

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

EXCHANGE NATIONAL BANCSHARES INC
Form 10-Q
August 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

or

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

For the transition period from _____ to _____

Commission File Number: 0-23636

EXCHANGE NATIONAL BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

MISSOURI
(State or other jurisdiction of
of incorporation or organization)

43-1626350
(I.R.S. Employer
Identification No.)

132 EAST HIGH STREET, JEFFERSON CITY, MISSOURI 65101
(Address of principal executive offices) (Zip Code)

(573) 761-6100
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed
since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant 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 Accelerated filer Non-accelerated filer

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

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 August 9, 2006, the registrant had 4,169,847 shares of common stock, par value \$1.00 per share, outstanding.

Page 1 of 47 pages
Index to Exhibits located on page 47

1

PART I - FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	JUNE 30, 2006	DECEMBER 31, 2005
ASSETS		
Loans:	\$ 834,369,769	\$ 813,534,876
Less allowance for loan losses	9,335,047	9,084,774
	825,034,722	804,450,102
Loans, net		
Investments in available for sale debt securities, at fair value	179,103,697	173,389,101
Investments in equity securities, at cost	6,814,500	6,302,725
Federal funds sold	22,215,186	12,447,981
Cash and due from banks	32,579,791	35,282,568
Premises and equipment	33,395,496	32,890,908
Accrued interest receivable	8,171,170	7,772,573
Mortgage servicing rights	1,434,227	1,536,331
Goodwill	40,323,775	40,323,775
Core deposit intangible	4,252,615	4,786,460
Cash surrender value - life insurance	1,710,451	1,682,836
Other assets	6,550,347	5,605,116
	\$1,161,585,977	\$1,126,470,476
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Demand deposits	\$ 142,712,557	\$ 134,364,788
Time deposits	756,136,753	747,090,418
	898,849,310	881,455,206
Total deposits		
Federal funds purchased and securities sold under agreements to repurchase	46,084,905	36,995,735
Interest-bearing demand notes to U.S. Treasury	447,574	1,098,337
Subordinated notes	49,486,000	49,486,000
Advances from Federal Home Loan Bank, Des Moines	57,879,739	52,179,661
Accrued interest payable	3,819,811	3,139,130
Other liabilities	5,393,284	5,383,542
	1,061,960,623	1,029,737,611
Total liabilities		

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Stockholders' equity:

Common stock - \$1 par value; 15,000,000 shares authorized; 4,298,353 issued	4,298,353	4,298,353
Surplus	22,132,641	22,030,074
Retained earnings	77,999,573	74,129,117
Accumulated other comprehensive loss, net of tax	(2,152,704)	(1,072,170)
Treasury stock, 128,506 shares at cost	(2,652,509)	(2,652,509)
	-----	-----
Total stockholders' equity	99,625,354	96,732,865
	-----	-----
Total liabilities and stockholders' equity	\$1,161,585,977	\$1,126,470,476
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

2

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS JUNE 30
	2006	2005	2006
	-----	-----	-----
Interest income:			
Interest and fees on loans	\$15,756,514	\$11,826,533	\$30,480,993
Interest on debt securities:			
Taxable	1,375,081	1,344,608	2,775,951
Nontaxable	477,003	405,528	961,136
Interest on federal funds sold	213,606	233,508	307,160
Interest on interest-bearing deposits	30,709	4,580	57,000
Dividends on equity securities	76,908	72,506	140,447
	-----	-----	-----
Total interest income	17,929,821	13,887,263	34,722,687
	-----	-----	-----
Interest Expense:			
NOW accounts	391,007	429,816	781,576
Savings	75,885	80,644	153,659
Money market accounts	1,258,016	825,936	2,392,022
Certificates of deposit:			
\$100,000 and over	1,207,225	811,613	2,265,353
Other time deposits	2,992,934	2,111,065	5,706,995
Federal funds purchased and securities sold under agreements to repurchase	486,090	315,697	996,951
Subordinated notes	874,000	746,544	1,715,739
Advances from Federal Home Loan Bank	801,416	484,862	1,403,939
Other borrowed money	8,699	4,929	13,358
	-----	-----	-----
Total interest expense	8,095,272	5,811,106	15,429,592
	-----	-----	-----
Net interest income	9,834,549	8,076,157	19,293,095

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Provision for loan losses	310,500	237,667	628,000
Net interest income after provision for loan losses	9,524,049	7,838,490	18,665,095

Continued on next page

3

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
Noninterest income:				
Service charges on deposit accounts	\$1,516,875	\$1,019,169	\$ 2,877,705	\$ 1,877,705
Trust department income	228,369	247,954	408,079	408,079
Loss on sales and calls of debt securities	--	--	(18,351)	(18,351)
Mortgage loan servicing fees, net	109,594	104,032	224,276	224,276
Gain on sale of mortgage loans	89,600	176,891	201,834	201,834
Other	304,742	249,145	581,548	581,548
Total noninterest income	2,249,180	1,797,191	4,275,091	3,826,693
Noninterest expense:				
Salaries and employee benefits	4,342,902	3,434,712	8,688,148	6,877,705
Occupancy expense	447,824	386,336	900,166	900,166
Furniture and equipment expense	542,858	541,999	1,062,485	1,062,485
Postage, printing and supplies	291,546	254,871	583,919	583,919
Legal, examination, and professional fees	318,866	333,148	613,089	613,089
Amortization of intangible assets	258,148	147,528	533,845	533,845
Processing expense	302,237	195,179	515,020	515,020
Other	953,086	967,084	1,872,387	1,872,387
Total noninterest expense	7,457,467	6,260,857	14,769,059	11,858,501
Income before income taxes	4,315,762	3,374,824	8,171,127	6,877,705
Income taxes	1,382,577	1,030,021	2,549,335	2,549,335
Net income	\$2,933,185	\$2,344,803	\$ 5,621,792	\$ 4,328,370
Basic earning per share	\$ 0.70	\$ 0.56	\$ 1.35	\$ 1.06
Diluted earnings per share	\$ 0.70	\$ 0.56	\$ 1.34	\$ 1.06
Weighted average shares of common stock outstanding				
Basic	4,169,847	4,169,847	4,169,847	4,169,847
Diluted	4,202,079	4,198,333	4,202,891	4,198,333
Dividends per share:				
Declared	\$ 0.21	\$ 0.18	\$ 0.42	\$ 0.42
Paid	\$ 0.21	\$ 0.18	\$ 0.42	\$ 0.42

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

See accompanying notes to unaudited condensed consolidated financial statements.

4

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	SIX MONTHS ENDED JUNE 30,	
	2006	2005
Cash flow from operating activities:		
Net income	\$ 5,621,792	\$ 4,582,417
Adjustments to reconcile net income to net cash cash provided by operating activities:		
Provision for loan losses	628,000	473,167
Depreciation expense	887,099	842,543
Net amortization of debt securities premiums and discounts	24,181	425,137
Amortization of intangible assets	533,845	201,306
Non-cash compensation expense for stock based compensation	102,567	--
Increase in accrued interest receivable	(398,597)	(762,388)
Increase in cash surrender value - life insurance	(27,615)	(9,042)
Increase in other assets	(104,893)	(349,526)
Increase in accrued interest payable	680,681	792,565
Increase in other liabilities	9,742	569,970
Loss on sales and calls of debt securities	18,351	--
Origination of mortgage loans for sale	(10,831,923)	(19,077,940)
Proceeds from the sale of mortgage loans held for sale	11,033,757	19,384,527
Gain on sale of mortgage loans	(201,834)	(306,587)
Loss on disposition of premises and equipment	22,989	674
Other, net	--	15,180
	7,998,142	6,782,003
Cash flow from investing activities:		
Net increase in loans	(21,463,240)	(21,907,593)
Purchase of available-for-sale debt securities	(94,746,721)	(149,808,331)
Proceeds from maturities of available-for- sale debt securities	84,743,761	116,555,508
Proceeds from calls of available-for-sale debt securities	610,038	13,172,500
Proceeds from sales of available-for-sale debt securities	1,985,020	1,071,803
Purchase of equity securities	(1,008,150)	(812,450)
Proceeds from sales of equity securities	495,500	95,800
Acquisition of subsidiary, net of cash and		

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

cash equivalents acquired	--	(21,798,564)
Purchase of premises and equipment	(1,446,926)	(3,127,280)
Proceeds from dispositions of premises and equipment	32,250	--
Proceeds from sales of other real estate owned and repossessions	83,501	1,439,880
	-----	-----
Net cash used in investing activities	(30,714,967)	(65,118,727)
	-----	-----

Continued on next page

5

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Unaudited)

	SIX MONTHS ENDED JUNE 30,	
	2006	2005
	-----	-----
Cash flow from financing activities:		
Net increase in demand deposits	\$ 8,347,769	\$ 8,252,832
Net increase (decrease) in interest-bearing transaction accounts	(3,992,022)	23,663,971
Net increase in time deposits	13,038,357	10,283,788
Net increase in federal funds purchased and securities sold under agreements to repurchase	9,089,170	8,370,728
Net increase (decrease) in interest-bearing demand notes to U.S. Treasury	(650,763)	137,083
Proceeds from issuance of subordinated notes	--	23,712,000
Proceeds from Federal Home Loan Bank borrowings	123,624,684	3,500,000
Repayment of Federal Home Loan Bank borrowings	(117,924,606)	(3,793,180)
Cash dividends paid	(1,751,336)	(1,501,144)
	-----	-----
Net cash provided by financing activities	29,781,253	72,626,078
	-----	-----
Net increase in cash and cash equivalents	7,064,428	14,289,354
Cash and cash equivalents, beginning of period	47,730,549	65,708,410
	-----	-----
Cash and cash equivalents, end of period	\$ 54,794,977	\$79,997,764
	=====	=====
Supplemental disclosure of cash flow information -		
Cash paid during period for:		
Interest	\$ 14,748,911	\$ 9,450,543
Income taxes	2,660,000	1,600,000
Supplemental schedule of noncash investing activities -		
Other real estate and repossessions acquired in settlement of loans	\$ 250,620	\$ 1,880,141

See accompanying notes to unaudited condensed consolidated financial statements.

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Three and Six Months Ended June 30, 2006 and 2005

The accompanying unaudited condensed consolidated financial statements include all adjustments that in the opinion of management are necessary in order to make those statements not misleading. Certain amounts in the 2005 condensed consolidated financial statements have been reclassified to conform to the 2006 condensed consolidated presentation. Such reclassifications have no effect on previously reported net income or stockholders' equity. Operating results for the periods ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

It is suggested that these unaudited condensed consolidated interim financial statements be read in conjunction with our Company's audited consolidated financial statements included in its 2005 Annual Report to Shareholders under the caption "Consolidated Financial Statements" and incorporated by reference into its Annual Report on Form 10-K for the year ended December 31, 2005 as Exhibit 13.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed and omitted. Our Company believes that these financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly our Company's consolidated financial position as of June 30, 2006 and December 31, 2005 and the consolidated statements of earnings for the three and six month periods ended June 30, 2006 and 2005 and cash flows for the six months ended June 30, 2006 and 2005.

ACQUISITION

On May 2, 2005 our Company acquired 100 percent of the outstanding common shares of Bank 10 from Drexel Bancshares, Inc. of Belton, Missouri. Accordingly, the results of operations of Bank 10 have been included in the condensed consolidated financial statements since the date of acquisition. Bank 10 has branches in Belton, Drexel, Independence, Harrisonville, and Raymore, Missouri. As a result of this acquisition our Company expanded our presence in the Kansas City, Missouri metropolitan market.

A summary of unaudited pro forma combined financial information for the three-month and six-month periods ended June 30, 2005 for our Company and Bank 10 as if the transaction had occurred on January 1, 2005 as follows:

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

	Three Months Ended June 30, 2005 -----	Six Months Ended June 30, 2005 -----
Net interest income	\$8,593,966	\$16,896,125
Net income	2,403,826	4,695,768
Basic earnings per share	\$ 0.58	\$ 1.13
Diluted earnings per share	0.57	1.12

EARNINGS PER SHARE

The following table reflects, for the three-month and six-month periods ended June 30, 2006 and 2005, the numerators (net income) and denominators (average shares outstanding) for the basic and diluted net income per share computations:

	THREE MONTHS ENDED JUNE 30, -----		SIX MONTHS ENDED JUNE 30, -----	
	2006	2005	2006	2005
Net income, basic and diluted	\$2,933,185	\$2,344,803	\$5,621,792	\$4,582,417
Average shares outstanding	4,169,847	4,169,847	4,169,847	4,169,847
Effect of dilutive stock options	32,232	28,521	33,044	29,234
Average shares outstanding including dilutive stock options	4,202,079	4,198,368	4,202,891	4,199,081
Basic earning per share	\$ 0.70	\$ 0.56	\$ 1.35	\$ 1.10
Diluted earnings per share	\$ 0.70	\$ 0.56	\$ 1.34	\$ 1.09

8

SHARE-BASED COMPENSATION

Our Company maintains a stock-based incentive program which is discussed in more detail in the "Stock Option Plans" section which follows. Prior to 2006, our Company applied the intrinsic value-based method, as outlined in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and related interpretations, in accounting for stock options granted under these programs. Under the intrinsic value-based method, no compensation expense was recognized if the exercise price of our Company's employee stock options equaled the market price of the underlying stock on the date of the grant. Accordingly, prior to 2006, no compensation cost was recognized in the consolidated statements of income for stock options granted to employees, since all options granted under our Company's share incentive programs had an exercise price equal to the fair value of the underlying common stock on the date of the grant.

Effective January 1, 2006, our Company adopted Statement of Financial Accounting Standards No. 123(R) (SFAS No.123(R)) Share-Based Payment. This statement replaces SFAS No. 123, Accounting for Stock-Based Compensation and supersedes APB No. 25. SFAS No. 123(R) requires that all stock-based

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. This statement was adopted using the modified prospective method of application, which requires our Company to recognize compensation expense on a prospective basis. Therefore, prior period financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining service period of awards that had been included in pro forma disclosures in prior periods. SFAS No. 123(R) also requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows. For the six months ended June 30, 2006, there were no stock options exercised.

Total stock-based compensation expense for the three-month and six-month periods ended June 30, 2006 was \$42,000 (\$28,000 after tax) and \$103,000 (\$68,000 after tax). As of June 30, 2006, the total unrecognized compensation expense related to non-vested stock awards was \$528,000 and the related weighted average period over which it is expected to be recognized is approximately 2.3 years.

9

The following table illustrates the effect on net income and earnings per share if the fair value recognition provisions of SFAS No. 123(R) had been applied in 2005:

	THREE MONTHS ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2005
	-----	-----
Net income, as reported	\$2,344,803	\$4,582,417
Add: share-based compensation expense included in reported net income, net of related tax effects	--	--
Less: total share-based employee compensation expense associated with stock options determined under fair value method for all option awards, net of related tax effects	(35,700)	(71,399)
	-----	-----
Pro forma net income	\$2,309,103	\$4,511,018
	=====	=====
Pro forma earnings per common share:		
As reported basic	\$ 0.56	\$ 1.10
Pro forma basic	0.55	1.08
As reported diluted	0.56	1.09
Pro forma diluted	0.55	1.07

10

STOCK OPTION PLANS

On December 4, 2000, the Incentive Stock Option Committee of the board of directors (the "Committee") approved our Company's stock option plan, which

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

provides for the grant of options to purchase up to 450,000 shares of our Company's common stock to officers and other key employees of our Company and its subsidiaries. Terms and conditions (including price, exercise date, and number of shares to which the option relates) are determined by the Committee. All options granted to date have been granted at an exercise price equal to fair value of the underlying shares at the grant date and vest over periods ranging from one to seven years except for options granted with respect to 4,821 shares in 2002 that vested immediately.

The following table summarizes our Company's stock option activity for the six-month period ended June 30, 2006:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	AGGREGATE INTRINSIC VALUE (000)	WEIGHTED AVERAGE CONTRACTUAL TERM (IN YEARS)
	-----	-----	-----	-----
Outstanding, January 1, 2006	160,809	\$24.54		
Granted	46,380	29.95		
Exercised	--	--		
Expired	--	--		
Forfeited	--	--		

Outstanding, June 30, 2006	207,189	25.75	\$962	7.3
	=====			
Exercisable, June 30, 2006	112,137	21.90	909	6.0

11

The weighted average grant date fair values of stock options granted during the quarter ended June 30, 2006 and the weighted average significant assumptions used to determine those fair values, using the Black-Scholes option-pricing model are as follows:

Options granted during 2006:	
Grant date fair value per share	\$6.13
Significant assumptions:	
Risk-free interest rate at grant date	4.61%
Expected annual rate of quarterly dividends	2.80
Expected stock price volatility	20
Expected life to exercise (years)	6.25

Compensation expense associated with stock option grants is amortized on a straight-line basis over the vesting period of each option, which is generally four years.

COMPREHENSIVE INCOME

For the three-month and six-month periods ended June 30, 2006 and 2005, unrealized holding gains and losses on investments in debt and equity securities available-for-sale were our Company's only other comprehensive income component.

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Comprehensive income for the three-month and six-month periods ended June 30, 2006 and 2005 is summarized as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MO JU
	2006	2005	2006
Net income	\$2,933,185	\$2,344,803	\$ 5,621,79
Other comprehensive income (loss):			
Net unrealized holding gains (losses) on investments in debt and equity securities available-for-sale, net of taxes	(804,648)	739,264	(1,092,46
Adjustment for net securities losses realized in net income, net of applicable income taxes	--	--	11,92
Total other comprehensive income (loss)	(804,648)	739,264	(1,080,53
Comprehensive income	\$2,128,537	\$3,084,067	\$ 4,541,25

12

INTANGIBLE ASSETS

The gross carrying amount and accumulated amortization of our Company's amortizable core deposit intangible assets as of June 30, 2006 and December 31, 2005 is as follows:

	JUNE 30, 2006		DECEMBER 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangible	\$7,060,224	(2,807,609)	7,060,224	(2,273,764)

The aggregate amortization expense of core deposit intangible subject to amortization for the three-month and six-month period ended June 30, 2006 and 2005 is as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
Aggregate amortization expense	\$258,148	147,528	\$533,845	201,306

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

=====

The estimated amortization expense for the next five years is as follows:

Estimated amortization expense:	
For year ending 2006	\$498,738
For year ending 2007	922,337
For year ending 2008	701,443
For year ending 2009	626,111
For year ending 2010	526,477

13

Our Company's mortgage servicing rights are amortized in proportion to the related estimated net servicing income over the estimated lives of the related mortgages, which is seven years. Changes in mortgage servicing rights, net of amortization, for the periods indicated were as follows:

	JUNE 30,	
	2006	2005
	-----	-----
Balance, beginning of period	\$ 1,536,331	1,605,930
Originated mortgage servicing rights	103,784	183,824
Amortization	(205,888)	(220,176)
	-----	-----
Balance, end of period	\$ 1,434,227	1,569,578
	=====	=====
Mortgage loans serviced	\$218,204,948	217,047,351
	=====	=====
Mortgage servicing rights as a percentage of loans serviced	0.66%	0.72%
	=====	=====

The estimated amortization expense for mortgage servicing rights for the next five years is as follows:

Estimated amortization expense:	
For year ending 2006	\$207,000
For year ending 2007	350,000
For year ending 2008	299,000
For year ending 2009	221,000
For year ending 2010	146,000

14

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Our Company's goodwill associated with the purchase of subsidiaries by reporting segments as of June 30, 2006 and December 31, 2005 is summarized as follows:

	THE EXCHANGE NATIONAL BANK OF JEFFERSON CITY -----	CITIZENS UNION STATE BANK AND TRUST OF CLINTON -----	OSAGE VALLEY BANK OF WARSAW -----	BANK 10 -----	T -----
Goodwill associated with the purchase of subsidiaries	\$4,382,098 =====	16,701,762 =====	4,112,876 =====	15,127,039 =====	40,3 =====

15

DEFINED BENEFIT RETIREMENT PLAN

Our Company provides a noncontributory defined benefit pension plan in which all full-time employees become participants upon the later of the completion of one year of qualified service or the attainment of age 21, and in which they continue to participate as long as they continue to be full-time employees, until their retirement, death, or termination of employment prior to normal retirement date. The normal retirement benefits provided under the plan vary depending upon the participant's rate of compensation, length of employment, and social security benefits. Monthly retirement benefits are payable for life with payments guaranteed for the first ten years. Plan assets consist of U.S. Treasury and government agency securities, corporate common stocks and bonds, real estate mortgages, and demand deposits. Disclosure information is based on a measurement date of November 1 for the corresponding year.

The following table represents the components of the net periodic pension costs for the three-month and six-month periods ended June 30, 2006 and 2005, respectively:

	ESTIMATED 2006 -----	ACTUAL 2005 -----
Service cost - benefits earned during the year	\$ 615,293	\$ 471,319
Interest cost on projected benefit obligations	317,852	276,245
Expected return on plan assets	(342,134)	(368,873)
Net amortization and deferral	--	(26,632)
Amortization of prior service cost	78,628	39,315
Amortization of net gains	(2,601)	--
Net periodic pension cost - annual	\$ 667,038 =====	\$ 391,374 =====
Net periodic pension cost - three months ended June 30 (actual)	\$ 166,760 =====	\$ 97,844 =====
Net periodic pension cost - six months ended June 30 (actual)	\$ 333,519	\$ 24,461

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

=====

Our Company does not expect to make any contribution to the plan during 2006.

16

SEGMENTS

Through the respective branch network, Exchange National Bank, Citizens Union State Bank, Osage Valley Bank, and Bank 10 provide similar products and services in four defined geographic areas. The products and services offered include a broad range of commercial and personal banking services, including certificates of deposit, individual retirement and other time deposit accounts, checking and other demand deposit accounts, interest checking accounts, savings accounts and money market accounts. Loans include real estate, commercial, installment and other consumer loans. Other financial services include automatic teller machines, trust services, credit related insurance, and safe deposit boxes. The revenues generated by each business segment consist primarily of interest income, generated from the loan and debt and equity security portfolios, and service charges and fees, generated from the deposit products and services. The geographic areas are defined to be communities surrounding Jefferson City, Clinton, Warsaw and Belton, Missouri. The products and services are offered to customers primarily within their respective geographical areas. The business segments results that follow are consistent with our Company's internal reporting system which is consistent, in all material respects, with accounting principles generally accepted in the United States of America and practices prevalent in the banking industry.

17

JUNE 30, 2006

	THE EXCHANGE NATIONAL BANK OF JEFFERSON CITY	CITIZENS UNION STATE BANK AND TRUST OF CLINTON	OSAGE VALLEY BANK OF WARSAW	BANK 10 OF BELTON	CORP AND
Balance sheet information:					
Loans, net of allowance					
for loan losses	\$370,251,393	\$247,084,609	\$ 55,715,908	\$151,982,812	\$
Debt and equity securities	79,808,643	41,107,187	35,586,697	27,929,670	1,4
Goodwill	4,382,098	16,701,762	4,112,876	15,127,039	
Intangible assets	--	475,464	--	3,777,151	
Total assets	498,322,847	338,459,389	105,034,640	217,317,088	2,4
Deposits	392,143,504	273,147,620	89,803,395	152,703,753	(8,9
Stockholders' equity	\$ 50,082,088	\$ 44,036,414	\$ 9,391,858	\$ 35,540,207	\$ (39,4
	=====	=====	=====	=====	=====

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

DECEMBER 31, 2005

	THE EXCHANGE NATIONAL BANK OF JEFFERSON CITY	CITIZENS UNION STATE BANK AND TRUST OF CLINTON	OSAGE VALLEY BANK OF WARSAW	BANK 10 OF BELTON	C A
Balance sheet information					
Loans, net of allowance for loan losses	\$374,467,039	\$238,347,946	\$ 53,132,834	\$138,502,283	\$
Debt and equity securities	71,830,503	42,305,412	34,234,784	29,835,127	
Goodwill	4,382,098	16,701,762	4,112,876	15,127,039	
Intangible assets	--	583,020	--	4,203,440	
Total assets	487,322,716	329,366,100	102,071,064	205,092,903	
Deposits	391,682,694	265,370,183	84,823,313	148,430,696	(
Stockholders' equity	\$ 49,732,241	\$ 42,602,916	\$ 9,415,739	\$ 34,410,079	\$ (3

18

THREE MONTHS ENDED JUNE 30, 2006

	THE EXCHANGE NATIONAL BANK OF JEFFERSON CITY	CITIZENS UNION STATE BANK AND TRUST OF CLINTON	OSAGE VALLEY BANK OF WARSAW	BANK 10
Statement of earnings:				
Total interest income	\$8,089,318	\$5,096,089	\$1,292,125	\$3,426,044
Total interest expense	3,319,994	1,889,475	755,336	1,276,208
Net interest income	4,769,324	3,206,614	536,789	2,149,836
Provision for loan losses	225,000	75,000	10,500	--
Noninterest income	1,102,531	454,414	157,574	552,675
Noninterest expense	2,895,649	2,245,304	537,744	1,606,034
Income taxes	888,200	413,851	29,398	364,418
Net income (loss)	\$1,863,006	\$ 926,873	\$ 116,721	\$ 732,059

THREE MONTHS ENDED JUNE 30, 2005

	THE EXCHANGE NATIONAL BANK OF JEFFERSON CITY	CITIZENS UNION STATE BANK AND TRUST OF CLINTON	OSAGE VALLEY BANK OF WARSAW	BANK 10 OF BELTON
Statement of earnings:				
Total interest income	\$6,977,560	\$4,006,187	\$1,173,086	\$1,708,824
Total interest expense	2,657,604	1,341,438	518,246	599,202
Net interest income	4,319,956	2,664,749	654,840	1,109,622

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Provision for loan losses	150,000	75,000	10,500	2,167
Noninterest income	1,017,283	378,843	125,741	297,220
Noninterest expense	2,719,329	1,989,499	448,707	1,000,783
Income taxes	795,400	300,338	88,067	119,236
	-----	-----	-----	-----
Net income (loss)	\$1,672,510	\$ 678,755	\$ 233,307	\$ 284,656
	=====	=====	=====	=====

19

SIX MONTHS ENDED JUNE 30, 2006

	THE EXCHANGE NATIONAL BANK OF JEFFERSON CITY	CITIZENS UNION STATE BANK AND TRUST OF CLINTON	OSAGE VALLEY BANK OF WARSAW	BANK 10
	-----	-----	-----	-----
Statement of earnings:				
Total interest income	\$15,830,391	\$9,742,406	\$2,541,675	\$6,556,694
Total interest expense	6,374,107	3,628,897	1,431,756	2,318,122
	-----	-----	-----	-----
Net interest income	9,456,284	6,113,509	1,109,919	4,238,572
Provision for loan losses	450,000	150,000	21,000	7,000
Noninterest income	2,082,042	880,030	298,683	1,051,256
Noninterest expense	5,758,746	4,330,842	1,047,512	3,297,944
Income taxes	1,715,600	761,742	71,141	648,642
	-----	-----	-----	-----
Net income (loss)	\$ 3,613,980	\$1,750,955	\$ 268,949	\$1,336,242
	=====	=====	=====	=====

SIX MONTHS ENDED JUNE 30, 2005

	THE EXCHANGE NATIONAL BANK OF JEFFERSON CITY	CITIZENS UNION STATE BANK AND TRUST OF CLINTON	OSAGE VALLEY BANK OF WARSAW	BANK 10 OF BELTON
	-----	-----	-----	-----
Statement of earnings:				
Total interest income	\$13,553,568	\$7,800,694	\$2,317,845	\$1,708,824
Total interest expense	5,069,279	2,543,067	1,003,869	599,202
	-----	-----	-----	-----
Net interest income	8,484,289	5,257,627	1,313,976	1,109,622
Provision for loan losses	300,000	150,000	21,000	2,167
Noninterest income	1,886,357	762,415	221,116	297,220
Noninterest expense	5,402,871	3,725,958	879,298	1,000,783
Income taxes	1,490,800	650,023	174,195	119,236
	-----	-----	-----	-----
Net income (loss)	\$ 3,176,975	\$1,494,061	\$ 460,599	\$ 284,656
	=====	=====	=====	=====

20

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

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

EXCEPT FOR THE HISTORICAL INFORMATION CONTAINED HEREIN, THE STATEMENTS MADE IN THIS REPORT ON FORM 10-Q ARE FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE WORDS "SHOULD", "EXPECT", "ANTICIPATE", "BELIEVE", "INTEND", "MAY", "HOPE", "FORECAST" AND SIMILAR EXPRESSIONS MAY IDENTIFY FORWARD LOOKING STATEMENTS. IN PARTICULAR, STATEMENTS CONCERNING OUR COMPANY'S ABILITY TO EXPAND ITS PRESENCE IN THE KANSAS CITY, MISSOURI METROPOLITAN MARKET, CONCERNING OUR EXPECTED CONTRIBUTIONS TO ANY OF OUR BANK'S BENEFIT PLANS, CONCERNING OUR AMORTIZATION OF CORE DEPOSIT INTANGIBLES OR OTHER ASSETS, CONCERNING OUR INTENT AND ABILITY TO HOLD SECURITIES UNTIL MATURITY, THAT THE PERIODIC REVIEW OF OUR LOAN PORTFOLIO KEEPS MANAGEMENT INFORMED OF POSSIBLE LOAN PROBLEMS AND THAT THE ALLOWANCE FOR LOAN LOSSES ADEQUATELY COVERS ANY EXPOSURE ON SPECIFIC CREDITS ARE ALL FORWARD-LOOKING STATEMENTS. OUR COMPANY'S ACTUAL RESULTS, FINANCIAL CONDITION, OR BUSINESS COULD DIFFER MATERIALLY FROM ITS HISTORICAL RESULTS, FINANCIAL CONDITION, OR BUSINESS, OR FROM THE RESULTS OF OPERATIONS, FINANCIAL CONDITION, OR BUSINESS CONTEMPLATED BY SUCH FORWARD-LOOKING STATEMENTS. FACTORS THAT MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE CONTEMPLATED BY THE FORWARD LOOKING STATEMENTS HEREIN INCLUDE MARKET CONDITIONS AS WELL AS CONDITIONS SPECIFICALLY AFFECTING THE BANKING INDUSTRY GENERALLY AND FACTORS HAVING A SPECIFIC IMPACT ON OUR COMPANY INCLUDING, BUT NOT LIMITED TO, FLUCTUATIONS IN INTEREST RATES AND IN THE ECONOMY; THE IMPACT OF LAWS AND REGULATIONS APPLICABLE TO OUR COMPANY AND CHANGES THEREIN; COMPETITIVE CONDITIONS IN THE MARKETS IN WHICH OUR COMPANY CONDUCTS ITS OPERATIONS, INCLUDING COMPETITION FROM BANKING AND NON-BANKING COMPANIES WITH SUBSTANTIALLY GREATER RESOURCES THAN OUR COMPANY, SOME OF WHICH MAY OFFER AND DEVELOP PRODUCTS AND SERVICES NOT OFFERED BY OUR COMPANY; AND THE ABILITY OF OUR COMPANY TO RESPOND TO CHANGES IN TECHNOLOGY. ADDITIONAL FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES WERE DISCUSSED UNDER THE CAPTION "FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS, FINANCIAL CONDITION, OR BUSINESS," IN OUR COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2005, AS WELL AS THOSE DISCUSSED ELSEWHERE IN OUR COMPANY'S REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

21

OVERVIEW

This overview of management's discussion and analysis highlights selected information in this report and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting estimates, you should carefully read this entire report. These have an impact on our Company's financial condition and results of operation.

BUSINESS STRATEGY: In 1865, The Exchange National Bank of Jefferson City opened for business serving the loan and deposit needs of citizens living in Missouri's State Capitol of Jefferson City. Leveraging off of its strong equity position, Exchange National Bank's Board of Directors established Exchange National Bancshares, Inc., a multi-bank holding company on October 23, 1992. On April 7, 1993, Exchange National Bancshares, Inc. acquired The Exchange National Bank of Jefferson City. On November 3, 1997, our Company acquired Union State Bancshares, Inc. and its wholly-owned subsidiary, Union State Bank and Trust of Clinton, Missouri. Following the May 4, 2000 acquisition of Calhoun Bancshares, Inc. by Union State Bank, Calhoun Bancshares' wholly-owned subsidiary, Citizens

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

State Bank of Calhoun, merged into Union State Bank. The surviving bank in this merger is called Citizens Union State Bank & Trust. On January 3, 2000, our Company acquired Mid Central Bancorp, Inc., and Mid Central's wholly-owned subsidiary, Osage Valley Bank of Warsaw, Missouri. On June 16, 2000, our Company acquired CNS Bancorp, Inc. and its subsidiary, City National Savings Bank, FSB, Jefferson City, Missouri. City National subsequently was merged into Exchange National Bank. On June 26, 2003 our Company purchased the Springfield, Missouri branch of Missouri State Bank. Following the purchase, this branch was merged into Citizens Union State Bank and Trust. Finally, on May 2, 2005, our Company acquired Bank 10 of Belton, Missouri.

MATERIAL CHALLENGES AND RISKS: Our Company may experience difficulties managing growth and effectively integrating newly established branches. As part of our general strategy, our Company may continue to acquire banks and establish de novo branches that we believe provide a strategic fit. To the extent that our Company does grow, there can be no assurances that we will be able to adequately and profitably manage such growth. The successes of our Company's growth strategy will depend primarily on the ability of our banking subsidiaries to generate an increasing level of loans and deposits at acceptable risk levels and on acceptable terms without significant increases in non-interest expenses relative to revenues generated. Our Company's financial performance also depends, in part, on our ability to manage various portfolios and to successfully introduce additional financial products and services. Furthermore, the success of our Company's growth strategy will depend on our ability to maintain sufficient regulatory capital levels and on general economic conditions that are beyond our control.

REVENUE SOURCE: Through the respective branch network, Exchange National Bank of Jefferson City, Citizens Union State Bank and Trust of Clinton, Osage Valley Bank of Warsaw, and Bank 10 of Belton provide similar products and services in four defined geographic areas. The products and services offered include a broad range of commercial and personal banking services, including certificates of deposit, individual retirement and other time deposit accounts, checking and other demand deposit accounts, interest checking accounts, savings accounts, and

22

money market accounts. Loans include real estate, commercial, installment, and other consumer loans. Other financial services include automatic teller machines, trust services, credit related insurance, and safe deposit boxes. The revenues generated by each business segment consist primarily of interest income, generated primarily from the loan and debt and equity security portfolios, and service charges and fees, generated from the deposit products and services. The geographic areas are defined to be communities surrounding Jefferson City, Clinton, Warsaw, and Belton, Missouri. The products and services are offered to customers primarily within their respective geographical areas. The business segment results are consistent with our Company's internal reporting system which is consistent, in all material respects, with generally accepted accounting principles and practices prevalent in the banking industry.

Much of our Company's business is commercial, commercial real estate development, and mortgage lending. Our Company has experienced continued strong loan demand in the communities within which we operate even during economic slowdowns. Our Company's income from mortgage brokerage activities is directly dependent on mortgage rates and the level of home purchases and refinancing.

Our Company's primary source of revenue is net interest income derived primarily from lending and deposit taking activities. A secondary source of revenue is investment income. Our Company also derives income from trust,

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

brokerage, credit card and mortgage banking activities and service charge income.

Our Company has prepared the unaudited condensed consolidated financial statements in this report in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In preparing the consolidated financial statements in accordance with U.S. GAAP, our Company makes estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurances that actual results will not differ from those estimates.

We have identified the accounting policy related to the allowance for loan losses as critical to the understanding of our Company's results of operations, since the application of this policy requires significant management assumptions and estimates that could result in materially different amounts being reported if conditions or underlying circumstances were to change. The impact and any associated risks related to these policies on our business operations are discussed in the "Lending and Credit Management" section below.

23

RESULTS OF OPERATIONS

Net income for the three months ended June 30, 2006 of \$2,933,000 increased \$588,000 when compared to the second quarter of 2005. Diluted earnings per common share for the second quarter of 2006 of \$0.70 increased 14 cents or 25.0% when compared to the second quarter of 2005.

Net income for the six months ended June 30, 2006 of \$5,622,000 increased \$1,039,000 when compared to the second quarter of 2005. Diluted earnings per common share for the second quarter of 2006 of \$1.34 increased 25 cents or 22.9% when compared to the second quarter of 2005.

Net interest income (on a tax equivalent basis) was \$10,081,000, or 3.90% of average earning assets, for the three months ended June 30, 2006, compared to \$8,280,000, or 3.34% of average earning assets, for the same period in 2005. The increase in net interest income was the result of an increase in average interest-earning assets and an increase in net interest margin.

Net interest income (on a tax equivalent basis) was \$19,796,000, or 3.86% of average earning assets, for the six months ended June 30, 2006, compared to \$15,548,000, or 3.34% of average earning assets, for the same period in 2005. The increase in net interest income was the result of an increase in average interest-earning assets and an increase in net interest margin.

Average interest-earning assets for the three months ended June 30, 2006 were \$1,036,367,000, an increase of \$42,494,000 or 4.3%, compared to average interest-earning assets of \$993,873,000 for the same period of 2005. Average loans outstanding increased approximately \$94,795,000 while other earning assets increased \$52,301,000.

The yield on average interest-earning assets increased to 7.03% for the three month period ended June 30, 2006 compared to 5.69% for the same period in 2005. The rate paid on interest-bearing liabilities also increased to 3.57% in 2006 compared to 2.67% in 2005. These increased in rates reflect the general increases in market rates as a result of the Federal Reserve Bank's rate activity over the last year.

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Average interest-earning assets for the six months ended June 30, 2006 were \$1,033,358,000, an increase of \$95,271,000 or 10.2%, compared to average interest-earning assets of \$938,087,000 for the same period of 2005. Average loans outstanding increased approximately \$137,814,000 while other earning assets decreased \$42,543,000.

The yield on average interest-earning assets increased to 6.87% for the six month period ended June 30, 2006 compared to 5.55% for the same period in 2005. The rate paid on interest-bearing liabilities also increased to 3.42% in 2006 compared to 2.53% in 2005. These increases in rates reflect the general increases in market rates as a result of the Federal Reserve Bank's rate activity over the last year.

24

NET INTEREST INCOME

Fully taxable equivalent net interest income increased \$1,801,000 or 21.7% and \$4,248,000 or 27.3% respectively for the three and six month periods ended June 30, 2006 compared to the same period in 2005. The increase in net interest income for the periods ended June 30, 2006 compared to the periods ended June 30, 2005 was the result of both increased earning assets and net interest margin.

25

The following table presents average balance sheets, net interest income, average yields of earning assets, and average costs of interest bearing liabilities on a fully taxable equivalent basis for the three month periods ended June 30, 2006 and 2005.

(DOLLARS EXPRESSED IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30, 2006			THREE JUN
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE/1/	RATE EARNED/ PAID/1/	AVERAGE BALANCE
ASSETS				
Loans:/2/	\$ 829,590	\$15,791	7.63%	\$ 734,795
Investment securities:/3/				
U.S Treasury and U.S. Gov't Agencies	127,046	1,349	4.26	176,832
State and municipal	52,624	714	5.44	42,077
Other	7,089	78	4.41	6,929
Federal funds sold	17,341	213	4.93	32,482
Interest-bearing deposits	2,677	31	4.64	758
	1,036,367	18,176	7.03	993,873
Total interest earning assets				
All other assets	123,989			104,323
Allowance for loan losses	(9,285)			(8,754)

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Total assets	----- \$1,151,071 =====			----- \$1,089,442 =====
LIABILITIES AND STOCKHOLDERS' EQUITY				
NOW accounts	\$ 111,648	\$ 391	1.40%	\$ 131,880
Savings	53,495	76	0.57	56,792
Money market	154,104	1,258	3.27	141,731
Deposits of \$100 and over	116,662	1,207	4.15	104,956
Other time deposits	312,462	2,993	3.84	292,308
	-----	-----		-----
Total time deposits	748,371	5,925	3.18	727,667
Federal funds purchased and securities sold under agreements to repurchase	45,460	486	4.29	47,550
Interest-bearing demand notes to US Treasury	720	9	5.01	760
Subordinated notes	49,486	874	7.08	49,486
Advances from Federal Home Loan Bank	65,236	801	4.92	47,907
	-----	-----		-----
Total interest-bearing liabilities	909,273	8,095	3.57	873,370
Demand deposits	133,501			116,491
Other liabilities	8,491			6,293
	-----			-----
Total liabilities	1,051,265			996,154
Stockholders' equity	99,806			93,288
	-----			-----
Total liabilities and stockholders' equity	\$1,151,071			\$1,089,442
	=====			=====
Net interest income		\$10,081		
		=====		
Net interest margin/4/			3.90%	
			=====	

/1/ Interest income and yields are presented on a fully taxable equivalent basis using the Federal statutory income tax rate. Such adjustments were \$247,000 in 2006 and \$204,000 in 2005.

/2/ Non-accruing loans are included in the average amounts outstanding.

/3/ Average balances based on amortized cost.

/4/ Net interest income divided by average total interest earning assets.

26

The following table presents average balance sheets, net interest income, average yields of earning assets, and average costs of interest bearing liabilities on a fully taxable equivalent basis for the six month periods ended June 30, 2006 and 2005.

(DOLLARS EXPRESSED IN THOUSANDS)

	SIX MONTHS ENDED				SIX
	JUNE 30, 2006				JU
	-----				-----
	AVERAGE	INTEREST INCOME/ EXPENSE/1/	RATE EARNED/ PAID/1/	AVERAGE	IN
	BALANCE			BALANCE	

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

ASSETS				
Loans:/2/	\$ 825,524	\$30,553	7.46%	\$ 687,710
Investment securities:/3/				
U.S Treasury and				
U.S. Gov't Agencies	131,952	2,720	4.16	167,937
State and municipal	53,102	1,442	5.48	38,084
Other	7,129	147	4.16	6,302
Federal funds sold	12,980	307	4.77	36,185
Interest-bearing deposits	2,671	57	4.30	1,869
	-----	-----		-----
Total interest earning assets	1,033,358	35,226	6.87	938,087
All other assets	123,069			91,614
Allowance for loan losses	(9,248)			(8,185)
	-----	-----		-----
Total assets	\$1,147,179			\$1,021,516
	=====			=====
LIABILITIES AND				
STOCKHOLDERS' EQUITY				
NOW accounts	\$ 112,345	\$ 782	11.40%	\$ 128,780
Savings	54,299	154	0.57	53,627
Money market	155,636	2,392	3.10	133,525
Deposits of \$100 and over	116,064	2,265	3.94	97,788
Other time deposits	311,495	5,707	3.69	272,355
	-----	-----		-----
Total time deposits	749,839	11,300	3.04	686,075
Federal funds purchased and				
securities sold under				
agreements to repurchase	48,722	997	4.13	48,256
Interest-bearing demand				
notes to US Treasury	601	13	4.36	711
Subordinated notes	49,486	1,716	6.99	39,660
Advances from Federal Home Loan Bank	61,202	1,404	4.63	43,693
	-----	-----		-----
Total interest-bearing				
liabilities	909,850	15,430	3.42	818,395
Demand deposits	130,517			104,452
Other liabilities	8,398			5,667
	-----	-----		-----
Total liabilities	1,048,765			928,514
Stockholders' equity	98,858			93,002
	-----	-----		-----
Total liabilities and				
stockholders' equity	\$1,147,623			\$1,021,516
	=====			=====
Net interest income		\$19,796		
		=====		
Net interest margin/4/			3.86%	
			=====	

/1/ Interest income and yields are presented on a fully taxable equivalent basis using the Federal statutory income tax rate.

Such adjustments were \$503,000 in 2006 and \$385,000 in 2005.

/2/ Non-accruing loans are included in the average amounts outstanding.

/3/ Average balances based on amortized cost.

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

/4/ Net interest income divided by average total interest earning assets.

27

The following table presents, on a fully taxable equivalent basis, an analysis of changes in net interest income resulting from changes in average volumes of earning assets and interest bearing liabilities and average rates earned and paid. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each.

(DOLLARS EXPRESSED IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30, 2006 COMPARED TO THREE MONTHS ENDED JUNE 30, 2005		
	CHANGE DUE TO		
TOTAL CHANGE	VOLUME /3/	RATE /4/	
INTEREST INCOME ON A FULLY TAXABLE EQUIVALENT BASIS:			
Loans:/1/	\$3,935	1,644	2,291
Investment securities:/3/			
U.S Treasury and			
U.S. Gov't Agencies	4	(441)	445
State and municipal /2/	135	143	(8)
Other	5	2	3
Federal funds sold	(20)	(140)	120
Interest-bearing deposits	26	21	5
	-----	-----	-----
Total interest income	4,085	1,229	2,856
INTEREST EXPENSE:			
NOW accounts	\$ (39)	(69)	30
Savings	(5)	(5)	--
Money market	432	77	355
Deposits of \$100 and over	395	99	296
Other time deposits	883	153	730
Federal funds purchased and securities sold under agreements to repurchase	170	(15)	185
Interest-bearing demand notes of U.S. Treasury	4	--	4
Subordinated debentures	128	--	128
Other borrowed money	316	198	118
	-----	-----	-----
Total interest expense	2,284	438	1,846
	-----	-----	-----
Net interest income on a fully taxable equivalent basis	\$1,801	791	1,010
	=====	=====	=====

/1/ Interest income and yields are presented on a fully taxable equivalent basis using the Federal statutory income tax rate. Such adjustments were

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

\$247,000 in 2006 and \$204,000 in 2005.

/2/ Non-accruing loans are included in the average amounts outstanding.

/3/ Change in volume multiplied by yield/rate of prior period.

/4/ Change in yield/rate multiplied by volume of prior period.

28

The following table presents, on a fully taxable equivalent basis, an analysis of changes in net interest income resulting from changes in average volumes of earning assets and interest bearing liabilities and average rates earned and paid. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each.

(DOLLARS EXPRESSED IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005		
		CHANGE DUE TO	
TOTAL CHANGE	VOLUME /3/	RATE /4/	
INTEREST INCOME ON A FULLY TAXABLE EQUIVALENT BASIS:			
Loans:/1/	\$8,930	4,740	4,190
Investment securities:/3/ U.S Treasury and U.S. Gov't Agencies	254	(602)	856
State and municipal /2/	370	409	(39)
Other	16	17	(1)
Federal funds sold	(179)	(420)	241
Interest-bearing deposits	36	12	24
Total interest income	9,427	4,156	5,271
INTEREST EXPENSE:			
NOW accounts	\$ (3)	(107)	104
Savings	2	2	--
Money market	921	272	649
Deposits of \$100 and over	833	300	533
Other time deposits	1,937	596	1,341
Federal funds purchased and securities sold under agreements to repurchase	413	6	407
Interest-bearing demand notes of U.S. Treasury	5	(1)	6
Subordinated debentures	566	316	250
Other borrowed money	505	392	113
Total interest expense	5,179	1,776	3,403
Net interest income on a fully			

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

taxable equivalent basis	\$4,248	2,380	1,868
	=====	=====	=====

- /1/ Interest income and yields are presented on a fully taxable equivalent basis using the Federal statutory income tax rate. Such adjustments were \$503,000 in 2006 and \$385,000 in 2005.
- /2/ Non-accruing loans are included in the average amounts outstanding.
- /3/ Change in volume multiplied by yield/rate of prior period.
- /4/ Change in yield/rate multiplied by volume of prior period.

29

THREE MONTHS ENDED JUNE 30, 2006 COMPARED TO THREE MONTHS ENDED JUNE 30, 2005

Our Company's primary source of earnings is net interest income, which is the difference between the interest earned on interest earning assets and the interest paid on interest bearing liabilities. Net interest income on a fully taxable equivalent basis increased \$1,801,000 or 21.8% to \$10,081,000 or 3.90% of average earning assets for the second quarter of 2006 compared to \$8,280,000 or 3.34% of average earning assets for the same period of 2005. The provision for loan losses was \$311,000 and \$238,000 for the three months ended June 30, 2006 and 2005 respectively. The increase in the provision for loan losses reflects a higher level of charge-offs during the second quarter of 2006 compared to 2005 as well as an increase in loan balances. Net charge-offs were \$361,000 for the second quarter of 2006 compared to \$2,000 for the second quarter of 2005. See Lending and Credit Management in this report for further discussion of second quarter 2006 charge-offs.

30

Noninterest income and noninterest expense for the three-month periods ended June 30, 2006 and 2005 were as follows:

(DOLLARS EXPRESSED IN THOUSANDS)

	THREE MONTHS ENDED		INCREASE (DECREASE)	
	JUNE 30,		AMOUNT	%
	2006	2005		
	-----	-----	-----	-----
NONINTEREST INCOME				
Service charges on deposit accounts	\$1,517	\$1,019	\$ 498	48.9%
Trust department income	228	248	(20)	(8.1)
Mortgage loan servicing fees, net	109	104	5	4.8
Gain on sale of mortgage loans	90	177	(87)	(49.2)
Other	305	249	56	22.5
	-----	-----	-----	-----
	\$2,249	\$1,797	\$ 452	25.2%
	=====	=====	=====	=====
NONINTEREST EXPENSE				

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Salaries and employee benefits	\$4,343	\$3,435	\$ 908	26.4%
Occupancy expense	448	386	62	16.1
Furniture and equipment expense	543	542	1	0.2
Postage, printing and supplies	291	255	36	14.1
Legal, examination, and professional fees	319	333	(14)	(4.2)
Amortization of intangible assets	258	147	111	75.5
Processing expense	302	195	107	54.9
Other	953	968	(15)	(1.5)
	-----	-----	-----	-----
	\$7,457	\$6,261	\$1,196	19.1%
	=====	=====	=====	=====

Noninterest income increased \$452,000 or 25.2% to \$2,249,000 for the second quarter of 2006 compared to \$1,797,000 for the same period of 2005. The acquisition of Bank 10 accounts for approximately \$266,000 of the increase in noninterest income. Bank 10 contributed three months of noninterest income during the second quarter of 2006 versus two months during the same period in 2005. Excluding the additional noninterest income contributed by Bank 10, service charges on deposit accounts increased \$264,000 or 35.2% as a result of increased overdraft and insufficient check fee income, ATM fee income, debit card fee income. Gain on sale of mortgage loans decreased \$87,000 or 49.2% due to a decrease in volume of loans originated and sold to the secondary market from approximately \$9,960,000 in the second quarter of 2005 to approximately \$4,693,000 for the second quarter of 2006.

31

Noninterest expense increased \$1,196,000 or 19.1% to \$7,457,000 for the second quarter of 2006 compared to \$6,261,000 for the second quarter of 2005. The acquisition of Bank 10 accounts for approximately \$605,000 of the increase in noninterest expense. Bank 10 contributed three months of noninterest expense during the second quarter of 2006 versus two months during the same period in 2005. Excluding the impact of the Bank 10 acquisition, salaries and benefits increased \$559,000 or 19.4%, occupancy expense increased \$21,000 or 6.4%, and processing expense increased \$59,000 or 41.8%. In addition to the increase in salaries and employees benefits represented by normal salary increases and additional hires, \$60,000 of the increase reflects share-based compensation expense recorded as a result of the adoption of SFAS No. 123R, \$73,000 reflects increased pension expense, and \$101,000 represents increased profit sharing expense. The \$21,000 of the increase in occupancy expense reflects additional costs associated with three new branch facilities. The \$59,000 increase in processing expense reflects higher costs associated with the various data processing systems utilized by our Company.

Income taxes as a percentage of earnings before income taxes as reported in the condensed consolidated financial statements were 32.0% for the second quarter of 2006 compared to 30.5% for the second quarter of 2005. The increase in the effective tax rate is due to a higher level of state taxable income as a result of the Bank 10 acquisition.

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005

Net interest income on a fully taxable equivalent basis increased \$4,248,000 or 27.3% to \$19,796,000 or 3.86% of average earning assets for the first six months of 2006 compared to \$15,548,000 or 3.34% of average earning assets for the same period of 2005. The provision for loan losses was \$628,000 and \$473,000 for the six months ended June 30, 2006 and 2005 respectively. The increase in the provision for loan losses reflects a higher level of charge-offs

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

during the first six months of 2006 compared to the same period in 2005 as well as an increase in loan balances. Net charge-offs were \$378,000 for the first six months of 2006 compared to \$48,000 for the same period in 2005. See Lending and Credit Management in this report for further discussion of 2006 charge-offs.

32

Noninterest income and noninterest expense for the six-month periods ended June 30, 2006 and 2005 were as follows:

(DOLLARS EXPRESSED IN THOUSANDS)

	SIX MONTHS ENDED		INCREASE (DECREASE)	
	JUNE 30,		AMOUNT	%
	2006	2005	-----	-----
NONINTEREST INCOME				
Service charges on deposit accounts	\$ 2,878	\$ 1,700	\$1,178	69.3%
Trust department income	408	430	(22)	(5.1)
Net gain (loss) on sales of calls of debt securities	(18)	--	(18)	NM
Mortgage loan servicing fees, net	224	217	7	3.2
Gain on sale of mortgage loans	202	307	(105)	(34.2)
Other	581	475	106	22.3
	-----	-----	-----	-----
	\$ 4,275	\$ 3,129	\$1,146	36.6%
	=====	=====	=====	=====
NONINTEREST EXPENSE				
Salaries and employee benefits	\$ 8,688	\$ 6,320	\$2,368	37.5%
Occupancy expense	900	676	224	33.1
Furniture and equipment expense	1,062	1,046	16	1.5
Postage, printing and supplies	584	419	165	39.4
Legal, examination, and professional fees	613	584	29	5.0
Amortization - CDI	534	201	333	165.7
Processing expense	515	284	231	81.3
Other	1,873	1,706	167	9.8
	-----	-----	-----	-----
	\$14,769	\$11,236	\$3,533	31.4%
	=====	=====	=====	=====

Noninterest income increased \$1,146,000 or 36.6% to \$4,275,000 for the first six months of 2006 compared to \$3,129,000 for the same period of 2005. The acquisition of Bank 10 contributed an additional \$765,000 of noninterest income. Bank 10 contributed six months of noninterest income during the first and second quarter of 2006 versus two months during the same period in 2005. Excluding the additional noninterest income contributed by Bank 10, service charges on deposit accounts increased \$494,000 or 34.5% as a result of increased overdraft and insufficient check fee income, ATM fee income, debit card fee income. Gain on sale of mortgage loans decreased \$105,000 or 34.2% due to a decrease in volume of loans originated and sold to the secondary market from approximately \$19,078,000 in the first six months of 2005 to approximately \$10,832,000 for the first six months of 2006.

33

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Noninterest expense increased \$3,533,000 or 31.4% to \$14,769,000 for the first six months of 2006 compared to \$11,236,000 for the same period in 2005. The acquisition of Bank 10 contributed an additional \$2,297,000 to noninterest expense. Bank 10 contributed six months of noninterest expense during the first and second quarter of 2006 versus two months during the same period in 2005. Excluding the impact of the Bank 10 acquisition, salaries and benefits increased \$1,051,000 or 18.2%, occupancy expense increased \$79,000 or 12.8%, postage, printing, and supplies increased \$69,000 or 18.8%, and processing expense increased \$87,000 or 37.8%. In addition to the increase in salaries and employees benefits represented by normal salary increases and additional hires, \$103,000 of the increase reflects share-based compensation expense recorded as a result of the adoption of SFAS No. 123R, \$176,000 reflects increased pension expense, and \$173,000 represents increased profit sharing expense. The \$79,000 increase in occupancy expense reflects additional costs associated with three new branch facilities. The \$69,000 increase in postage, printing, and supplies reflects both higher postage rates and additional mail volume. The \$87,000 increase in processing expense reflects higher costs associated with the various data processing systems utilized by our Company.

Income taxes as a percentage of earnings before income taxes as reported in the condensed consolidated financial statements were 31.2% for the first six months of 2006 compared to 30.4% for the same period in 2005. The increase in the effective tax rate is due to a higher level of state taxable income as a result of the Bank 10 acquisition.

34

LENDING AND CREDIT MANAGEMENT

Interest earned on the loan portfolio is a primary source of interest income for our Company. Net loans represented 71.0% of total assets as of June 30, 2006 compared to 71.4% as of December 31, 2005 and 66.9% as of June 30, 2005.

Lending activities are conducted pursuant to written loan policies approved by our Banks' Boards of Directors. Larger credits are reviewed by our Banks' Discount Committees. These committees are comprised of members of senior management.

Our Company generally does not retain long-term fixed rate residential mortgage loans in its portfolio. Fixed rate loans conforming to standards required by the secondary market are offered to qualified borrowers, but are not funded until our Company has a non-recourse purchase commitment from the secondary market at a predetermined price. At June 30, 2006, our Company was servicing approximately \$218,205,000 of loans sold to the secondary market.

Mortgage loans retained in our Company's portfolio generally include provisions for rate adjustments at one to three year intervals. Commercial loans and real estate construction loans generally have maturities of less than one year. Installment loans to individuals are primarily fixed rate loans with maturities from one to five years.

The provision for loan losses is based on management's evaluation of the loan portfolio in light of national and local economic conditions, changes in the composition and volume of the loan portfolio, changes in the volume of past due and nonaccrual loans, value of underlying collateral and other relevant

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

factors. The allowance for loan losses which is reported as a deduction from loans is available for loan charge-offs. This allowance is increased by the provision charged to expense and is reduced by loan charge-offs net of loan recoveries. Management formally reviews all loans in excess of certain dollar amounts (periodically established) at least annually. In addition, on a monthly basis, management reviews past due, "classified", and "watch list" loans in order to classify or reclassify loans as "loans requiring attention," "substandard," "doubtful," or "loss". During that review, management also determines which loans should be considered to be "impaired". Management follows the guidance provided in Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan, (SFAS 114) in identifying and measuring loan impairment. If management determines that it is probable that all amounts due on a loan will not be collected under the original terms of the loan agreement, the loan is considered to be impaired. Once a loan has been identified as impaired management generally measures impairment based upon the fair value of the underlying collateral. Management believes, but there can be no assurance, that these procedures keep management informed of possible problem loans. Based upon these procedures, both the allowance and provision for loan losses are adjusted to maintain the allowance at a level considered adequate by management for probable losses inherent in the loan portfolio.

35

The allowance for loan losses was decreased by net loan charge-offs of \$17,000 and \$378,000, respectively for the first and second quarters of 2006 compared to \$2,000 and \$48,000, respectively for the first and second quarters of 2005. The allowance for loan losses was increased by a provision charged to expense of \$318,000 for the first quarter of 2006 and \$311,000 for the second quarter of 2006. That compares to a provision of \$236,000 for the first quarter of 2005 and \$237,000 for the second quarter of 2005.

The balance of the allowance for loan losses was \$9,335,000 at June 30, 2006 compared to \$9,085,000 at December 31, 2005 and \$9,336,000 at June 30, 2005. The allowance for loan losses as a percent of outstanding loans was 1.12% at both June 30, 2006 and at December 31, 2005 and 1.18% at June 30, 2005. The decrease in the allowances for loan losses as a percent of outstanding loans reflects the increase in loan balances as well as the charge-off of loans for which management had made previous provisions in the allowance and a decrease in nonperforming loans.

36

Nonperforming loans, defined as loans on nonaccrual status, loans 90 days or more past due and still accruing, and restructured loans totaled \$5,556,000 or 0.67% of total loans at June 30, 2006 compared to \$9,050,000 or 1.11% of total loans at December 31, 2005. Detail of those balances plus other real estate and repossessions is as follows:

(DOLLARS EXPRESSED IN THOUSANDS)

JUNE 30, 2006		DECEMBER 31, 2005	
BALANCE	% OF GROSS LOANS	BALANCE	% OF GROSS LOANS

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Nonaccrual loans:				
Commercial	\$2,924	0.35%	\$ 5,705	0.70%
Real estate:				
Construction	785	0.09	1,760	0.22
Mortgage	1,252	0.15	1,090	0.13
Consumer	42	0.01	56	0.01
	-----	----	-----	----
	5,003	0.60	8,611	1.06
	-----	----	-----	----
Loans contractually past-due 90 days or more and still accruing:				
Commercial	5	--	238	0.03
Real estate:				
Construction	--	--	--	--
Mortgage	502	0.06	187	0.02
Consumer	46	0.01	14	--
	-----	----	-----	----
	553	0.07	439	0.05
	-----	----	-----	----
Restructured loans	--	--	--	--
	-----	----	-----	----
Total nonperforming loans	5,556	0.67%	9,050	1.11%
		=====		=====
Other real estate	1,735		1,568	
Repossessions	--		--	
	-----		-----	
Total nonperforming assets	\$7,291		\$10,618	
	=====		=====	

The allowance for loan losses was 168.0% of nonperforming loans at June 30, 2006 compared to 100.4% of nonperforming loans at December 31, 2005. The decrease in nonaccrual loans is primarily represented by the payoff of two large commercial credits.

It is our Company's policy to discontinue the accrual of interest income on loans when the full collection of interest or principal is in doubt, or when the payment of interest or principal has become contractually 90 days past due unless the obligation is both well secured and in the process of collection. A loan remains on nonaccrual status until the loan is current as to payment of both principal and interest and/or the borrower demonstrates the ability to pay and remain current. Interest on loans on nonaccrual status which would have been recorded under the original terms of those loans, was approximately \$573,000 and \$370,000 for the six months ended June 30, 2006 and 2005, respectively. Approximately \$16,000 and \$8,000 was recorded as interest income on such loans for the six months ended June 30, 2006 and 2005, respectively.

A loan is considered impaired when it is probable a creditor will be unable to collect all amounts due - both principal and interest - according to the contractual terms of the loan agreement. In addition to nonaccrual loans included in the table above, which were considered impaired, management has identified approximately \$2,081,000 of additional loans as being impaired at June 30, 2006. The average balance of nonaccrual and other impaired loans for the

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

first six months of 2006 was approximately \$9,602,000. At June 30, 2006 the portion of the allowance for loan losses allocated (both asset-specific and percentage) to impaired loans was \$1,556,000 compared to \$2,392,000 at December 31, 2005. The balance of impaired loans with no specific loan loss allocations was approximately \$2,028,000 at June 30, 2006 compared to approximately \$1,217,000 at December 31, 2005.

As of June 30, 2006 and December 31, 2005 approximately \$16,392,000 and \$16,387,000 of loans not included in the nonaccrual table above or identified by management as being impaired were classified by management as having more than normal risk which raised doubts as to the ability of the borrower to comply with present loan repayment terms. The increase in loans having more than normal risk is primarily represented by two large commercial real estate credits. These two credits had documentation exceptions causing them to be classified by regulatory authorities as substandard and special mention. The loans are well secured and performing in accordance with the terms of the loan agreements. In addition to the classified list, our Company also maintains an internal watch list of loans, which for various reasons, not all related to credit quality, management is monitoring more closely than the average loan in the portfolio. Loans may be added to this list for reasons that are temporary and correctable, such as the absence of current financial statements of the borrower, or a deficiency in loan documentation. Other loans are added as soon as any problem is detected which might affect the borrower's ability to meet the terms of the loan. This could be initiated by the delinquency of a scheduled loan payment, a deterioration in the borrower's financial condition identified in a review of periodic financial statements, a decrease in the value of the collateral securing the loan, or a change in the economic environment within which the borrower operates. Once the loan is placed on our Company's watch list, its condition is monitored closely. Any further deterioration in the condition of the loan is evaluated to determine if the loan should be assigned to a higher risk category.

The allowance for loan losses is available to absorb probable loan losses regardless of the category of loan to be charged off. The allowance for loan losses consists of three components: asset-specific reserves, reserves based on expected loss estimates, and unallocated reserves. The asset-specific component applies to loans evaluated individually for impairment and is based on management's best estimate of discounted cash repayments and proceeds from liquidating collateral. The actual timing and amount of repayments and the ultimate realizable value of the collateral may differ from management's estimate.

The expected loss component is generally determined by applying percentages to pools of loans by asset type. These pre-established percentages are based upon standard bank regulatory classification percentages as well as average historical loss percentages. These expected loss estimates are sensitive to changes in delinquency status, realizable value of collateral, and other risk factors.

The unallocated portion of the allowance is based on management's evaluation of conditions that are not directly reflected in the determination of the asset-specific component and the expected loss component discussed above. The evaluation of inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they may not be identified with specific problem credits or portfolio segments. Conditions evaluated in connection with the

unallocated portion of the allowance include general economic and business

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

conditions affecting our key lending areas, credit quality trends (including trends in substandard loans expected to result from existing conditions), collateral values, specific industry conditions within portfolio segments, bank regulatory examination results, and findings of our internal loan review department.

The underlying assumptions, estimates and assessments used by management to determine these components are continually evaluated and updated to reflect management's current view of overall economic conditions and relevant factors impacting credit quality and inherent losses. Changes in such estimates could significantly impact the allowance and provision for credit losses. Our Company could experience credit losses that are different from the current estimates made by management.

At June 30, 2006, management allocated \$7,682,000 of the \$9,335,000 total allowance for loan losses to specific loans and loan categories and \$1,653,000 was unallocated. At December 31, 2005, management allocated \$8,062,000 of the \$9,085,000 total allowance for loan losses to specific loans and loan categories and \$1,023,000 was unallocated. Due to continued growth in the loan portfolio and current economic conditions that may impact our borrowers' ability to service their loans, management feels the increase in the unallocated portion of the allowance for loan losses is reasonable. Considering the size of several of our Company's lending relationships and the loan portfolio in total, management believes that the June 30, 2006 allowance for loan losses is adequate. Our Company does not lend funds for the type of transactions defined as "highly leveraged" by bank regulatory authorities or for foreign loans. Our Company does not have any interest-earning assets which would have been included in nonaccrual, past due, or restructured loans if such assets were loans.

FINANCIAL CONDITION

Total assets increased \$35,116,000 or 3.1% to \$1,161,586,000 at June 30, 2006 compared to \$1,126,470,000 at December 31, 2005. Total liabilities increased \$32,223,000 or 3.1% to \$1,061,961,000 compared to \$1,029,738 at December 31, 2005. Stockholders' equity increased \$2,892,000 or 3.0% to \$99,625,000 compared to \$96,733,000 at December 31, 2005. The increase in assets reflects growth in both the loan portfolio and the investment portfolio. The increase in liabilities reflects increases in securities sold under agreements to repurchase and other borrowed funds.

Loans increased \$20,835,000 to \$834,370,000 at June 30, 2006 compared to \$813,535,000 at December 31, 2005. Commercial loans decreased \$6,270,000; real estate construction loans increased \$23,320,000; real estate mortgage loans increased \$6,692,000; and consumer loans decreased \$2,907,000. The decrease in commercial loans primarily reflects the repayments of several large commercial credits in the Jefferson City market. The increase in real estate construction loans represents several large commercial construction projects including a large shopping mall and an executive office building. The increase in real estate mortgage loans reflects strong loan demand in the Kansas City market. The decrease in consumer loans reflects the low rates that existed in the consumer auto market that was fueled by manufacturers' financing programs which generally tend to offer more favorable financing rates than our

Company. Our Company chose to not aggressively pursue consumer auto loans during the periods presented and as such this portion of the loan portfolio declined.

Investment in debt securities classified as available-for-sale increased

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

\$5,715,000 or 3.3% to \$179,104,000 at June 30, 2006 compared to \$173,389,000 at December 31, 2005. Investments classified as available-for-sale are carried at fair value. During 2006 the market valuation account decreased \$1,652,000 to (\$3,291,000) to reflect the fair value of available-for-sale investments at June 30, 2006 and the net after tax decrease resulting from the change in the market valuation adjustment of \$1,081,000 decreased the stockholders' equity component to (\$2,153,000) at June 30, 2006. The increase in debt securities represents securities purchased as collateral for increased public funds.

Investment in equity securities increased \$512,000 or 8.1% to \$6,815,000 at June 30, 2006 compared to \$6,303,000 at December 31, 2005. The increase reflects additional purchases of Federal Home Loan Bank stock due to additional Federal Home Loan Bank borrowings.

At December 31, 2005 the market valuation account for the available-for-sale investments of (\$1,639,000) decreased the amortized cost of those investments to their fair value on that date and the net after tax increase resulting from the market valuation adjustment of (\$1,072,000) was reflected as a separate component of stockholders' equity.

Although all securities are classified as available-for-sale and have on occasion been sold prior to maturity to meet liquidity needs or to improve portfolio yields, management has the ability and intent to hold securities until maturity and expects that the securities will be redeemed at par. Therefore management does not consider any of the securities to be other than temporarily impaired.

Cash and cash equivalents, which consist of cash and due from banks and Federal funds sold, increased \$7,064,000 or 14.8% to \$54,795,000 at June 30, 2006 compared to \$47,731,000 at December 31, 2005. Further discussion of this increase may be found in the section of this report titled "Sources and Uses of Funds".

Premises and equipment increased \$504,000 or 1.5% to \$33,395,000 at June 30, 2006 compared to \$32,891,000 at December 31, 2005. The increase reflects purchases of premises and equipment \$1,447,000 offset by depreciation expense of \$887,000.

Total deposits increased \$17,394,000 or 2.0% to \$898,849,000 at June 30, 2006 compared to \$881,455,000 at December 31, 2005.

Federal funds purchased and securities sold under agreements to repurchase increased \$9,089,000 or 24.6% to \$46,085,000 at June 30, 2006 compared to \$36,996,000 at December 31, 2005. The balance represents an increase of \$3,000,000 to \$15,000,000 in a term repurchase agreement held for public funds at December 31, 2005 to June 30, 2006 respectively.

Other borrowed money increased \$5,700,000 or 10.9% to \$57,880,000 at June 30, 2006 compared to \$52,179,000 at December 31, 2005. The increase reflects new borrowings of

40

\$123,625,000 reduced by repayments of \$117,925,000. The net increase reflects funding of loan growth.

The increase in stockholders' equity reflects net income of \$5,622,000 less dividends declared of \$1,751,000 and (\$1,081,000) change in unrealized holding losses, net of taxes, on investment in debt and equity securities available-for-sale.

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

No material changes in our Company's liquidity or capital resources have occurred since December 31, 2005.

LIQUIDITY

The role of liquidity management is to ensure funds are available to meet depositors' withdrawal and borrowers' credit demands while at the same time maximizing profitability. This is accomplished by balancing changes in demand for funds with changes in the supply of those funds. Liquidity to meet the demands is provided by maturing assets, short-term liquid assets that can be converted to cash and the ability to attract funds from external sources, principally depositors. Due to the nature of services offered by our Company, management prefers to focus on transaction accounts and full service relationships with customers. Management believes it has the ability to increase deposits at any time by offering rates slightly higher than the market rate.

Our Banks' Asset/Liability Committees (ALCO), primarily made up of senior management, have direct oversight responsibility for our Company's liquidity position and profile. A combination of daily, weekly and monthly reports provided to management detail the following: internal liquidity metrics, composition and level of the liquid asset portfolio, timing differences in short-term cash flow obligations, available pricing and market access to the financial markets for capital and exposure to contingent draws on our Company's liquidity.

Our Company has a number of sources of funds to meet liquidity needs on a daily basis. The deposit base, consisting of consumer and commercial deposits and large dollar denomination (\$100,000 and over) certificates of deposit, is a source of funds.

Other sources of funds available to meet daily needs include the sales of securities under agreements to repurchase and funds made available under a treasury tax and loan note agreement with the federal government. Also, the Banks are members of the Federal Home Loan Bank of Des Moines (FHLB). As members of the FHLB, the Banks have access to credit products of the FHLB. At June 30, 2006, the amounts of available credit from the FHLB totaled \$77,661,000. As of June 30, 2006, the Banks had \$57,880,000 in outstanding borrowings with the FHLB. The Banks have federal funds purchased lines with correspondent banks totaling \$45,000,000 and agreements with unaffiliated banks to sell and repurchase securities of \$10,000,000. Finally, our Company has a \$20,000,000 line of credit with a correspondent bank. This line of credit had no balance in use as of June 30, 2006.

41

SOURCES AND USES OF FUNDS

For the six months ended June 30, 2006 and 2005, net cash provided by operating activities was \$7,998,000 and \$6,782,000, respectively. \$1,039,000 of the increase in net cash provided by operating activities reflects a higher level of net income.

Net cash used in investing activities was \$30,715,000 in 2006 versus \$65,119,000 in 2005. The primary decrease in cash used in investing activities reflects lower purchases of debt securities during the first six months of 2006 versus the same period in 2005 as well as cash used for the purchase of Bank 10 in 2005.

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Net cash provided by financing activities was \$29,781,000 in 2006 versus \$72,626,000 in 2005. The decrease in cash proved by financing activities in 2006 compared to 2005 is primarily represented by a \$23,712,000 issuance of subordinated notes in the first quarter of 2005 to partially fund the purchase of Bank 10. In addition, an increase in interest-bearing transaction accounts provided approximately \$23,664,000 of cash during the first six months of 2005 compared to a decrease in interest-bearing accounts of approximately \$3,992,000 during the same period in 2006.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SFAS No. 156"). SFAS No. 156 requires all separately recognized servicing assets and liabilities to be initially measured at fair value. In addition, entities are permitted to choose to either subsequently measure servicing rights at fair value and report changes in fair value in earnings, or amortize servicing rights in proportion to and over the estimated net servicing income or loss and assess the rights for impairment. Beginning with fiscal year in which an entity adopts SFAS No. 156, it may elect to subsequently measure a class of servicing assets and liabilities at fair value. Post adoption, an entity may make this election as of the beginning of any fiscal year. An entity that elects to subsequently measure a class of servicing assets and liabilities at fair value should apply that election to all new and existing recognized servicing assets and liabilities within that class. The effect of remeasuring an existing class of servicing assets and liabilities at fair value is to be reported as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. The statement also requires additional disclosures. Our Company is currently evaluating the impact of the adoption of SFAS No. 156; however, it is not expected to have a material impact on our Company's financial position or results of operations.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation 48, "Accounting for Uncertainty in Income Taxes", an Interpretation of FAS No. 109, Accounting for Income Taxes. The Interpretation defines the threshold for recognizing the financial impact of uncertain tax provisions in accordance with FAS 109. An enterprise would be required to recognize, in its financial statements, the best estimate of the impact of a tax position only if that position is "more-likely-than-not" of being sustained on audit based solely on the technical merits of the position on the reporting date. In evaluating whether the probable

42

recognition threshold has been met, the Interpretation would require the presumption that the tax position will be evaluated during an audit by taxing authorities. The term "more-likely-than-not" is defined as a likelihood of more than 50 percent. Individual tax positions that fail to meet the recognition threshold will generally result in either (a) a reduction in the deferred tax asset or an increase in a deferred tax liability or (b) an increase in a liability for income taxes payable or the reduction of an income tax refund receivable. The impact may also include both (a) and (b). This Interpretation also provides guidance on disclosure, accrual of interest and penalties, accounting in interim periods, and transition. The Interpretation is effective for reporting periods after December 15, 2006. Our Company is evaluating the Interpretation and is presently unable to determine its overall impact on our consolidated financial statements or results of operations.

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our Company's exposure to market risk is reviewed on a regular basis by our Banks' Asset/Liability Committees and Boards of Directors. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income. Management realizes certain risks are inherent and that the goal is to identify and minimize those risks. Tools used by our Banks' management include the standard GAP report subject to different rate shock scenarios. At June 30, 2006, the rate shock scenario models indicated that annual net interest income could decrease or increase by as much as 3.4% should interest rates rise or fall, respectively, within 200 basis points from their current level over a one year period compared to 8.3% at December 31, 2005. However there are no assurances that the change will not be more or less than this estimate. Management further believes this is an acceptable level of risk.

ITEM 4. CONTROLS AND PROCEDURES

Our Company's management has evaluated, with the participation of our principal executive and principal financial officers, the effectiveness of our disclosure controls and procedures as of June 30, 2006. Based upon and as of the date of that evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required. It should be noted that any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any system of disclosure controls and procedures is based in part upon assumptions about the likelihood of future events. Because of these and other inherent limitations of any such system, there can be no assurance that any design will always succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

There has been no change in our Company's internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

43

PART II - OTHER INFORMATION

Item 1. Legal Proceedings	None
Item 1A. Risk Factors	None
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	None
Item 3. Defaults Upon Senior Securities	None
Item 4. Submission of Matters to a Vote of Security Holders	

At the annual meeting of the shareholders of Exchange National Bancshares, Inc. held on June 14, 2006, the shareholders reelected three

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

Class II directors, namely, David R. Goller, James R. Loyd, and Gus S. Wetzel, II, to serve terms expiring at the annual meeting of shareholders in 2009 and ratified the Board of Directors selection of KPMG LLP as the Company's independent registered public accounting firm for the year ending December 31, 2006. Class III Directors, namely, Kevin Riley and David Turner, and Class I directors, namely Charles G. Dudenhoefter, Jr., Phil D. Freeman, continue to serve terms expiring at the annual meetings of shareholders in 2007 and 2008, respectively.

The following is a summary of votes cast. No broker non-votes were received.

	For -----	Withhold Authority Against -----	Abstentions -----
Election of Directors:			
David R. Goller	3,478,383	20,025	N/A
James R. Loyd	3,437,650	60,757	N/A
Gus S. Wetzel, II	3,444,625	53,783	N/A
Ratification of KPMG LLP as independent registered public accounting firm			
	3,454,216	18,881	25,312

Item 5. Other Information

None

44

Item 6. Exhibits

Exhibit No. -----	Description -----
3.1	Articles of Incorporation of our Company (filed as Exhibit 3(a) to our Company's Registration Statement on Form S-4 (Registration No. 33-54166) and incorporated herein by reference).
3.2	Bylaws of our Company (filed as Exhibit 3.2 to our Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (Commission file number 0-23636) and incorporated herein by reference).
4	Specimen certificate representing shares of our Company's \$1.00 par value common stock (filed as Exhibit 4 to our Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (Commission file number 0-23636) and incorporated herein by reference).
31.1	Certificate of the Chief Executive Officer of our Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certificate of the Chief Financial Officer of our Company pursuant

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

to Section 302 of the Sarbanes-Oxley Act of 2002

- 32.1 Certificate of the Chief Executive Officer of our Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certificate of the Chief Financial Officer of our Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

45

SIGNATURES

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

EXCHANGE NATIONAL BANCSHARES, INC.

Date

August 9, 2006

/s/ James E. Smith

James E. Smith, Chairman of the Board
and Chief Executive Officer (Principal
Executive Officer)

August 9, 2006

/s/ Richard G. Rose

Richard G. Rose, Treasurer (Principal
Financial Officer and Principal
Accounting Officer)

46

EXCHANGE NATIONAL BANCSHARES, INC.

INDEX TO EXHIBITS

June 30, 2006 Form 10-Q

Exhibit No. -----	Description -----	Page No. -----
3.1	Articles of Incorporation of our Company (filed as Exhibit 3(a) to our Company's Registration Statement on Form S-4 (Registration No. 33-54166) and incorporated	**

Edgar Filing: EXCHANGE NATIONAL BANCSHARES INC - Form 10-Q

herein by reference).

3.2	Bylaws of our Company (filed as Exhibit 3.2 to our Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (Commission file number 0-23636) and incorporated herein by reference).	**
4	Specimen certificate representing shares of our Company's \$1.00 par value common stock (filed as Exhibit 4 to our Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (Commission file number 0-23636) and incorporated herein by reference).	**
31.1	Certificate of the Chief Executive Officer of our Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	48
31.2	Certificate of the Chief Financial Officer of our Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	49
32.1	Certificate of the Chief Executive Officer of our Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	50
32.2	Certificate of the Chief Financial Officer of our Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	51

** Incorporated by reference.