

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

EXCHANGE NATIONAL BANCSHARES INC
Form 10-Q
May 10, 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 March 31, 2006

or

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

For the transition period from _____ to _____

Commission File Number: 0-23636

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
(Address of principal executive offices)

65101
(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):

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

Large accelerated filer [] Accelerated filer [X] Non-accelerated filer []

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). [] Yes [X] No

As of May 10, 2006, the registrant had 4,169,847 shares of common stock, par value \$1.00 per share, outstanding.

Page 1 of 43 pages
Index to Exhibits located on page 39

1

PART I - FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	MARCH 31, 2006	DECEMBER 31, 2005
	-----	-----
ASSETS		
Loans:	\$ 826,693,351	\$ 813,534,876
Less allowance for loan losses	9,384,783	9,084,774
	-----	-----
Loans, net	817,308,568	804,450,102
Investments in available for sale debt and equity securities, at fair value	200,595,384	179,691,826
Federal funds sold	16,358,933	12,447,981
Cash and due from banks	31,451,426	35,282,568
Premises and equipment	33,059,785	32,890,908
Accrued interest receivable	7,647,176	7,772,573
Mortgage servicing rights	1,486,547	1,536,331
Goodwill	40,323,775	40,323,775
Core deposit intangible	4,510,763	4,786,460
Cash surrender value - life insurance	1,699,559	1,682,836
Other assets	5,622,359	5,605,116
	-----	-----
Total assets	\$1,160,064,275	\$1,126,470,476
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Demand deposits	\$ 133,647,595	\$ 134,364,788
Time deposits	743,818,277	747,090,418
	-----	-----
Total deposits	877,465,872	881,455,206
Federal funds purchased and securities sold under agreements to repurchase	56,027,169	36,995,735
Interest-bearing demand notes to U.S. Treasury	372,179	1,098,337
Subordinated notes	49,486,000	49,486,000
Advances from Federal Home Loan Bank	69,303,472	52,179,661
Accrued interest payable	3,351,299	3,124,365
Other liabilities	5,745,973	5,398,307

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

Total liabilities	1,061,751,964	1,029,737,611
Stockholders' equity:		
Common stock - \$1 par value; 15,000,000 shares authorized; 4,298,353 issued	4,298,353	4,298,353
Surplus	22,072,467	22,030,074
Retained earnings	75,942,056	74,129,117
Accumulated other comprehensive income (loss), net of tax	(1,348,056)	(1,072,170)
Treasury stock, 128,506 shares at cost	(2,652,509)	(2,652,509)
Total stockholders' equity	98,312,311	96,732,865
Total liabilities and stockholders' equity	\$1,160,064,275	\$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 MARCH 31,	
	2006	2005
Interest income:		
Interest and fees on loans	\$14,724,479	\$ 9,736,094
Interest on debt securities:		
Taxable	1,400,870	1,121,606
Nontaxable	484,133	342,914
Interest on federal funds sold	93,554	252,652
Interest on interest-bearing deposits	26,291	15,922
Dividends on equity securities	63,539	58,190
Total interest income	16,792,866	11,527,378
Interest Expense:		
NOW accounts	390,569	355,545
Savings	77,774	71,245
Money market accounts	1,134,006	644,726
Certificates of deposit:		
\$100,000 and over	1,058,128	620,082
Other time deposits	2,714,061	1,659,442
Federal funds purchased and securities sold under agreements to repurchase	510,861	268,122
Subordinated notes	841,739	403,065
Advances from Federal Home Loan Bank	602,523	414,690
Other borrowed money	4,659	3,350

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

Total interest expense	7,334,320	4,440,267
	-----	-----
Net interest income	9,458,546	7,087,111
Provision for loan losses	317,500	235,500
	-----	-----
Net interest income after provision for loan losses	9,141,046	6,851,611

Continued on next page

3

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
	-----	-----
Noninterest income:		
Service charges on deposit accounts	\$1,360,830	\$ 680,509
Trust department income	179,710	182,011
Loss on sales and calls of debt securities	(18,351)	--
Mortgage loan servicing fees, net	114,682	112,767
Gain on sale of mortgage loans	112,234	129,696
Other	276,806	226,361
	-----	-----
Total noninterest income	2,025,911	1,331,344
	-----	-----
Noninterest expense:		
Salaries and employee benefits	4,345,246	2,885,789
Occupancy expense	452,342	289,770
Furniture and equipment expense	519,627	504,229
Postage, printing and supplies	292,373	164,151
Legal, examination, and professional fees	294,223	251,096
Amortization of intangible assets	275,697	53,778
Processing expense	212,783	89,247
Other	919,301	737,198
	-----	-----
Total noninterest expense	7,311,592	4,975,258
	-----	-----
Income before income taxes	3,855,365	3,207,697
Income taxes	1,166,758	970,083
	-----	-----
Net income	\$2,688,607	\$2,237,614
	=====	=====
Basic earning per share	\$ 0.64	\$ 0.54
Diluted earnings per share	\$ 0.64	\$ 0.53
	-----	-----
Weighted average shares of common stock outstanding		
Basic	4,169,847	4,169,847
Diluted	4,203,607	4,199,268

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

Dividends per share:

Declared	\$	0.21	\$	0.18
Paid	\$	0.21	\$	0.18

See accompanying notes to unaudited condensed consolidated financial statements.

4

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
Cash flow from operating activities:		
Net income	\$ 2,688,607	\$ 2,237,
Adjustments to reconcile net income to net cash cash provided by operating activities:		
Provision for loan losses	317,500	235,
Depreciation expense	435,333	396,
Net amortization of debt securities premiums and discounts	31,553	233,
Amortization of intangible assets	275,697	53,
Non-cash compensation expense for stock option grants	42,393	
(Increase) decrease in accrued interest receivable	125,397	(430,
Increase in cash surrender value - life insurance	(16,723)	
(Increase) decrease in other assets	94,323	(285,
Increase in accrued interest payable	226,934	249,
Increase in other liabilities	347,666	727,
Loss on sales and calls of debt securities	18,351	
Origination of mortgage loans for sale	(6,138,550)	(9,117,
Proceeds from the sale of mortgage loans held for sale	6,250,784	9,247,
Gain on sale of mortgage loans	(112,234)	(129,
Loss on disposition of premises and equipment	--	
Other, net	--	15,
Net cash provided by operating activities	4,587,031	3,433,
Cash flow from investing activities:		
Net increase in loans	(13,175,966)	(5,053,
Purchase of available-for-sale debt securities	(36,981,708)	(81,885,
Proceeds from maturities of available-for-sale debt securities	13,003,919	18,998,
Proceeds from calls of available-for-sale debt securities	610,038	7,872,
Proceeds from sales of available-for-sale debt securities	1,993,120	1,071,
Purchase of premises and equipment	(613,549)	(1,405,
Proceeds from dispositions of premises and equipment	9,339	
Proceeds from sales of other real estate owned and repossessions	83,501	67,
Net cash used in investing activities	(35,071,306)	(60,334,

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

Continued on next page

5

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

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
Cash flow from financing activities:		
Net decrease in demand deposits	\$ (717,193)	\$ (3,014,)
Net increase (decrease) in interest-bearing transaction accounts	(4,091,822)	14,110,
Net increase in time deposits	819,681	183,
Net increase in federal funds purchased and securities sold under agreements to repurchase	19,031,434	16,772,
Net decrease in interest-bearing demand notes to U.S. Treasury	(726,158)	(191,
Proceeds from subordinated notes	--	23,712,
Proceeds from Federal Home Loan Bank borrowings	47,409,734	
Repayment of Federal Home Loan Bank borrowings	(30,285,923)	(270,
Cash dividends paid	(875,668)	(750,
Net cash provided by financing activities	30,564,085	50,550,
Net increase (decrease) in cash and cash equivalents	79,810	(6,350,
Cash and cash equivalents, beginning of period	47,730,549	65,708,
Cash and cash equivalents, end of period	\$ 47,810,359	\$ 59,358,
Supplemental disclosure of cash flow information - Cash paid during period for:		
Interest	\$ 7,107,386	\$ 4,191,
Income taxes	225,000	70,
Supplemental schedule of noncash investing activities -		
Other real estate and repossessions acquired in settlement of loans	\$ --	\$ 385,

See accompanying notes to unaudited condensed consolidated financial statements.

6

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

Three Months Ended March 31, 2006 and 2005

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

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 period ended March 31, 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 March 31, 2006 and December 31, 2005 and the consolidated statements of earnings for the three months ended March 31, 2006 and 2005 and cash flows for the three months ended March 31, 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.

7

A summary of unaudited pro forma combined financial information for the three-month period ended March 31, 2005 for our Company and Bank 10 as if the transaction had occurred on January 1, 2005 follows.

	Three Months Ended March 31, 2005 -----
Net interest income	\$8,533,579
Net income	2,389,523
Basic earnings per share	\$ 0.57
Diluted earnings per share	0.57

EARNINGS PER SHARE

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

The following table reflects, for the three-month periods ended March 31, 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	
	MARCH 31,	
	2006	2005
Net income, basic and diluted	\$2,688,607	\$2,237,614
Average shares outstanding	4,169,847	4,169,847
Effect of dilutive stock options	33,760	29,421
Average shares outstanding including dilutive stock options	4,203,607	4,199,268
Basic earning per share	\$ 0.64	\$ 0.54
Diluted earnings per share	\$ 0.64	\$ 0.53

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 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 three months ended March 31, 2006, there were no stock options exercised.

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

Total stock-based compensation expense in the first quarter of 2006 was \$42,000 (\$28,000 after tax), or \$0.01 for basic and diluted earnings per share, respectively. As of March 31, 2006, the total unrecognized compensation expense related to non-vested stock awards was \$588,000 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 MARCH 31, 2005 -----
Net income, as reported	\$2,237,614
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	(26,501)

Pro forma net income	\$2,211,113 =====
Pro forma earnings per common share:	
As reported basic	\$ 0.54
Pro forma basic	0.53
As reported diluted	0.53
Pro forma diluted	0.53

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 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 five 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 three months ended March 31, 2006:

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

	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, March 31, 2006	207,189	25.75	\$974	7.5
	=====			
Exercisable, March 31, 2006	112,137	21.90	919	6.3

The weighted average remaining contractual life of options outstanding at March 31, 2006 was approximately 7.5 years.

The weighted average grant date fair values of stock options granted during the quarter ended March 31, 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.

11

COMPREHENSIVE INCOME

For the three-month periods ended March 31, 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. Comprehensive income for the three-month periods ended March 31, 2006 and 2005 is summarized as follows:

THREE MONTHS ENDED MARCH 31,	
-----	-----
2006	2005

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

Net income	\$2,688,607	\$ 2,237,614
Other comprehensive loss:		
Net unrealized holding losses on investments in debt and equity securities available-for-sale, net of taxes	(287,814)	(1,066,741)
Adjustment for net securities losses realized in net income, net of applicable income taxes	11,928	--
Total other comprehensive loss	(275,886)	(1,066,741)
Comprehensive income	\$2,412,721	\$ 1,170,873

INTANGIBLE ASSETS

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

	MARCH 31, 2006		DECEMBER 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangible	\$7,060,224	(2,549,461)	7,060,224	(2,273,764)

The aggregate amortization expense of core deposit intangible subject to amortization for the three-month period ended March 31, 2006 and 2005 is as follows:

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
Aggregate amortization expense	\$275,697	53,778

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

Estimated amortization expense:	
For year ending 2006	\$1,032,583

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

For year ending 2007	922,337
For year ending 2008	701,443
For year ending 2009	626,111
For year ending 2010	526,477

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:

	MARCH 31,	
	2006	2005
Balance, beginning of period	\$ 1,536,331	1,605,930
Originated mortgage servicing rights	53,745	83,551
Amortization	(103,529)	(101,189)
Balance, end of period	\$ 1,486,547	1,588,292
Mortgage loans serviced	\$219,697,000	215,881,000
Mortgage servicing rights as a percentage of loans serviced	0.68%	0.74%

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

Estimated amortization expense:	
For year ending 2006	\$427,000
For year ending 2007	362,000
For year ending 2008	309,000
For year ending 2009	229,000
For year ending 2010	153,000

13

Our Company's goodwill associated with the purchase of subsidiaries by reporting segments as of March 31, 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	TOTAL
-----	-----	-----	-----	-----

Goodwill associated with the

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

purchase of subsidiaries	\$4,382,098	16,701,762	4,112,876	15,127,039	40,323,
	=====	=====	=====	=====	=====

DEFINED BENEFIT RETIREMENT PLAN

The Exchange National Bank of Jefferson City 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 periods ended March 31, 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 March 31 (actual)	\$ 167,202	\$ 97,844
	=====	=====

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

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

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

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.

16

MARCH 31, 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	CORPOR AND OT
Balance sheet information:					
Loans, net of allowance for loan losses	\$377,748,517	\$242,180,691	\$ 54,421,057	\$142,958,303	\$
Debt and equity securities	92,761,103	43,508,901	33,666,649	29,172,731	1,486
Goodwill	4,382,098	16,701,762	4,112,876	15,127,039	
Intangible assets	--	529,242	--	3,981,521	
Total assets	515,092,502	331,620,864	100,849,682	210,224,056	2,277
Deposits	388,656,001	266,883,889	85,087,844	145,226,684	(8,388)
Stockholders' equity	\$ 49,934,170	\$ 43,323,462	\$ 9,485,153	\$ 34,973,771	\$ (39,404)

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	CORPOR AND OT
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	1,486
Goodwill	4,382,098	16,701,762	4,112,876	15,127,039	
Intangible assets	--	583,020	--	4,203,440	

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

Total assets	487,322,716	329,366,100	102,071,064	205,092,903	2,617
Deposits	391,682,694	265,370,183	84,823,313	148,430,696	(8,851)
Stockholders' equity	\$ 49,732,241	\$ 42,602,916	\$ 9,415,739	\$ 34,410,079	\$ (39,428)
	=====	=====	=====	=====	=====

17

THREE MONTHS ENDED MARCH 31, 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	CORPORATE AND OTHER
	-----	-----	-----	-----	-----
Statement of earnings:					
Total interest income	\$7,741,073	\$4,646,317	\$1,249,550	\$3,130,650	\$ 25,276
Total interest expense	3,054,113	1,739,422	676,420	1,041,914	822,451
	-----	-----	-----	-----	-----
Net interest income	4,686,960	2,906,895	573,130	2,088,736	(797,175)
Provision for loan losses	225,000	75,000	10,500	7,000	--
Noninterest income	979,511	425,616	141,109	498,581	(18,906)
Noninterest expense	2,863,097	2,085,538	509,768	1,691,910	161,279
Income taxes	827,400	347,891	41,743	284,224	(334,500)
	-----	-----	-----	-----	-----
Net income (loss)	\$1,750,974	\$ 824,082	\$ 152,228	\$ 604,183	\$ (642,860)
	=====	=====	=====	=====	=====

THREE MONTHS ENDED MARCH 31, 2005

	THE EXCHANGE NATIONAL BANK OF JEFFERSON CITY	CITIZENS UNION STATE BANK AND TRUST OF CLINTON	OSAGE VALLEY BANK OF WARSAW	CORPORATE AND OTHER	TOTAL
	-----	-----	-----	-----	-----
Statement of earnings:					
Total interest income	\$6,576,008	\$3,794,507	\$1,144,759	\$ 12,104	\$11,527,378
Total interest expense	2,411,675	1,201,629	485,623	341,340	4,440,267
	-----	-----	-----	-----	-----
Net interest income	4,164,333	2,592,878	659,136	(329,236)	7,087,111
Provision for loan losses	150,000	75,000	10,500	--	235,500
Noninterest income	869,074	383,572	95,375	(16,677)	1,331,344
Noninterest expense	2,683,542	1,736,459	430,591	124,666	4,975,258
Income taxes	695,400	349,685	86,128	(161,130)	970,083
	-----	-----	-----	-----	-----
Net income (loss)	\$1,504,465	\$ 815,306	\$ 227,292	\$ (309,449)	\$ 2,237,614
	=====	=====	=====	=====	=====

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, 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.

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,

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

Inc. by Union State Bank, Calhoun Bancshares' wholly-owned subsidiary, Citizens 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

20

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

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

primarily from lending and deposit taking activities. A secondary source of revenue is investment income. Our Company also derives income from trust, 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.

21

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2006 of \$2,689,000 increased \$451,000 when compared to the first quarter of 2005. Diluted earnings per common share for the first quarter of 2006 of \$0.64 increased 11 cents or 20.8% when compared to the first quarter of 2005.

Net interest income (on a tax equivalent basis) was \$9,723,000, or 3.83% of average earning assets, for the three months ended March 31, 2006, compared to \$7,270,000, or 3.34% of average earning assets, for the same period in 2005. Approximately, \$2,089,000 of the \$2,453,000 increase in net interest income for the three months ended March 31, 2006 is related to the acquisition of Bank 10. The balance of 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 March 31, 2006 were \$1,030,315,000, an increase of \$148,633,000 or 16.9%, compared to average interest-earning assets of \$881,682,000 for the same period of 2005. The acquisition of Bank 10 represents approximately \$171,896,000 of the increase in interest-earning assets. In addition to the increase due to the acquisition of Bank 10, average loans outstanding increased approximately \$39,611,000 while other earning assets decreased \$62,874,000. The decrease in other earning assets reflects the use of excess liquidity to fund loan growth and the purchase of Bank 10.

The yield on average interest-earning assets increased to 6.71% for the three month period ended March 31, 2006 compared to 5.39% for the same period in 2005. The rate paid on interest-bearing liabilities also increased to 3.27% in 2006 compared to 2.36% 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.

THREE MONTHS ENDED MARCH 31, 2006 COMPARED TO THREE MONTHS ENDED MARCH 31, 2005

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

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 \$2,453,000 or 33.7% to \$9,723,000 or 3.83% of average earning assets for the first quarter of 2006 compared to \$7,270,000 or 3.34% of average earning assets for the same period of 2005. The provision for loan losses was \$318,000 and \$236,000 for the three months ended March 31, 2006 and 2005 respectively. The increase in the provision for loan losses reflects a higher level of charge-offs during the first quarter of 2006 compared to 2005 as well as an increase in loan balances. Net charge-offs were \$17,000 for the first quarter of 2006 compared to \$2,000 for the first quarter of 2005. See Lending and Credit Management in this report for further discussion of first quarter 2006 charge-offs.

22

Noninterest income and noninterest expense for the three-month periods ended March 31, 2006 and 2005 were as follows:

(DOLLARS EXPRESSED IN THOUSANDS)

	THREE MONTHS ENDED		INCREASE (DECREASE)	
	MARCH 31,		AMOUNT	%
NONINTEREST INCOME	2006	2005	-----	-----
Service charges on deposit accounts	\$1,361	\$ 681	\$ 680	99.9%
Trust department income	180	182	(2)	(1.1)
Net gain (loss) on sales of calls of debt securities	(18)	0	(18)	NM
Mortgage loan servicing fees, net	114	113	1	0.9
Gain on sale of mortgage loans	112	130	(18)	(13.8)
Other	277	225	52	23.1
	-----	-----	-----	-----
	\$2,026	\$1,331	\$ 695	52.2%
	=====	=====	=====	=====
NONINTEREST EXPENSE				
Salaries and employee benefits	\$4,345	\$2,886	\$1,459	50.6%
Occupancy expense	452	290	162	55.9
Furniture and equipment expense	520	504	16	3.2
Postage, printing and supplies	292	164	128	78.0
Legal, examination, and professional fees	294	251	43	17.1
Amortization - CDI	276	54	222	411.1
Processing expense	213	89	124	139.3
Other	919	737	182	24.7
	-----	-----	-----	-----
	\$7,311	\$4,975	\$2,336	47.0%
	=====	=====	=====	=====

Noninterest income increased \$695,000 or 52.2% to \$2,026,000 for the first quarter of 2006 compared to \$1,331,000 for the same period of 2005. The acquisition of Bank 10 contributed \$499,000 to the increase in noninterest income during the first quarter. Excluding income due to the acquisition, service charges on deposit accounts increased \$230,000 or 33.8% as a result of increased overdraft and insufficient check fee income, ATM fee income, and debit card fee income. Gain on sale of mortgage loans decreased \$18,000 or 13.8% due

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

to a decrease in volume of loans originated and sold to the secondary market from approximately \$9,118,000 in the first quarter of 2005 to approximately \$6,139,000 for the first quarter of 2006.

23

Noninterest expense increased \$2,336,000 or 47.0% to \$7,311,000 for the first quarter of 2006 compared to \$4,975,000 for the first quarter of 2005. Approximately \$1,692,000 of the increase in noninterest expense is attributed to the acquisition of Bank 10. Excluding costs associated with the acquisition, salaries and benefits increased \$491,000 or 17.2%, occupancy expense increased \$58,000 or 20.0%, postage, printing, and supplies increased \$56,000 or 34.1%, processing expense increased \$28,000 or 31.5% and other noninterest expense increased \$62,000 or 8.4%. In addition to the increase in salaries and employees benefits represented by normal salary increases and additional hires, \$42,000 of the increase reflects share-based compensation expense recorded as a result of the adoption of SFAS No. 123R, \$103,000 reflects increased pension expense and \$72,000 represents increased profit sharing expense. The increase in occupancy expense reflects additional costs associated with three new branch facilities. The increase in postage, printing, and supplies reflects both higher postage rates and additional mail volume. The increase in processing expense generally reflects higher costs associated with the various dataprocessing systems utilized by our Company. The increase in other noninterest expense reflects higher expenses in various other categories including, but not limited to, telephone and communications expense, correspondent bank charges, corporate dues, education, and miscellaneous charge-offs.

Income taxes as a percentage of earnings before income taxes as reported in the condensed consolidated financial statements were 30.3% for the first quarter of 2006 compared to 30.2% for the first quarter of 2005.

24

NET INTEREST INCOME

Fully taxable equivalent net interest income increased \$2,453,000 or 33.7% for the three month period ended March 31, 2006 compared to the same period in 2005. The increase in net interest income for the period ended March 31, 2006 compared to the period ended March 31, 2005 was the result of increased earning assets and 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 March 31, 2006 and 2005.

(DOLLARS EXPRESSED IN THOUSANDS)

THREE MONTHS ENDED
MARCH 31, 2006

THREE MONTHS ENDED
MARCH 31, 2005

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

	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE/1/	RATE EARNED/ PAID/1/	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE
ASSETS					
Loans:/2/	\$ 821,412	\$14,762	7.29%	\$640,104	\$ 9,723
Investment securities:/3/					
U.S Treasury and					
U.S. Gov't Agencies	136,913	1,370	4.06	158,942	1,111
State and municipal	53,585	736	5.57	34,048	400
Other	7,169	69	3.90	5,668	220
Federal funds sold	8,571	94	4.45	39,929	200
Interest-bearing deposits	2,665	26	3.96	2,991	100
	-----	-----		-----	-----
Total interest earning assets	1,030,315	17,057	6.71	881,682	11,723
All other assets	123,069			78,763	
Allowance for loan losses	(9,248)			(7,609)	
	-----			-----	
Total assets	\$1,144,136			\$952,836	
	=====			=====	
LIABILITIES AND STOCKHOLDERS' EQUITY					
NOW accounts	\$ 113,049	\$ 391	1.40%	\$125,645	\$ 391
Savings	55,112	78	0.57	50,428	78
Money market	157,184	1,134	2.93	125,227	600
Deposits of \$100 and over	115,460	1,059	3.72	90,540	600
Other time deposits	310,519	2,713	3.54	252,180	1,623
	-----	-----		-----	-----
Total time deposits	751,324	5,375	2.90	644,020	3,323
Federal funds purchased and securities sold under agreements to repurchase	52,021	511	3.98	48,969	200
Interest-bearing demand notes to US Treasury	480	4	3.38	662	4
Subordinated notes	49,486	842	6.90	29,726	400
Advances from Federal Home Loan Bank	57,122	602	4.27	39,432	400
	-----	-----		-----	-----
Total interest-bearing liabilities	910,433	7,334	3.27	762,809	4,423
Demand deposits	127,499			92,280	
Other liabilities	8,305			5,034	
	-----			-----	
Total liabilities	1,046,237			860,123	
Stockholders' equity	97,899			92,713	
	-----			-----	
Total liabilities and stockholders' equity	\$1,144,136			\$952,836	
	=====			=====	
Net interest income		\$ 9,723			\$ 9,723
		=====			=====
Net interest margin/4/			3.83%		
			=====		

/1/ Interest income and yields are presented on a fully taxable equivalent basis using the Federal statutory income tax rate. Such adjustments were \$265,000 in 2006 and \$182,000 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.

26

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 MARCH 31, 2006 COMPARED TO THREE MONTHS ENDED MARCH 31, 2005		
	CHANGE DUE TO		
TOTAL CHANGE	VOLUME /3/	RATE /4/	
INTEREST INCOME ON A FULLY TAXABLE EQUIVALENT BASIS:			
Loans:/1/	\$4,994	3,069	1,925
Investment securities:/3/			
U.S Treasury and			
U.S. Gov't Agencies	248	(172)	420
State and municipal /2/	243	269	(26)
Other	11	14	(3)
Federal funds sold	(159)	(274)	115
Interest-bearing deposits	10	(2)	12
	-----	-----	-----
Total interest income	5,347	2,904	2,443
INTEREST EXPENSE:			
NOW accounts	\$ 35	(39)	74
Savings	7	7	--
Money market	489	191	298
Deposits of \$100 and over	439	197	242
Other time deposits	1,054	436	618
Federal funds purchased and securities sold under agreements to repurchase	243	18	225
Interest-bearing demand notes of U.S. Treasury	1	(1)	2
Subordinated debentures	439	317	122
Other borrowed money	187	186	1
	-----	-----	-----
Total interest expense	2,894	1,312	1,582
	-----	-----	-----
Net interest income on a fully taxable equivalent basis	\$2,453	1,592	861
	=====	=====	=====

/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

\$265,000 in 2006 and \$182,000 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.

27

LENDING AND CREDIT MANAGEMENT

Interest earned on the loan portfolio is a primary source of interest income for our Company. Net loans represented 70.4% of total assets as of March 31, 2006 compared to 71.4% as of December 31, 2005 and 64.9% as of March 31, 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 March 31, 2006, our Company was servicing approximately \$219,697,000 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 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.

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

The balance of the allowance for loan losses was \$9,385,000 at March 31, 2006 compared to \$9,085,000 at December 31, 2005 and \$7,729,000 at March 31, 2005. \$1,216,000 of the increase in the allowance for loan losses from March 31, 2005 to 2006 represents the balance of Bank 10's allowance acquired in the acquisition. The allowance for loan losses as a percent of outstanding loans was 1.14% at March 31, 2006 compared to 1.12% at December 31, 2005 and 1.21% at March 31, 2005. The decrease in the allowances for loan losses as a percent of outstanding loans reflects both the increase in loan balances as a result of the Bank 10 acquisition as well as the charge-off of loans for which management had made previous provisions in the allowance.

Nonperforming loans, defined as loans on nonaccrual status, loans 90 days or more past due and still accruing, and restructured loans totaled \$8,624,000 or 1.04% of total loans at March 31, 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)

	MARCH 31, 2006		DECEMBER 31, 2005	
	BALANCE	% OF GROSS LOANS	BALANCE	% OF GROSS LOANS
Nonaccrual loans:				
Commercial	\$ 5,386	0.65%	\$ 5,705	0.70%
Real estate:				
Construction	1,803	0.22	1,760	0.22
Mortgage	849	0.10	1,090	0.13
Consumer	55	0.01	56	0.01
	-----	-----	-----	-----
	8,093	0.98	8,611	1.06
	-----	-----	-----	-----
Loans contractually past-due 90 days or more and still accruing:				
Commercial	--	--	238	0.03
Real estate:				
Construction	--	--	--	--
Mortgage	517	0.06	187	0.02
Consumer	14	--	14	--
	-----	-----	-----	-----
	531	0.06	439	0.05
	-----	-----	-----	-----

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

Restructured loans	--	--	--	--
	-----	----	-----	----
Total nonperforming loans	8,624	1.04%	9,050	1.11%
		====		====
Other real estate	1,484		1,568	
Repossessions	--		--	
	-----		-----	
Total nonperforming assets	\$10,108		\$10,618	
	=====		=====	

The allowance for loan losses was 108.82% of nonperforming loans at March 31, 2006 compared to 100.39% of nonperforming loans at December 31, 2005. There has been no material change in the overall level of nonperforming assets since the prior year-end.

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 \$540,000 and \$267,000 for the three months ended March 31, 2006 and 2005, respectively. Approximately \$8,000 and \$3,000 was actually recorded as interest income on such loans for the three months ended March 31, 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 \$1,894,000 of additional loans as being

30

impaired at March 31, 2006. The average balance of nonaccrual and other impaired loans for the first three months of 2006 was approximately \$10,333,000. At March 31, 2006 the portion of the allowance for loan losses allocated (both asset-specific and percentage) to impaired loans was \$2,382,000 compared to \$2,392,000 at December 31, 2005. The balance of impaired loans with no specific loan loss allocations was approximately \$1,369,000 at March 31, 2006 compared to approximately \$1,217,000 at December 31, 2005.

As of March 31, 2006 and December 31, 2005 approximately \$17,631,000 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

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

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

31

with specific problem credits or portfolio segments. Conditions evaluated in connection with the unallocated portion of the allowance include general economic and business 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 March 31, 2006, management allocated \$8,624,000 of the \$9,385,000 total allowance for loan losses to specific loans and loan categories and \$761,000 was unallocated. This is in comparison to 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. Considering the size of several of our Company's lending relationships and the loan portfolio in total, management believes that the March 31, 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

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

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 \$33,594,000 or 3.0% to \$1,160,064,000 at March 31, 2006 compared to \$1,126,470,000 at December 31, 2005. Total liabilities increased \$32,014,000 or 3.1% to \$1,061,752,000. Stockholders' equity increased \$1,579,000 or 1.6% to \$98,312,000. 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 \$13,158,000 to \$826,693,000 at March 31, 2006 compared to \$813,535,000 at December 31, 2005. Commercial loans increased \$1,235,000; real estate construction loans increased \$18,685,000; real estate mortgage loans decreased \$3,055,000; and consumer loans decreased \$3,707,000. The increase in commercial loans and real estate construction loans represents continued strong loan demand in all our market areas. The decrease in real estate mortgage loans reflects generally higher mortgage rates in the market since year-end. 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 in balance.

32

Investment in debt securities classified as available-for-sale increased \$20,903,000 or 11.6% to \$200,595,000 at March 31, 2006 compared to \$179,692,000 at December 31, 2005. Investments classified as available-for-sale are carried at fair value. During 2006 the market valuation account decreased \$421,000 to (\$2,060,000) to reflect the fair value of available-for-sale investments at March 31, 2006 and the net after tax decrease resulting from the change in the market valuation adjustment of \$276,000 decreased the stockholders' equity component to (\$1,348,000) at March 31, 2006. The increase in debt securities represents securities purchased as collateral for increased public funds.

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.

Cash and cash equivalents, which consist of cash and due from banks and Federal funds sold, increased \$80,000 or 0.2% to \$47,810,000 at March 31, 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 \$169,000 or 0.5% to \$33,060,000 at March 31, 2006 compared to \$32,891,000 at December 31, 2005. The increase reflects purchases of premises and equipment \$614,000 offset by depreciation expense of \$435,000.

Total deposits decreased \$3,989,000 or .45% to \$877,466,000 at March 31, 2006 compared to \$881,455,000 at December 31, 2005.

Federal funds purchased and securities sold under agreements to repurchase

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

increased \$19,031,000 or 51.4% to \$56,027,000 at March 31, 2006 compared to \$36,996,000 at December 31, 2005. The balance represents an increase in public fund repurchase agreements.

Other borrowed money increased \$17,124,000 or 32.8% to \$69,303,000 at March 31, 2006 compared to \$52,179,000 at December 31, 2005. The increase reflects new borrowings of \$47,000,000 reduced by repayments of \$30,286,000. \$8,000,000 of the net increase reflects an advance funding of a future maturity in order to lock in a lower funding rate. The balance of the net increases reflects funding of loan growth.

The increase in stockholders' equity reflects net income of \$2,688,000 less dividends declared of \$875,000 and (\$276,000) change in unrealized holding losses, net of taxes, on investment in debt and equity securities available-for-sale.

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

33

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 March 31, 2006, the amounts of available credit from the FHLB totaled \$58,874,000. As of March 31, 2006, the Banks had \$69,303,000 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

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

use as of March 31, 2006.

SOURCES AND USES OF FUNDS

For the three months ended March 31, 2006 and 2005, net cash provided by operating activities was \$4,587,000 and \$3,433,000, respectively. \$451,000 of the increase in net cash provided by operating activities reflects a higher level of net income. Approximately \$556,000 represents the change in accrued interest receivable.

Net cash used in investing activities was \$35,071,000 in 2006 versus \$60,335,000 in 2005. The primary decrease in cash used in investing activities reflects lower purchases of debt securities during the first quarter of 2006 versus the same period in 2005.

34

Net cash provided by financing activities was \$30,564,000 in 2006 versus \$50,551,000 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 \$14,110,000 of cash during the first quarter of 2005 compared to a decrease in interest-bearing accounts of approximately \$4,000,000 during the first quarter of 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.

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

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

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 March 31, 2006, the rate shock scenario models indicated that annual net interest income could decrease or increase by as much as 4.5% 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.

35

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 March 31, 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 March 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

36

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	NONE
Item 5. Other Information	NONE
Item 6. Exhibits	

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

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 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

37

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

May 10, 2006

/s/ James E. Smith

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

/s/ Richard G. Rose

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

May 10, 2006

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

38

EXCHANGE NATIONAL BANCSHARES, INC.

INDEX TO EXHIBITS

March 31, 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 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	40
31.2	Certificate of the Chief Financial Officer of our Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	41
32.1	Certificate of the Chief Executive Officer of our Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	42
32.2	Certificate of the Chief Financial Officer of our Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	43

** Incorporated by reference.

39