant to pay dividends and the Registrant's subsidiaries to transfer funds to the Registrant is presented in Item 1, page 6 and Note 10 to the Consolidated Financial Statements provided in Item 8, pages 67 and 68 of this report. Information concerning securities the Company issued under equity compensation plans is contained in Item 12, pages 91 and 92 and in Note 11 to the Consolidated Financial Statements provided in Item 8, pages 68 through 72 of this report.

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about share repurchase activity by the Company during the quarter ended December 31, 2006:

ISSUER PURCHASE OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 October 31, 2006	11,450	$ 35.94	11,450	1,771,273
November 1 November 30, 2006	217,934	36.00	217,934	1,553,339
December 1 December 31, 2006	208,735	36.06	208,735	1,344,604

On April 25, 2006 the Board of Directors of the Company authorized the repurchase of up to two million shares of common stock. This plan will terminate on April 25, 2007. 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 on a given day if the Company satisfies the manner, timing and volume conditions of the rule when purchasing its own common shares. Because of inadvertent timing issues, however, one trade fell outside the safe harbor provisions of Rule 10b-18 on December 8, 2006. Management of the Company continues to work with brokers so that future trades typically are executed in accordance with the safe-harbor provisions of Rule 10b-18.

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. On May 30, 2006, 21,430,099 of shares were distributed to shareholders of record on May 16, 2006.

ITEM 6. ***SELECTED FINANCIAL DATA***

For a discussion of factors that may materially affect the comparability of the information below, please see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, pages 17 through 43, of this report.

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FIVE-YEAR FINANCIAL SUMMARY

(in thousands except per share data)

	2006	2005	2004	2003	2002
EARNINGS					
Interest income	$ 369,083	$ 271,911	$ 219,454	$ 235,863	$ 294,483
Interest expense	151,859	83,621	40,350	42,684	76,452
Net interest income	217,224	188,290	179,104	193,179	218,031
Provision for loan losses	8,734	5,775	5,370	12,005	16,738
Noninterest income	254,945	251,873	228,103	245,919	232,206
Noninterest expense	381,417	358,069	350,102	351,106	360,949
Net income	59,767	56,318	42,839	58,879	57,173
AVERAGE BALANCES					
Assets	$ 7,583,217	$ 7,094,319	$ 6,927,929	$ 7,150,135	$ 7,589,065
Loans, net of unearned interest	3,579,665	3,130,813	2,781,084	2,588,794	2,632,850
Securities	2,797,114	2,918,445	3,033,732	3,556,388	3,897,717
Deposits	5,488,798	5,135,968	4,976,037	5,280,203	5,527,836
Long-term debt	37,570	34,820	17,579	17,384	27,466
Shareholders' equity	843,097	829,412	821,556	808,472	794,202
YEAR-END BALANCES					
Assets	$ 8,917,765	$ 8,247,789	$ 7,805,006	$ 7,749,419	$ 8,035,559
Loans, net of unearned interest	3,767,565	3,393,404	2,869,224	2,722,292	2,657,532
Securities	3,363,453	3,463,817	3,825,765	3,784,297	4,211,187
Deposits	6,308,964	5,920,822	5,388,238	5,636,125	5,846,947
Long-term debt	38,020	38,471	21,051	16,280	26,302
Shareholders' equity	848,875	833,463	819,182	811,923	802,800
PER SHARE DATA					
Earnings basic	$ 1.40	$ 1.31	$ 0.99	$ 1.35	$ 1.30
Earnings diluted	1.40	1.30	0.99	1.35	1.29
Cash dividends	0.52	0.46	0.43	0.41	0.40
Dividend payout ratio	37.14%	34.73%	43.43%	30.37%	30.77%
Book value	$ 20.08	$ 19.39	$ 18.93	$ 18.72	$ 18.26
Market price					
High	38.04	34.25	29.45	25.75	25.05
Low	31.80	26.45	23.23	18.13	18.10
Close	36.51	31.96	28.33	23.77	19.13
Return on average assets	0.79%	0.79%	0.62%	0.82%	0.75%
Return on average equity	7.09	6.79	5.21	7.28	7.20
Average equity to average assets	11.12	11.69	11.86	11.31	10.47
Total risk-based capital ratio	14.65	16.99	19.20	20.25	18.88

ITEM 7. ***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

MANAGEMENT S DISCUSSION AND ANALYSIS

The following presents management s discussion and analysis of the Company s consolidated financial condition, changes in condition, and results of operations. This review highlights the major factors affecting results of operations and any significant changes in financial conditions for the three-year period ended December 31, 2006. It should be read in conjunction with the accompanying Consolidated Financial Statements and other financial statistics appearing elsewhere in the report.

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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, esti intends, or similar words or expressions; and

Statements regarding the timing of the closing of branch sales and purchases.

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

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

Changes in the interest rate environment;

Changes in the securities markets;

Changes in operations;

Competitive pressures among financial services companies may increase significantly;

The ability to successfully and timely integrate acquisitions into existing charters;

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; and

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 Company continues to focus on the following five strategies which management believes will improve net income and strengthen the balance sheet.

The first strategy is a focus on net interest income. This is a multi-pronged strategy emphasizing the investment portfolio, loan portfolio and deposit base. During 2006, progress on this strategy was illustrated by an increase in net interest income of 15.4 percent from the previous year. This was accomplished through both earning asset growth, as well as an overall increase in net interest margin. Average earning assets increased by $477.4 million, or 7.6 percent, from 2005. Most of this earning asset growth was through average loan growth of $448.9 million, or 14.3 percent. The mix of earning assets improved as a larger percentage of earning assets consisted of higher yielding loans. Average loans comprised 53.0 percent of average earning assets during 2006 compared to 49.9 percent in the prior year. Further, the average loan-to-deposit ratio was 65.2 percent in 2006 as compared to 61.0 percent in 2005. Net interest margin, on a tax-equivalent basis, increased 22 basis points compared to 2005. Although net interest spread decreased 7 basis points from 2005, the contribution from free-funds increased 29 basis points. The Company s cost of funds increased in 2006 as a result of higher rates paid on customer accounts following the Federal Reserve Bank s tightening cycle.

The second strategy is to grow the Company s fee-based businesses. The average loan-to-deposit ratio of the Company s subsidiary banks has been, and is expected to continue to be, lower than industry average. The Company continues to emphasize its fee-based operations to help reduce the Company s exposure to changes in interest rates. During 2006, noninterest income represented 54 percent of total income. In particular, the Company is emphasizing its asset management, credit card, health care services and treasury management businesses. The focus in asset management is discussed in the fourth strategy below. In late 2005, the card services group implemented new reward programs to increase card usage. During 2006, the average balance of credit card loans increased by 7.8 percent and credit card fees increased by 16.2 percent. The most significant impact from card services was within the commercial card segment which had a 24 percent increase in cardholder volume. Within its treasury management business, the Company continues to focus on helping customers transition from paper payment to electronic payment options by providing new products and services, such as paycard and remote deposit capture. Additionally, the Company rolled out UMB Web Exchange^{SM} in 2006. UMB Web Exchange^{SM} is an upgraded treasury management platform. Management believes this will enhance information reporting and transaction initiation via the Internet, which improves control of service through online self-administration and strengthens system security. The Company continues to focus on its wholesale health savings and flexible spending account strategy by servicing healthcare providers, third-party administrators and large employers.

The third strategy is a focus on the retail distribution network. At the end of 2006, the Company had 139 branches which reflects the net effect in 2006 of closing five branches and opening four, including the acquisition of Mountain States Bank. During the third quarter of 2006, the Company acquired Mountain States Bancorporation, and its subsidiary, Mountain States Bank. Mountain States Bank was a single-location bank operating in downtown Denver. Since 2004, the Company has closed fifteen branches, sold nine branches and opened nine new locations. Although the Company has decreased branches by a net of fifteen since 2004, the Company s average deposits during 2006 were 10.3 percent greater than in 2004. Further, the number of retail customers increased by six percent during 2006 primarily as a result of continued deposit campaigns, as well as the acquisition of Mountain States Bank.

The fourth strategy is to expand the asset management business of the Company. In particular, the focus is on growing the UMB Scout Funds (which are managed by a subsidiary of the Company) and migrate to an investment advisory model. The investment advisory model is developed by an internal committee intended to enhance and streamline the investment decision making for traditional trust and investment management customers. Total assets under management increased by 23 percent in 2006 compared to 2005, and total assets under management were over $10 billion at December 31, 2006. This is the highest balance since the employee benefit accounts were sold to Marshall & Ilsley in 2004. The Company benefited from net flows of $898 million into the UMB Scout Funds during 2006, which included the equity, bond and money market funds. Excluding the money market funds, net flows were $684 million during 2006. Total assets under management from the UMB Scout Funds were $5.0 billion at December 31, 2006, compared to $3.5 billion at December 31, 2005. Additionally, the Company hired a new fund manager to start the UMB Scout Mid-Cap Fund which was launched on November 1, 2006. As some of the revenue from the Company s asset management business is the direct result of the market value of its customers investments, the overall health of the equity and financial

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markets plays an important role in the recognition of fee income as discussed in the Strategic Segment section on page 30 below.

The fifth strategy is a focus on capital management. The Company places a significant emphasis on the maintenance of a strong capital position, which management believes promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company s ability to capitalize on business growth and acquisition opportunities. The Company repurchased 850,997 shares of common stock at an average price of $34.78 per share during 2006. Further, the Company increased dividends during 2006 to $21,978,000 ($0.52 per share), compared to $19,629,000 ($0.46 per share) in 2005. This was a 13.0 percent increase in per share dividends during 2006 as compared to 2005. At the end of 2006, the Company had a total risk-based capital ratio of 14.65 percent, which is substantially higher than the ten percent regulatory minimum to be considered well-capitalized.

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 businesses. 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 plans to better enable the Company s employees to respond to this competition through the use of improved technology. In particular, during 2006, the Company added a new customer relationship management platform, an upgraded corporate treasury management software package, an enterprise risk-management tool, as well as imaging and network improvements.

Earnings Summary

The Company recorded consolidated net income of $59.8 million for the year ended December 31, 2006. This represents a 6.1 percent increase over 2005. Net income for 2005 increased 31.5 percent compared to 2004. Basic earnings per share for the year ended December 31, 2006 were $1.40 per share compared to $1.31 in 2005 and $0.99 in 2004. Basic earnings per share for 2006 increased 6.9 percent over 2005 per share earnings, which had increased 32.3 percent over 2004. Fully diluted earnings per share for the year ended December 31, 2006, were $1.40 per share compared to $1.30 in 2005 and $0.99 in 2004.

The Company s net interest income increased to $217.2 million in 2006 compared to $188.3 million in 2005 and $179.1 million in 2004. The $28.9 million increase in net interest income in 2006 as compared to 2005 is primarily a result of both a favorable rate and volume variance. See Table 1 on page 22. The favorable volume variance was led by a 14.3 percent increase in the average balance of loans and loans held for sale. Although the net interest spread declined by 7 basis points in 2006 as compared to 2005, the rate variance was still positive because of the benefit from interest-free funds. The impact of this benefit is illustrated on Table 2 on page 23. The $9.2 million increase in net interest income in 2005 as compared to 2004 is primarily a result of a favorable volume variance partially offset by an unfavorable rate variance. The volume variance was mostly driven by an 18.3 percent increase in loans and loans held for sale in 2005 as compared to 2004. Although interest rates increased during 2005, the Company experienced an unfavorable rate variance in 2005 as compared to 2004 as its liabilities repriced more quickly than its assets. The Company anticipates that its margins will continue to slowly improve if rates remain stable or even decrease slightly. See Table 15 on page 44 for an the impact of a rate increase or decrease on net interest income.

The Company had an increase of $3.1 million, or 1.2 percent, in noninterest income in 2006 as compared to 2005 and a $23.8 million, or 10.4 percent increase in 2005 compared to 2004. The increase in 2006 as compared to 2005 is primarily a result of increases in trust and securities processing due to increased inflows into the UMB Scout funds and increases in bankcard fees primarily from increased commercial card usage. These increases were partially offset by a decrease in service charge income, a decrease in net gains on the sales and closures of banking facilities and a decrease in gain on the sale of employee benefit accounts. The increase in noninterest income in 2006 from 2005, and 2005 from 2004 is illustrated on Table 5 on page 26.

Noninterest expense increased in 2006 by $23.3 million, or 6.5 percent, compared to 2005 and increased in 2005 by $8.0 million, or 2.3 percent, compared to 2004. Categories of noninterest expense with the most significant increases in 2006 as compared to 2005 include equipment (primarily due to higher depreciation and maintenance costs associated with technology investments); processing fees (largely due to an increase in shareholder servicing and other administration fees paid to investment advisors related to the Scout Funds), salaries and employee benefits (due partially to new equity-based compensation rules and increases in employee benefit expenses), bankcard (linked to enhanced rebate programs for commercial and consumer card customers), marketing and business development (due to enhanced deposit and loan gathering campaigns) and other expense. The 8.0 million increase in noninterest expense in 2005 as compared to 2004 was partially attributable to a $4.4 million charge for the Voluntary Separation Plan (VSP) offered by the Company in 2005. Additionally, there were increases in processing fees, bankcard expenses and other miscellaneous expenses. These 2005 increases were partially offset by personnel related efficiencies and a decrease in marketing and business development expense.

Net Interest Income

Net interest income is a significant source of the Company s earnings and represents the amount by which interest income on earning assets exceeds the interest expense paid on liabilities. The volume of interest earning assets and the related funding sources, the overall mix of these assets and liabilities, and the rates paid on each affect net interest income. Table 1 summarizes the change in net interest income resulting from changes in volume and rates for 2006, 2005 and 2004.

Net interest margin is calculated as net interest income on a fully tax equivalent basis (FTE) as a percentage of average earning assets. A critical component of net interest income and related net interest margin is the percentage of earning assets funded by interest free funding sources. Table 2 analyzes net interest rate margin for the three years ended December 31, 2006, 2005 and 2004. Net interest income, average balance sheet amounts and the corresponding yields earned and rates paid for the years 2002 through 2006 are presented in a table following the footnotes to the Consolidated Financial Statements. Net interest income is presented on a tax-equivalent basis to adjust for the tax-exempt status of earnings from certain loans and investments, which are primarily obligations of state and local governments.

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Table 1

RATE-VOLUME ANALYSIS (in thousands)

This analysis attributes changes in net interest income either to changes in average balances or to changes in average rates for earning assets and interest-bearing liabilities. The change in net interest income is due jointly to both volume and rate and has been allocated to volume and rate in proportion to the relationship of the absolute dollar amount of the change in each. All rates are presented on a tax-equivalent basis and give effect to the disallowance of interest expense for federal income tax purposes, related to certain tax-free assets. The loan average balances and rates include nonaccrual loans.

Average Volume		Average Rate		2006 vs. 2005	Increase (Decrease)		
2006	**2005**	**2006**	**2005**		**Volume**	**Rate**	**Total**
				Change in interest earned on:			
$3,579,665	$ 3,130,813	6.66%	5.66%	Loans	$ 29,934	$ 31,580	$ 61,514
				Securities:			
2,059,946	2,230,559	4.15	2.91	Taxable	(7,088)	27,866	20,778
682,363	629,576	4.99	4.72	Tax-exempt	2,082	1,370	3,452
378,028	228,177	5.06	3.50	Federal funds sold and resell agreements	7,576	3,556	11,132
56,639	60,144	4.68	3.91	Other	(165)	461	296
6,756,641	6,279,269	5.62	4.49	Total	32,339	64,833	97,172
				Change in interest incurred on:			
3,648,158	3,248,695	2.66	1.60	Interest-bearing deposits	10,609	34,181	44,790
1,148,454	1,029,063	4.60	2.85	Federal funds purchased and repurchase agreements	5,492	17,969	23,461
51,084	49,368	4.19	4.36	Other	72	(85)	(13)
$4,847,696	$ 4,327,126	3.13%	1.93%	Total	16,173	52,065	68,238
				Net interest income	$ 16,166	$ 12,768	$ 28,934

Average Volume		Average Rate		2005 vs. 2004	Increase (Decrease)		
2005	**2004**	**2005**	**2004**		**Volume**	**Rate**	**Total**
				Change in interest earned on:			
$3,130,813	$ 2,781,084	5.66%	4.91%	Loans	$ 19,765	$ 20,792	$ 40,557
				Securities:			
2,230,559	2,351,227	2.91	2.46	Taxable	(3,506)	10,567	7,061
629,576	615,176	4.72	4.67	Tax-exempt	739	334	1,073
228,177	280,305	3.50	1.57	Federal funds sold and resell agreements	(1,823)	5,414	3,591
60,144	69,163	3.91	3.15	Other	(352)	527	175

6,279,269	6,096,955	4.49	3.76	Total	14,823	37,634	52,457
				Change in interest incurred on:			
3,248,695	3,110,432	1.60	0.87	Interest-bearing deposits	2,217	22,823	25,040
1,029,063	1,050,891	2.85	1.16	Federal funds purchased and repurchase agreements	(623)	17,831	17,208
49,368	36,052	4.36	3.13	Other	580	443	1,023
$4,327,126	$ 4,197,375	1.93%	0.96%	Total	2,174	41,097	43,271
				Net interest income	$ 12,649	$ (3,463)	$ 9,186

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Table 2

ANALYSIS OF NET INTEREST MARGIN (in thousands)

	2006	2005	2004
Average earning assets	$ 6,756,641	$ 6,279,269	$ 6,096,955
Interest-bearing liabilities	4,847,696	4,327,126	4,197,375
Interest-free funds	$ 1,908,945	$ 1,952,143	$ 1,899,580
Free funds ratio (free funds to earning assets)	28.25%	31.09%	31.16%
Tax-equivalent yield on earning assets	5.62%	4.49%	3.76%
Cost of interest-bearing liabilities	3.13	1.93	0.96
Net interest spread	2.49%	2.56%	2.80%
Benefit of interest-free funds	0.89	0.60	0.30
Net interest margin	3.38%	3.16%	3.10%

The Company experienced an increase in net interest income of $28.9 million, or 15.4 percent, for the year 2006 compared to 2005. This followed a smaller increase of $9.2 million, or 5.1 percent, for the year 2005 compared to 2004. As illustrated in Table 1, the 2006 increase is due to both a favorable volume and favorable rate variance. In addition to the significant favorable volume variance associated with higher loan balances in 2006, federal funds sold and resell agreements contributed to the favorable volume variance. This activity increased as short-term and overnight funds were acquired to offset increases in customer repurchase agreements through most of 2006. In the prior year, these amounts were typically invested in short-term discount notes, which is why there is a corresponding decrease in the volume variance for taxable securities. Management anticipates that the category in which we meet our short-term investment needs will be determined by rate and availability. The favorable volume and rate variances for earning assets were partially offset by corresponding higher volume and rate variances on the liability side of the balance sheet. Deposit gathering campaigns during late 2005 and 2006 increased both deposit balances and the rates paid on those balances. Overall, the rates did not increase on deposit accounts as rapidly as in the previous year as the Federal Reserve s Open Market Committee did not increase rates in 2006 as much as they did in 2005.

The increase in the cost of funds has also increased the favorable impact from the benefit of interest-free funds. The Company has a significant portion of its deposit funding with noninterest-bearing demand deposits. Noninterest-bearing demand deposits represented 36.4 percent; 34.7 percent and 37.0 percent of total outstanding deposits at December 31, 2006, 2005 and 2004, respectively. As illustrated on Table 2, the impact from these interest-free funds was 89 basis points in 2006, compared to 60 basis points in 2005 and 30 basis points in 2004. Although the amount of these deposits has gone down as a percent of total deposits, the significant increase in the cost of funds causes the overall benefit to increase. A portion of these demand deposits are corporate deposits which banks are prohibited from paying interest under federal law. Instead, the corporate customers are provided an earnings credit to offset deposit service charges which is a significant contributor to the decline in deposit service charge income as discussed below.

The 2005 increase in net interest income over 2004 is primarily a result of a favorable volume variance due to a $350 million, or 12.6 percent, increase in average loan balances. The increase in interest rates during 2005 had a favorable impact on the rate variance for earning assets.

However, the same increase in rates affected liabilities repricing more quickly than asset repricing, causing an overall unfavorable rate variance for 2005 as compared to 2004. Although the duration of the Company s portfolio was relatively short prior to 2005, the increase in rates had a more immediate impact on liabilities than assets.

Management believes that the overall outlook in its net interest income is positive if rates remain stable or even decline slightly. The Company has experienced a repricing of most of its liabilities during the recent interest rate cycle and continues to have its assets favorably reprice. Further, the highest yielding assets, loans, have increased from an average of $2.8 billion in 2004 to an average of $3.6 billion in 2006. Loan-related earning assets tend to have a higher spread than those earned in the Company s investment portfolio as, by design, its investment portfolio is short in duration and liquid in its composition of assets.

During 2007, approximately $1.3 billion of securities are expected to mature and be reinvested. This includes $608 million of short-term agency notes which will mature during the first few weeks of 2007. In late 2004, management adopted a portfolio modification plan designed to improve interest income by extending the average life of its investment portfolio. The Company implemented this extension strategy throughout 2005 and 2006. The total investment portfolio had an average life of 28.9 months and 23.0 months as of December 31, 2006 and December 31, 2005, respectively. This increase is a result of implementing the extension strategy. It should be noted that the Company has a significant portfolio of extremely short-term discount notes as of the end of both 2006 and 2005. These 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, 2006, the amount of such discount notes was approximately $608 million, and without these discount notes, the average life of the core investment portfolio would have been 35.3 months. 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. Therefore, the core investment portfolio, without the short-term discount notes, had an increase in average life of 4.9 months in 2006. Management expects to continue to hold the average duration of the investment portfolio at approximately the same level in 2007.

Provision and Allowance for Loan Losses

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

As illustrated on Table 4 below, the ALL remained relatively flat at 1.20% of total loans as of December 31, 2006 compared to 1.21% of total loans as of December 31, 2005. Based on the factors above, management of the Company expensed an additional $3.0 million, or 51.2 percent, related to the provision for loan losses in 2006 as compared to 2005. This compares to a $0.4 million, or 7.5 percent increase in the provision for loan losses in 2005 as compared to 2004.

As shown in Table 3, the ALL has been allocated to various loan portfolio segments. The Company manages the ALL against the risk in the entire loan portfolio and therefore, the allocation of the ALL to a particular loan segment may change in the future. Management of the Company believes the present ALL is adequate considering the Company s loss experience, delinquency trends and current economic conditions, and does not anticipate material increases in the ALL or in the level of provisions to the ALL in the near future. Future economic conditions and borrowers ability to meet their obligations, however, are uncertainties which could affect the Company s ALL and/or need to change its current level of provision.

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Table 3

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES (in thousands)

This table presents an allocation of the allowance for loan losses by loan categories. The breakdown is based on a number of qualitative factors; therefore, the amounts presented are not necessarily indicative of actual future charge-offs in any particular category.

	December 31				
Loan Category	**2006**	**2005**	**2004**	**2003**	**2002**
Commercial	$ 31,136	$ 28,445	$ 17,325	$ 22,550	$ 20,050
Consumer	10,387	10,726	20,806	19,644	16,278
Real estate	3,333	1,572	4,292	1,200	900
Agricultural	20	32	250	50	50
Leases	50	50	50	50	50
Total allowance	$ 44,926	$ 40,825	$ 42,723	$ 43,494	$ 37,328

Table 4 presents a five-year summary of the Company s ALL. Also, please see Quantitative and Qualitative Disclosures About Market Risk Credit Risk on pages 46 and 47 in this report for information relating to nonaccrual, past due, restructured loans, and other credit risk matters.

Table 4

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES (in thousands)

	2006	**2005**	**2004**	**2003**	**2002**
Allowance-beginning of year	$ 40,825	$ 42,723	$ 43,494	$ 37,328	$ 35,637
Provision for loan losses	8,734	5,775	5,370	12,005	16,738
Allowance of banks and loans acquired	2,359				
Charge-offs:					
Commercial	(5,861)	(2,261)	(2,150)	(2,320)	(8,483)
Consumer					
Bankcard	(4,522)	(5,925)	(5,541)	(6,175)	(6,118)
Other	(2,554)	(1,918)	(2,050)	(2,825)	(3,746)
Real estate		(3)	(4)	(17)	(13)
Total charge-offs	(12,937)	(10,107)	(9,745)	(11,337)	(18,360)

Recoveries:					
Commercial	3,494	443	1,257	2,998	457
Consumer					
Bankcard	1,073	1,008	1,129	1,097	1,307
Other	1,376	981	1,217	1,294	1,507
Real estate	2	2	1	109	21
Agricultural					21
Total recoveries	5,945	2,434	3,604	5,498	3,313
Net charge-offs	(6,992)	(7,673)	(6,141)	(5,839)	(15,047)
Allowance-end of year	$ 44,926	$ 40,825	$ 42,723	$ 43,494	$ 37,328
Average loans, net of unearned interest	$ 3,562,038	$ 3,109,774	$ 2,758,312	$ 2,536,196	$ 2,614,362
Loans at end of year, net of unearned interest	3,753,445	3,373,944	2,845,196	2,701,901	2,639,669
Allowance to loans at year-end	1.20%	1.21%	1.50%	1.61%	1.41%
Allowance as a multiple of net charge-offs	6.43x	5.32x	6.96x	7.45x	2.48x
Net charge-offs to:					
Provision for loan losses	80.04%	132.87%	114.36%	48.64%	89.90%
Average loans	0.20	0.25	0.22	0.23	0.59

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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 typically non-credit related and are not generally affected by fluctuations in interest rates. Fee-based, or noninterest income, increased slightly in 2006 as compared to 2005. The increase in noninterest income would have been even greater as 2005 included $9.2 million of net gains on the sales and closures of banking facilities and $3.6 million of net gain on the sale of employee benefit accounts reported in 2005. Comparable net gains of $0.8 million were reported in 2006.

The Company s fee-based services provide the opportunity to offer multiple products and services to customers which management believes will more closely align the customer with the Company. The Company s ongoing focus is to continue to develop and offer multiple products and services to its customers. The Company is currently emphasizing fee-based services including trust and securities processing, bankcard, 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 have common platforms and support structures.

Table 5

SUMMARY OF NONINTEREST INCOME (in thousands)

	Year Ended December 31						
				Dollar Change		Percent Change	
	2006	2005	2004	06-05	05-04	06-05	05-04
Trust and securities processing	$ 98,250	$ 82,430	$ 75,742	$ 15,820	$ 6,688	19.2%	8.8%
Trading and investment banking	18,192	17,787	17,389	405	398	2.3	2.3
Service charges on deposit accounts	73,598	79,420	73,533	(5,822)	5,887	(7.3)	8.0
Insurance fees and commissions	3,956	3,326	3,487	630	(161)	18.9	(4.6)
Brokerage fees	6,228	5,933	7,731	295	(1,798)	5.0	(23.3)
Bankcard fees	38,759	33,362	31,435	5,397	1,927	16.2	6.1
Gain on sales of assets and deposits, net	793	9,237	2,185	(8,444)	7,052	(91.4)	322.8
Gain on sale of employee benefit accounts		3,600	1,240	(3,600)	2,360	(100.0)	190.3
Gains (losses) on sales of securities available for sale, net	117	(225)	141	342	(366)	(152.0)	(259.6)
Other	15,052	17,003	15,220	(1,951)	1,783	(11.5)	11.7
Total noninterest income	$ 254,945	$ 251,873	$ 228,103	$ 3,072	$ 23,770	1.2%	10.4%

Noninterest income and the year-over-year changes in noninterest income are summarized in Table 5 above. The dollar change and percent change columns highlight the respective net increase or decrease in the categories of noninterest income in 2006 as compared to 2005 and in 2005 as compared to 2004.

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 mutual fund assets servicing. These fees increased year-over-year for the past two years by 19.2 percent and 8.8 percent, respectively. The increase in trust and securities processing fees in 2006 as compared to 2005 was primarily a result of a $9.4 million increase in management fees earned by Scout Investment Advisors, Inc. (a subsidiary of the Company) related to the UMB Scout Funds. These fees are related to the total assets under management of these funds. The total assets under management for the UMB Scout Funds were $5.0 billion at December 31, 2006 as compared to $3.5 billion at December 31, 2005. Additionally, there were approximately $5.6 million in higher fund administration fees earned by UMB Fund Services. These two items were also the primary reasons for the respective increases

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in this category in 2005 as compared to 2004. As the income from these two divisions are highly correlated to the market value of assets, the related income will be affected by changes in the securities markets. Management continues to emphasize sales of services to both new and existing clients as well as increasing and improving the distribution channels which lead to increased inflows into the UMB Scout funds.

Service charges on deposit accounts decreased by 7.3 percent in 2006 as compared to 2005, whereas, this category increased by 8.0 percent in 2005 as compared to 2004. The decrease in 2006 as compared to 2005 is primarily attributable to a decline in corporate service charge income, which was partially offset by an increase in overdraft and return item charges. Corporate service charge income was adversely affected by increases in earnings credits on compensating balances. Due to the increase in interest rates, the earnings credits on compensating balances increased correspondingly. Corporate service charge income is also affected by the shift of customer payments from paper to electronic. The Company has focused significant resources into maintaining its cash management income levels. Examples of this investment include new products, the rollout of improved sales incentives and the introduction of WebExchange^{SM} during 2006. However, the external challenges facing the Company make the impact of these changes on its income uncertain. Partially offsetting this decrease in corporate service charge income, consumer service charge income increased by 6.5 percent during 2006, as compared to 2005 due mostly to pricing increases. The increase in service charge income in 2005 over 2004 was primarily a result of a $7.5 million increase in individual overdraft and return item charges partially offset by a decrease in corporate service charges. The increase in individual overdraft and return item charges in 2005 was mostly due to pricing increases and changes in overdraft and collection procedures in the second half of 2004. These fees continued to increase through 2006, although management does not expect that the level of overdraft and return item charges will continue to increase significantly.

Brokerage fees increased slightly in 2006 after a larger decline in the prior year. Management addressed the decline from the prior years by focusing on its distribution network and commercial customer base. The increase in brokerage fees in 2006 as compared to 2005 was primarily attributable to institutional money market and other asset-backed fee income. The decline in 2005 as compared to 2004 was mostly due to the continued decreased demand for retail brokerage accounts.

Bankcard fees increased by 16.2 percent in 2006 as compared to 2005. This increase followed a smaller increase in 2005 over 2004 of 6.1 percent. The increase in both years reflects both higher card volume and a greater average transaction dollar amount. In 2005, the credit card rebate programs were modified to encourage increased usage by both consumer and commercial customers. Management continues to focus on bankcard fees as a continued source of fee-based income for the Company with a particular emphasis in commercial card segments. On the consumer side, management expects a continued transfer from offline to online debit card activity.

Gains on sales of assets and deposits, net, were approximately $0.8 million in 2006 as compared to $9.2 million in 2005. The 2006 gain was primarily a result of a few small property transactions during 2006. The 2005 gains were primarily attributable to net gains on the sales of eleven banking facilities. Other gains in 2005 included a $2.4 million gain related to the condemnation sale of a downtown Kansas City banking facility to the city, as well as a $1.2 million gain on the sale of a portion of land related to another Kansas City banking facility. The $2.2 million gain in 2004 was primarily related to the condemnation sale of a downtown Kansas City parking lot.

Gain on sale of employee benefit accounts represent earnout payments received in 2005 and 2004 as a result of the sale of employee benefit accounts announced in May 2003. The accounts were transferred in the first month of 2004 and a gain of $1.2 million was recognized in the year. In the first quarter of 2005, an earnout payment of $3.6 million was received based on the income received during the first twelve months on accounts transferred in 2004. There was no gain associated with this item in 2006.

Other income decreased by 11.5 percent in 2006 as compared to 2005. This decrease was primarily a result of several reductions in miscellaneous fee income for such items as consulting fees with correspondent banks,

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home banking fees due to the switch to free on-line bill pay products, and a decrease in net fees related to selling mortgage loans. The increase in 2005 compared to 2004 is mostly due to greater data processing fees on correspondent banking accounts, as well as several smaller miscellaneous income items, the largest of which was a $0.3 million of income in exchange for a trade membership owned by the Company.

Noninterest Expense

Noninterest expense increased in both 2006 and 2005 as compared to the respective prior years. Table 6 below summarizes the components of noninterest expense and the respective year-over-year changes for each category.

Table 6

SUMMARY OF NONINTEREST EXPENSE (in thousands)

	Year Ended December 31						
				Dollar Change		Percent Change	
	2006	2005	2004	06-05	05-04	06-05	05-04
Salaries and employee benefits	$ 193,980	$ 190,197	$ 189,876	$ 3,783	$ 321	2.0%	0.2%
Occupancy, net	27,776	26,468	26,131	1,308	337	4.9	1.3
Equipment	48,968	44,031	43,422	4,937	609	11.2	1.4
Supplies and services	22,805	21,808	22,268	997	(460)	4.6	(2.1)
Marketing and business development	14,835	13,309	15,306	1,526	(1,997)	11.5	(13.1)
Processing fees	28,292	23,594	21,372	4,698	2,222	19.9	10.4
Legal and consulting	8,175	8,577	8,825	(402)	(248)	(4.7)	(2.8)
Bankcard	13,831	11,608	9,116	2,223	2,492	19.2	27.3
Amortization of intangibles	1,600	740	742	860	(2)	116.2	(0.3)
Other	21,155	17,737	13,044	3,418	4,693	19.3	36.0
Total noninterest expense	$ 381,417	$ 358,069	$ 350,102	$ 23,348	$ 7,967	6.5%	2.3%

Salaries and employee benefits expense increased by two percent in 2006 as compared to 2005. This increase in 2006 is attributable to several items including a $1.3 million increase in equity-based compensation as a result of the implementation of Statement of Financial Accounting Standards (SFAS) No. 123 (R), Share-Based Payment ; a $1.8 million increase in the Company match of the 401(k) and profit sharing plan in 2006; and a $1.6 million increase in health insurance costs associated with the Company s self-funded insurance plan. The 401(k) plan had a 25 percent increase in the company match effective on January 1, 2006. After this change, the Company matched fifty percent of the first five percent of employee salary deferrals compared to fifty percent of the first four percent prior to the change. The profit sharing contribution in 2006 was the first profit sharing contribution since 2003. Additionally, the base salaries increased by approximately 4.1 percent in 2006 as compared to 2005 partly due to the acquisition of Mountain States Bank in the third quarter of 2006. Overall full-time equivalent employees remained relatively flat at the end of both 2005 and 2006. Full-time equivalent employees were 3,433 at the end of 2005 and 3,432 at the end of 2006, despite the addition of 57 positions in September 2006 with the acquisition of Mountain States Bank. Although the overall change in salary and benefit expense from 2004 to 2005 was small, there was a $4.4 million charge for payments made to employees under the VSP. These higher costs were offset by decreases in staffing levels during 2005. The hiring of additional strategic sales personnel in 2006 had an unfavorable impact on salary expense in 2006. Management anticipates that this investment in sales personnel will provide additional revenue, but the impact on future income is unknown.

Occupancy, net expense increased by 4.9 percent in 2006 as compared to 2005, after remaining relatively flat from 2005 as compared to 2004. The increase in 2006 is primarily attributable to increased depreciation and rent expense on buildings, coupled with a decrease in rental income on Company-owned facilities. Management does not anticipate a significant future investment in properties, but we continue to evaluate our entire branch network and footprint for new opportunities. Whether the decrease in rental income will continue into future years depends upon the Company s ability to fully lease its vacant space, and the timing and conditions of any such leases are currently unknown.

Equipment costs increased by 11.2 percent in 2006 as compared to 2005, after a moderate 1.4 percent increase in 2005 as compared to 2004. Equipment costs increased primarily due to additional depreciation, amortization and maintenance on major software upgrades and acquisitions implemented during early 2005 and early 2006. These projects include Check 21 imaging software, WebExchange^{SM} commercial treasury management software upgrades, voice over internet protocol software, interactive voice response software upgrades, customer relationship management software, and the umb.com upgrade. Management anticipates that although the level of investment in technology will continue to increase during 2007, it will increase at a decreasing rate.

Marketing and business development increased 11.5 percent in 2006 as compared to 2005. This increase is primarily due to higher business development related expenditures, as well as concentrated loan and deposit gathering campaigns designed to increase home equity lines of credit and certain retail deposits. Marketing expense decreased by 13.1 percent in 2005 as compared to 2004 due to a management shift in television and other media advertising to more local community sponsorships.

Processing fees increased in both 2006 and 2005 compared to the respective prior years. The increase in both years is primarily attributable to an increase in shareholder servicing and other administration fees paid to investment advisors related to the Scout Funds as a result of increases in assets under management for both years. The amount of such fees paid in future years is dependent upon assets under management (affected by both fund inflows as well as market values), and is expected to generally correlate to trends in the equity markets. Additional processing fee increases in 2006 as compared to 2005 are attributable to ATM network expenses and purchased EDP services. Management anticipates that the level of the ATM network expenses should decline in 2006 as a significant number of ATMs are being removed from the network, primarily associated with the Walgreen s locations.

Bankcard expenses increased in both 2006 and 2005 compared to the respective prior years. The increases in both 2006 and 2005 are primarily attributable to customer rebate programs associated with the implementation of a new platinum rebate program in 2005 for individual customers and enhancements to the rebate program for corporate customers in 2004. Additional expenses relate to increased item expenses which correlate to the increase in bankcard fee income.

Amortization of intangibles increased by $0.9 million in 2006 as compared to 2005 due to the acquisition of Mountain States Bank in September 2006. As 2006 only represented a partial year of new amortization, management anticipates that this expense will increase in 2007 as a result of the first full year of amortization related to this acquisition.

Other expenses increased in both 2006 and 2005 compared to the respective prior years. The increase in 2006 as compared to 2005 is primarily due to a $2.4 million increase in miscellaneous operational charge-offs. The remaining increase was mostly due to higher directors fees in 2006 as compared to 2005. The higher expense in 2005 compared to 2004 is a result of many items including: a $1.8 million increase in operational charge-offs primarily due to the new overdraft program, a $0.5 million increase in charitable contributions, and the remainder from a variety of non-operating charge-offs.

Income Taxes

Income tax expense totaled $22.3 million in 2006, compared to $20.0 million in 2005 and $8.9 million in 2004. These expense levels equate to effective rates of 27.1 percent, 26.2 percent, and 17.2 percent for 2006, 2005, and 2004, respectively. The primary reason for the difference between the Company s effective tax rate and the statutory tax rate is the effect of non-taxable income from municipal securities and state and federal tax credits realized. The increase in the effective tax rate in 2006 as compared to 2005 was primarily a result of tax-exempt income representing a smaller percentage of pre-tax net income. The more dramatic increase in the effective tax rate in 2005 as compared to 2004 was a result of a $1.9 million reduction in federal and state rehabilitation tax credits received related to the rehabilitation of a downtown Kansas City, Missouri office building. Management believes that the effective tax rate will increase slightly in 2007 as no significant federal or state tax credits are anticipated.

Strategic Segments

The Company s operations are strategically aligned into six major segments: Commercial Banking and Lending, Payment and Technology Solutions, Banking Services, Consumer Services, Asset Management, and Investment Services Group. The segments are differentiated by both the customers and the products and services offered. Note 13 to the Consolidated Financial Statements describes how these segments are identified and presents financial results of the segments for the years ended December 31, 2006, 2005 and 2004. The Treasury and Other Adjustments category includes items not directly associated with any other segment.

Commercial Banking and Lending s 2006 pre-tax net income increased from 2005 by $3.0 million, or 15.0 percent, to $22.7 million. In 2005, the pre-tax net income decreased from 2004 by $1.5 million, or 6.9 percent, to $19.8 million. For 2006, the increase in net income was driven primarily by a greater net interest income of $6.1 million due mostly to higher loan volume and increased margins. This increase was partially offset by an increase in the provision for loan losses and an increase in noninterest expense. The decrease in pre-tax net income in 2005 as compared to 2004 was primarily a result of a $1.1 million reduction in net interest income as a result of higher funding costs associated with rate increases throughout 2005, as well as an increase to the provision for loan loss. The Company has invested in this segment with the implementation of a CRM system to aid in sales management, the identification of cross sale opportunities, and overall knowledge of a client's banking relationship. Management anticipates continued competition for commercial loans in 2007 and, therefore, expects net interest income growth to be at a more measured pace.

Payment and Technology Solutions pre-tax net income increased $5.8 million, or 23.2 percent, to $30.8 million compared to an increase of $3.3 million, or 15.2 percent, to $25.0 million in 2005. The increase in both years is largely due to higher net interest income related to higher margins. Net interest income increased by $8.7 million or 19.3 percent, in 2006 as compared to 2005, and increased by $5.7 million, or 14.3 percent, in 2005 as compared to 2004. The increases in net interest margin are primarily attributable to higher fund transfer pricing rates on deposits from this segment. In 2006, noninterest income within this segment decreased primarily from a reduction in deposit service charge income, but was partially offset by significant percentage increases in both healthcare income and commercial credit/purchasing card income. Challenges for this segment arise from competitive pressures, as well as the technological challenges due to the movement from paper to electronic processing. If interest rates remain stable or continue to increase in 2007, pressure will continue to be placed on deposit service charge income which is directly impacted by earnings credits on compensating balances. The Company has focused significant resources into creating and enhancing products and services to keep the Company in step with the client s changing needs. The primary example of this investment is the introduction of WebExchange^{SM}, an upgraded online banking software for businesses, in 2006.

Banking Services pre-tax net income declined slightly in 2006 as compared to 2005. The 2005 pre-tax net income for this segment decreased by $4.9 million, or 56.5 percent. For 2005, the decrease in pre-tax net income is primarily attributable to a decrease in net interest income of $2.1 million and an increase in noninterest expense of $2.2 million. Net interest income was down in 2005 due primarily to a $60 million, or 33%, decline in deposits as the increase in earnings credit rate decreased the required amount of compensating balances. A change in deposit mix from noninterest bearing deposits to interest bearing repurchase agreements also helped fuel this movement. If this trend continues, future increases in interest rates would have an adverse effect on net interest margin for this segment. Noninterest expense increased in 2005 as compared to 2004 primarily due to VSP salary expenses as well as Fed pricing increases.

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Consumer Services pre-tax net income decreased by $6.1 million, or 56.4 percent, to $4.7 million in 2006 as compared to 2005. One of the primary drivers of the decrease in pre-tax net income within this segment are the net gains on the sale of branch facilities recognized during 2005. The remainder of the decrease in pre-tax net income in 2006 is mostly attributable to an increase in noninterest expense in 2006 as compared to 2005. This increase in noninterest expense is mostly related to greater bankcard expense (related to the growth of bankcard income), greater depreciation expense from new branch facilities, higher ATM network charges, marketing cost increases due to deposit gathering and consumer loan campaigns and increased allocations of corporate technology costs. The increase in noninterest expense was partially offset by a $12.6 million increase in net interest income. Net interest income grew primarily because of a greater funds transfer pricing credit corresponding to higher rates and higher deposits levels within this segment. Pre-tax net income increased by 17.9 million in 2005 as compared to 2004 attributable to a $10.6 million dollar increase in noninterest income, a $5.0 million increase in net interest income, and a $0.9 million decrease in noninterest expense. Fee income increased in 2005 as a result of net account growth, the implementation of new service charges on depository products and from the sale of banking facilities. The increase in the net interest income occurred as assets repriced in a higher interest rate environment and core deposits lagged. Management anticipates continued growth in service fee income in 2007, but at a more me