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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

or

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

For the transition period from ______________ to ______________

Commission File Number: 0-23636

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

MISSOURI	43-1626350
(State or other jurisdiction of incorporation or organization)	(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.
[X] 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 [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 November 9, 2006, the registrant had 4,169,847 shares of common stock, par value $1.00 per share, outstanding.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
ASSETS		
Loans:	$ 820,550,139	$ 813,534,876
Less allowance for loan losses	9,381,333	9,084,774
Loans, net	811,168,806	804,450,102
Investments in available for sale debt securities, at fair value	179,041,365	173,389,101
Investments in equity securities, at cost	6,568,875	6,302,725
Federal funds sold	26,535,273	12,447,981
Cash and due from banks	30,421,093	35,282,568
Premises and equipment	33,455,374	32,890,908
Accrued interest receivable	8,388,281	7,772,573
Mortgage servicing rights	1,414,954	1,536,331
Goodwill	40,323,775	40,323,775
Core deposit intangible	4,003,246	4,786,460
Cash surrender value - life insurance	1,730,508	1,682,836
Other assets	5,464,115	5,605,116
Total assets	$1,148,515,665	$1,126,470,476
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Demand deposits	$ 137,593,549	$ 134,364,788
Time deposits	754,142,882	747,090,418
Total deposits	891,736,431	881,455,206
Federal funds purchased and securities sold under agreements to repurchase	41,544,194	36,995,735
Interest-bearing demand notes to U.S. Treasury	1,889,472	1,098,337
Subordinated notes	49,486,000	49,486,000
Other borrowed money	50,610,683	52,179,661
Accrued interest payable	4,352,048	3,139,130
Other liabilities	5,889,052	5,383,542
Total liabilities	1,045,507,880	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	22,192,815	22,030,074
Retained earnings	79,982,390	74,129,117
Accumulated other comprehensive loss, net of tax	(813,264)	(1,072,170)
Treasury stock, 128,506 shares at cost	(2,652,509)	(2,652,509)
Total stockholders' equity	103,007,785	96,732,865
Total liabilities and stockholders' equity	$1,148,515,665	$1,126,470,476

See accompanying notes to unaudited condensed consolidated financial statements.

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS SEPTEMBER
	2006	2005	2006
Interest income:			
Interest and fees on loans	$16,064,823	$13,577,646	$46,545,816
Interest on debt securities:			
Taxable	1,444,437	1,493,402	4,220,388
Nontaxable	481,074	412,270	1,442,210
Interest on federal funds sold	221,387	314,308	528,547
Interest on interest-bearing deposits	19,492	7,952	76,492
Dividends on equity securities	83,252	57,105	223,699
Total interest income	18,314,465	15,862,683	53,037,152
Interest Expense:			
NOW accounts	322,507	559,041	1,104,083
Savings	73,324	84,307	226,983
Money market accounts	1,377,511	1,017,955	3,769,533
Certificates of deposit:			
$100,000 and over	1,420,547	920,511	3,685,900
Other time deposits	3,262,639	2,396,624	8,969,634
Federal funds purchased and securities sold under agreements to repurchase	461,640	434,293	1,458,591
Subordinated notes	912,438	772,307	2,628,177
Advances from Federal Home Loan Bank	750,026	516,008	2,153,965
Other borrowed money	8,830	5,591	22,188
Total interest expense	8,589,462	6,706,637	24,019,054
Net interest income	9,725,003	9,156,046	29,018,098
Provision for loan losses	300,000	260,500	928,000

Net interest income after provision for loan losses	9,425,003	8,895,546	28,090,098

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EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS E SEPTEMBER 3	
	2006	2005	2006	
Noninterest income:				
Service charges on deposit accounts	$1,461,703	$1,251,632	$ 4,339,408	$ 2
Trust department income	214,472	165,376	622,551	
Loss on sales and calls of debt securities	--	--	(18,351)	
Mortgage loan servicing fees, net	102,370	101,159	326,646	
Gain on sale of mortgage loans	126,686	200,936	328,520	
Other	311,342	292,084	892,890	
Total noninterest income	2,216,573	2,011,187	6,491,664	5
Noninterest expense:				
Salaries and employee benefits	4,254,272	3,899,655	12,942,420	10
Occupancy expense	499,840	431,801	1,400,006	1
Furniture and equipment expense	591,482	545,208	1,653,967	1
Advertising and promotion	234,298	216,586	621,636	
Postage, printing and supplies	277,290	287,863	861,209	
Legal, examination, and professional fees	333,575	400,997	946,664	
Amortization of intangible assets	249,369	329,893	783,214	
Processing expense	261,202	223,671	776,222	
Other	780,591	733,081	2,265,640	2
Total noninterest expense	7,481,919	7,068,755	22,250,978	18
Income before income taxes	4,159,657	3,837,978	12,330,784	10
Income taxes	1,301,172	1,186,307	3,850,507	3
Net income	$2,858,485	$2,651,671	$ 8,480,277	$ 7
Basic earning per share	$ 0.69	$ 0.64	$ 2.03	$
Diluted earnings per share	$ 0.68	$ 0.63	$ 2.02	$
Weighed average shares of common stock outstanding				
Basic	4,169,847	4,169,847	4,169,847	4
Diluted	4,202,485	4,196,929	4,202,762	4
Dividends per share:				
Declared	$ 0.21	$ 0.18	$ 0.63	$
Paid	$ 0.21	$ 0.18	$ 0.63	$

See accompanying notes to unaudited condensed consolidated financial statements.

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30	
	2006	20
Cash flow from operating activities:		
Net income	$ 8,480,277	$ 7,2
Adjustments to reconcile net income to net cash cash provided by operating activities:		
Provision for loan losses	928,000	7
Depreciation expense	1,360,457	1,2
Net amortization of debt securities premiums and discounts	34,945	5
Amortization of intangible assets	783,214	5
Non-cash compensation expense for stock based compensation	162,741	
Increase in accrued interest receivable	(615,708)	(6
Increase in cash surrender value - life insurance	(47,672)	(
Increase in other assets	(36,151)	(2
Increase in accrued interest payable	1,212,918	1,0
Increase in other liabilities	505,510	4
Loss on sales and calls of debt securities	18,351	
Origination of mortgage loans for sale	(15,247,120)	(30,2
Proceeds from the sale of mortgage loans held for sale	15,575,640	30,7
Gain on sale of mortgage loans	(328,520)	(5
Loss on disposition of premises and equipment	25,952	
Other, net	--	
Net cash provided by operating activities	12,812,834	10,8
Cash flow from investing activities:		
Net increase in loans	(8,136,202)	(33,1
Purchase of available-for-sale debt securities	(117,945,571)	(480,3
Proceeds from maturities of available-for-sale debt securities	109,781,262	443,3
Proceeds from calls of available-for-sale debt securities	950,038	20,2
Proceeds from sales of available-for-sale debt securities	1,985,020	1,0
Purchase of equity securities	(1,008,150)	(8
Proceeds from sales of equity securities	742,000	
Acquisition of subsidiary, net of cash and cash equivalents acquired	--	(21,8
Purchase of premises and equipment	(2,020,077)	(5,0
Proceeds from dispositions of premises and equipment	69,202	
Proceeds from sales of other real estate owned and repossessions	570,624	1,7
Net cash used in investing activities	(15,011,854)	(74,5

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EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30	
	2006	20
Cash flow from financing activities:		
Net increase in demand deposits	$ 3,228,761	$ 12,4
Net increase (decrease) in interest-bearing transaction accounts	(19,314,069)	12,4
Net increase in time deposits	26,366,533	8,4
Net increase in federal funds purchased and securities sold under agreements to repurchase	4,548,459	28,6
Net increase in interest-bearing demand notes to U.S. Treasury	791,135	5
Proceeds from issuance of subordinated notes	--	23,7
Proceeds from Federal Home Loan Bank borrowings	176,355,627	3,5
Repayment of Federal Home Loan Bank borrowings	(177,924,605)	(4,0
Cash dividends paid	(2,627,004)	(2,2
Net cash provided by financing activities	11,424,837	83,3
Net increase in cash and cash equivalents	9,225,817	19,5
Cash and cash equivalents, beginning of period	47,730,549	65,7
Cash and cash equivalents, end of period	$ 56,956,366	$ 85,2
Supplemental disclosure of cash flow information -		
Cash paid during period for:		
Interest	$ 22,806,136	$ 15,9
Income taxes	4,135,000	2,6
Supplemental schedule of noncash investing activities -		
Other real estate and repossessions acquired in settlement of loans	$ 489,498	$ 3,2

See accompanying notes to unaudited condensed consolidated financial statements.

EXCHANGE NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Three and Nine Months Ended September 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 September 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 September 30, 2006 and December 31, 2005 and the consolidated statements of earnings for the three and nine month periods ended September 30, 2006 and 2005 and cash flows for the nine months ended September 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.

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

	Nine Months Ended September 30, 2005
Net interest income	$26,052,171
Net income	7,478,232
Basic earnings per share	$ 1.79
Diluted earnings per share	1.78

EARNINGS PER SHARE

The following table reflects, for the three-month and nine-month periods ended September 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 SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
Net income, basic and diluted	$2,858,485	$2,651,671	$8,480,277	$7,234,088
Average shares outstanding	4,169,847	4,169,847	4,169,847	4,169,847
Effect of dilutive stock options	32,638	27,082	32,915	28,332
Average shares outstanding including dilutive stock options	4,202,485	4,196,929	4,202,762	4,198,179
Basic earning per share	$ 0.69	$ 0.64	$ 2.03	$ 1.73
Diluted earnings per share	$ 0.68	$ 0.63	$ 2.02	$ 1.72

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 nine months ended September 30, 2006, there were no stock options exercised.

Total stock-based compensation expense for the three-month and nine-month periods ended September 30, 2006 was $60,000 ($40,000 after tax) and $163,000 ($107,000 after tax). As of September 30, 2006, the total unrecognized compensation expense related to non-vested stock awards was $467,000 and the related weighted average period over which it is expected to be recognized is approximately 1.8 years.

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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 SEPTEMBER 30, 2005	NINE MONTHS ENDED SEPTEMBER 30, 2005
Net income, as reported	$2,651,671	$7,234,088
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)	(107,099)
Pro forma net income	$2,615,971	$7,126,989
Pro forma earnings per common share:		
As reported basic	$ 0.64	$ 1.73
Pro forma basic	0.63	1.71
As reported diluted	0.63	1.72
Pro forma diluted	0.62	1.70

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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 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 nine-month period ended September 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, September 30, 2006	207,189	25.75	$1,091	7.0
Exercisable, September 30, 2006	112,137	21.90	993	5.8

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The weighted average grant date fair values of stock options granted during 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 nine-month periods ended September 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. Comprehensive income for the three-month and nine-month periods ended September 30, 2006 and 2005 is summarized as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MO SEPTE
	2006	2005	2006
Net income	$2,858,485	$2,651,671	$8,480,277
Other comprehensive income (loss):			

Net unrealized holding gains (losses) on investments in debt and equity securities available-for-sale, net of taxes	1,339,440	(434,674)	246,978
Adjustment for net securities losses realized in net income, net of applicable income taxes	--	--	11,928
Total other comprehensive income (loss)	1,339,440	(434,674)	258,906
Comprehensive income	$4,197,925	$2,216,997	$8,739,183

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INTANGIBLE ASSETS

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

	SEPTEMBER 30, 2006		DECEMBER 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangible	$7,060,224	(3,056,978)	7,060,224	(2,273,764)

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
Aggregate amortization expense	$249,369	329,893	$783,214	531,199

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

Estimated amortization expense:	
For the three months ended December 31, 2006	$249,369
For year ending 2007	922,337
For year ending 2008	701,443
For year ending 2009	626,111
For year ending 2010	526,477

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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:

	SEPTEMBER 30,	
	2006	2005
Balance, beginning of period	$ 1,536,331	1,605,930
Originated mortgage servicing rights	192,849	294,888
Amortization	(314,226)	(340,412)
Balance, end of period	$ 1,414,954	1,560,406
Mortgage loans serviced	$219,160,535	219,336,200
Mortgage servicing rights as a percentage of loans serviced	0.65%	0.71%

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

Estimated amortization expense:	
For the three months ended December 31, 2006	$ 95,000
For year ending 2007	347,000
For year ending 2008	296,000
For year ending 2009	219,000
For year ending 2010	144,000

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Our Company's goodwill associated with the purchase of subsidiaries by reporting segments as of September 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

Goodwill associated with the purchase of subsidiaries	$4,382,098	16,701,762	4,112,876	15,127,039	40

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 nine-month periods ended September 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 September 30 (actual)	$ 166,760	$ 97,844
Net periodic pension cost - nine months ended September 30 (actual)	$ 500,279	$ 293,531

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 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.

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	SEPTEMBER 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	CORPOR AND OT
Balance sheet information:					
Loans, net of allowance for loan losses	$352,740,225	$246,499,562	$ 57,639,778	$154,289,241	$
Debt and equity securities	80,585,591	40,124,189	35,362,805	28,051,655	1,486
Goodwill	4,382,098	16,701,762	4,112,876	15,127,039	
Intangible assets	--	421,686	--	3,581,560	
Total assets	490,298,882	329,623,906	105,795,923	220,688,819	2,108
Deposits	386,196,451	263,260,991	90,297,456	160,891,525	(8,909
Stockholders' equity	$ 50,857,765	$ 45,241,431	$ 9,833,809	$ 36,542,765	$(39,467

	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	
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

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THREE MONTHS ENDED SEPTEMBER 30, 2006

	THE EXCHANGE NATIONAL BANK OF JEFFERSON CITY	CITIZENS UNION STATE BANK AND TRUST OF CLINTON	OSAGE VALLEY BANK OF WARSAW	BANK 10	CORPO AN OTH
Statement of earnings:					
Total interest income	$8,209,775	$5,038,137	$1,344,040	$3,695,461	$ 27
Total interest expense	3,430,944	1,976,669	799,159	1,490,285	892
Net interest income	4,778,831	3,061,468	544,881	2,205,176	(865
Provision for loan losses	225,000	75,000	--	--	
Noninterest income	1,069,554	473,053	171,838	522,957	(20
Noninterest expense	2,824,360	2,270,624	565,491	1,633,168	188
Income taxes	903,100	353,481	26,880	364,891	(347
Net income (loss)	$1,895,925	$ 835,416	$ 124,348	$ 730,074	$(727

THREE MONTHS ENDED SEPTEMBER 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	CORPO AN OTH
Statement of earnings:					
Total interest income	$7,385,816	$4,253,749	$1,189,612	$3,010,549	$ 22
Total interest expense	3,038,120	1,535,350	566,348	806,968	759
Net interest income	4,347,696	2,718,399	623,264	2,203,581	(736
Provision for loan losses	150,000	100,000	10,500	--	
Noninterest income	962,434	471,212	142,425	456,897	(21
Noninterest expense	2,804,965	1,980,370	468,353	1,711,758	103
Income taxes	751,300	336,846	74,228	318,873	(294
Net income (loss)	$1,603,865	$ 772,395	$ 212,608	$ 629,847	$(567

NINE MONTHS ENDED SEPTEMBER 30, 2006

	THE EXCHANGE NATIONAL BANK OF JEFFERSON CITY	CITIZENS UNION STATE BANK AND TRUST OF CLINTON	OSAGE VALLEY BANK OF WARSAW	BANK 10	COR O
Statement of earnings:					
Total interest income	$24,040,166	$14,780,543	$3,885,715	$10,252,155	$
Total interest expense	9,805,051	5,605,566	2,230,915	3,808,407	2,
Net interest income	14,235,115	9,174,977	1,654,800	6,443,748	(2,
Provision for loan losses	675,000	225,000	21,000	7,000	
Noninterest income	3,151,596	1,353,083	470,521	1,574,213	
Noninterest expense	8,583,106	6,601,466	1,613,003	4,931,112	
Income taxes	2,618,700	1,115,223	98,021	1,013,533	(
Net income (loss)	$ 5,509,905	$ 2,586,371	$ 393,297	$ 2,066,316	$(2,

NINE MONTHS ENDED SEPTEMBER 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	COR O
Statement of earnings:					
Total interest income	$20,939,384	$12,054,443	$3,507,457	$4,719,373	$
Total interest expense	8,107,399	4,078,417	1,570,217	1,406,170	1,
Net interest income	12,831,985	7,976,026	1,937,240	3,313,203	(1,
Provision for loan losses	450,000	250,000	31,500	2,167	
Noninterest income	2,848,791	1,233,627	363,541	754,117	
Noninterest expense	8,207,836	5,706,328	1,347,651	2,712,541	
Income taxes	2,242,100	986,869	248,423	438,109	(
Net income (loss)	$ 4,780,840	$ 2,266,456	$ 673,207	$ 914,503	$(1,

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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.

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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 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

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, 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.

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RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2006 of $2,858,000 increased $207,000 when compared to the second quarter of 2005. Diluted earnings per common share for the third quarter of 2006 of $0.68 increased 5 cents or 7.9% when compared to the third quarter of 2005.

Net income for the nine months ended September 30, 2006 of $8,480,000 increased $1,246,000 when compared to the third quarter of 2005. Diluted earnings per common share for the third quarter of 2006 of $2.02 increased 30 cents or 17.4% when compared to the third quarter of 2005.

Net interest income (on a tax equivalent basis) was $9,973,000, or 3.83% of average earning assets, for the three months ended September 30, 2006, compared to $9,399,000, or 3.53% of average earning assets, for the same period in 2005. The increase in net interest income was primarily the result of an increase in net interest margin.

Net interest income (on a tax equivalent basis) was $29,769,000, or 3.85% of average earning assets, for the nine months ended September 30, 2006, compared to $24,947,000, or 3.41% 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 September 30, 2006 were $1,032,105,000, a decrease of $22,887,000 or 2.2%, compared to average interest-earning assets of $1,054,992,000 for the same period of 2005. Average loans outstanding increased approximately $38,304,000 while other earning assets decreased $61,191,000.

The yield on average interest-earning assets increased to 7.1% for the three month period ended September 30, 2006 compared to 6.0% for the same period in 2005. The rate paid on interest-bearing liabilities also increased to 3.8% in 2006 compared to 2.9% in 2005. The increase in rates reflects the general increases in market rates as a result of the Federal Reserve Bank's rate activity over the last year.

Average interest-earning assets for the nine months ended September 30, 2006 were $1,032,936,000, an increase of $55,453,000 or 5.7%, compared to average interest-earning assets of $977,483,000 for the same period of 2005. Average loans outstanding increased approximately $104,279,000 while other earning assets decreased $48,826,000.

The yield on average interest-earning assets increased to 7.0% for the nine month period ended September 30, 2006 compared to 5.7% for the same period in 2005. The rate paid on interest-bearing liabilities also increased to 3.5% in 2006 compared to 2.7% in 2005. The increase in rates reflects the general increases in market rates as a result of the Federal Reserve Bank's rate activity over the last year.

NET INTEREST INCOME

Fully taxable equivalent net interest income increased $574,000 or 6.1% and $4,822,000 or 19.3% respectively for the three and nine month periods ended September 30, 2006 compared to the same period in 2005. The increase in net interest income for the periods ended September 30, 2006 compared to the periods ended September 30, 2005 was the result of both increased earning assets and net interest margin.

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 September 30, 2006 and 2005.

(DOLLARS EXPRESSED IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30, 2006			THREE MONT SEPTEMBER	
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE/1/	RATE EARNED/ PAID/1/	AVERAGE BALANCE	INTE INC EXPEN
ASSETS					
Loans:/2/	$ 828,848	$16,101	7.71%	$ 790,544	$13
Investment securities:/3/					
U.S Treasury and U.S. Gov't Agencies	125,463	1,420	4.49	170,148	1
State and municipal	52,924	718	5.38	51,690	
Other	6,650	83	4.95	7,227	
Federal funds sold	16,613	221	5.28	34,345	
Interest-bearing deposits	1,607	19	4.69	1,038	
Total interest earning assets	1,032,105	18,562	7.14	1,054,992	16
All other assets	124,628			119,875	
Allowance for loan losses	(9,321)			(9,260)	
Total assets	$1,147,412			$1,165,607	
LIABILITIES AND STOCKHOLDERS' EQUITY					

NOW accounts	$ 102,521	$ 323	1.25%	$ 134,709	$
Savings	50,779	73	0.57	58,658	
Money market	158,797	1,378	3.44	154,386	1
Deposits of $100 and over	126,220	1,420	4.46	114,478	
Other time deposits	317,542	3,262	4.08	313,517	2
Total time deposits	755,859	6,456	3.39	775,748	4
Federal funds purchased and securities sold under agreements to repurchase	40,304	462	4.55	54,525	
Interest-bearing demand notes to US Treasury	763	9	4.68	677	
Subordinated notes	49,486	912	7.31	49,486	
Advances from Federal Home Loan Bank	55,468	750	5.36	52,396	
Total interest-bearing liabilities	901,880	8,589	3.78	932,832	6
Demand deposits	134,539			129,622	
Other liabilities	9,656			7,184	
Total liabilities	1,046,075			1,069,638	
Stockholders' equity	101,337			95,969	
Total liabilities and stockholders' equity	$1,147,412			$1,165,607	
Net interest income		$ 9,973			$ 9
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 $248,000 in 2006 and $243,000 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.

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 nine month periods ended September 30, 2006 and 2005.

(DOLLARS EXPRESSED IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30, 2006			NINE SEPTE
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE/1/	RATE EARNED/ PAID/1/	AVERAGE BALANCE

ASSETS				
Loans:/2/	$ 826,644	$46,654	7.55%	$ 722,365
Investment securities:/3/				
U.S Treasury and U.S. Gov't Agencies	129,766	4,139	4.26	168,682
State and municipal	53,042	2,159	5.44	42,669
Other	6,968	231	4.43	6,613
Federal funds sold	14,204	529	4.98	35,565
Interest-bearing deposits	2,312	76	4.40	1,589
Total interest earning assets	1,032,936	53,788	6.96	977,483
All other assets	123,901			101,138
Allowance for loan losses	(9,285)			(8,547)
Total assets	$1,147,552			$1,070,074
LIABILITIES AND STOCKHOLDERS' EQUITY				
NOW accounts	$ 109,034	$ 1,104	1.35%	$ 130,778
Savings	53,113	227	0.57	55,323
Money market	156,701	3,770	3.22	140,555
Deposits of $100 and over	119,487	3,686	4.12	103,412
Other time deposits	313,533	8,969	3.82	286,226
Total time deposits	751,868	17,756	3.16	716,294
Federal funds purchased and securities sold under agreements to repurchase	45,885	1,459	4.25	50,368
Interest-bearing demand notes to US Treasury	655	22	4.49	700
Subordinated notes	49,486	2,628	7.10	42,972
Advances from Federal Home Loan Bank	59,270	2,154	4.86	46,626
Total interest-bearing liabilities	907,164	24,019	3.54	856,960
Demand deposits	131,872			112,934
Other liabilities	8,823			6,178
Total liabilities	1,047,859			976,072
Stockholders' equity	99,693			94,002
Total liabilities and stockholders' equity	$1,147,552			$1,070,074
Net interest income		$29,769		
Net interest margin/4/			3.85%	

/1/ Interest income and yields are presented on a fully taxable equivalent basis using the Federal statutory income tax rate. Such adjustments were $751,000 in 2006 and $628,000 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.

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 SEPTEMBER 30, 2006 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2005		
		CHANGE DUE TO	
	TOTAL CHANGE	VOLUME /3/	RATE /4/
INTEREST INCOME ON A FULLY TAXABLE EQUIVALENT BASIS:			
Loans:/1/	$2,494	682	1,812
Investment securities:/3/			
U.S Treasury and U.S. Gov't Agencies	1	(429)	430
State and municipal /2/	18	17	1
Other	26	(5)	31
Federal funds sold	(93)	(201)	108
Interest-bearing deposits	11	5	6
Total interest income	2,457	69	2,388
INTEREST EXPENSE:			
NOW accounts	$ (236)	(118)	(118)
Savings	(11)	(11)	--
Money market	360	30	330
Deposits of $100 and over	500	102	398
Other time deposits	865	31	834
Federal funds purchased and securities sold under agreements to repurchase	28	(132)	160
Interest-bearing demand notes of U.S. Treasury	3	1	2
Subordinated debentures	140	--	140
Other borrowed money	234	31	203
Total interest expense	1,883	(66)	1,949
Net interest income on a fully taxable equivalent basis	$ 574	135	439

/1/ Interest income and yields are presented on a fully taxable equivalent basis using the Federal statutory income tax rate. Such adjustments were $248,000 in 2006 and $243,000 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.

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)

	NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2005		
		CHANGE DUE TO	
	TOTAL CHANGE	VOLUME /3/	RATE /4/
INTEREST INCOME ON A FULLY TAXABLE EQUIVALENT BASIS:			
Loans:/1/	$11,425	5,468	5,957
Investment securities:/3/			
U.S Treasury and U.S. Gov't Agencies	253	(1,026)	1,279
State and municipal /2/	385	423	(38)
Other	43	10	33
Federal funds sold	(271)	(630)	359
Interest-bearing deposits	48	17	31
Total interest income	11,883	4,262	7,621
INTEREST EXPENSE:			
NOW accounts	$ (240)	(220)	(20)
Savings	(9)	(9)	--
Money market	1,281	311	970
Deposits of $100 and over	1,334	406	928
Other time deposits	2,802	631	2,171
Federal funds purchased and securities sold under agreements to repurchase	441	(98)	539
Interest-bearing demand notes of U.S. Treasury	8	(1)	9
Subordinated debentures	706	316	390
Other borrowed money	738	428	310
Total interest expense	7,061	1,764	5,297
Net interest income on a fully taxable equivalent basis	$ 4,822	2,498	2,324

/1/ Interest income and yields are presented on a fully taxable equivalent basis using the Federal statutory income tax rate. Such adjustments were $751,000 in 2006 and $628,000 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.

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THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THREE MONTHS ENDED SEPTEMBER 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 $574,000 or 6.1% to $9,973,000 or 3.8% of average earning assets for the third quarter of 2006 compared to $9,399,000 or 3.5% of average earning assets for the same period of 2005. The provision for loan losses was $300,000 and $260,000 for the three months ended September 30, 2006 and 2005 respectively. Net charge-offs were $253,000 for the third quarter of 2006 compared to $804,000 for the third quarter of 2005. Even though charge-offs were less for third quarter of 2006 compared to third quarter 2005, management felt it prudent to increase the provision for loan losses as a result of continued growth in the loan portfolio as well as concern about general economic conditions as they relate to borrowers' abilities to service existing debt. See Lending and Credit Management in this report for further discussion of third quarter 2006 charge-offs.

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

(DOLLARS EXPRESSED IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30,		INCREASE (DECREASE)	
	2006	2005	AMOUNT	%
NONINTEREST INCOME				
Service charges on deposit accounts	$1,462	$1,252	$210	16.8%
Trust department income	215	165	50	30.3
Mortgage loan servicing fees, net	102	101	1	1.0
Gain on sale of mortgage loans	127	201	(74)	(36.8)
Other	311	292	19	6.5
	$2,217	$2,011	$206	10.2%

NONINTEREST EXPENSE				
Salaries and employee benefits	$4,254	$3,900	$354	9.1%
Occupancy expense	500	432	68	15.7
Furniture and equipment expense	592	545	47	8.6
Advertising and promotion	234	216	18	8.3
Postage, printing and supplies	277	288	(11)	(3.8)
Legal, examination, and professional fees	334	401	(67)	(16.7)
Amortization - CDI	249	330	(81)	(24.5)
Processing expense	261	224	37	16.5
Other	781	733	48	6.5
	$7,482	$7,069	$413	5.8%

Noninterest income increased $206,000 or 10.2% to $2,217,000 for the third quarter of 2006 compared to $2,011,000 for the same period of 2005. Service charges on deposit accounts increased $210,000 or 16.8% as a result of increased overdraft and insufficient check fee income, ATM fee income, debit card fee income. Trust department income increased due to the collection of additional trust distribution fees. Gain on sale of mortgage loans decreased $74,000 or 36.8% due to a decrease in volume of loans originated and sold to the secondary market from approximately $11,000,000 in the third quarter of 2005 to approximately $4,415,000 for the third quarter of 2006.

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Noninterest expense increased $413,000 or 5.8% to $7,482,000 for the third quarter of 2006 compared to $7,069,000 for the third quarter of 2005. Salaries and benefits increased $354,000 or 9.1%, occupancy expense increased $68,000 or 15.7%, advertising and promotion expense increased $18,000 or 8.3%, and processing expense increased $48,000 or 6.5%. 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, $76,000 reflects increased pension expense, and $12,000 represents increased profit sharing expense. The $68,000 of the increase in occupancy expense reflects additional costs associated with three new branch facilities. The $18,000 increase in advertising and promotion expense reflects additional advertising and promotion in new market areas. The $48,000 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 31.3% for the third quarter of 2006 compared to 30.9% for the third quarter of 2005.

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2005

Net interest income on a fully taxable equivalent basis increased $4,822,000 or 19.3% to $29,769,000 or 3.9% of average earning assets for the first nine months of 2006 compared to $24,947,000 or 3.4% of average earning assets for the same period of 2005. The provision for loan losses was $928,000 and $734,000 for the nine months ended September 30, 2006 and 2005 respectively. Net charge-offs were $631,000 for the first nine months of 2006 compared to $854,000 for the same period in 2005. Even though charge-offs were less for the nine-month period of 2006 compared to the same period in 2005, management felt

it prudent to increase the provision for loan losses as a result of continued growth in the loan portfolio as well as concern about general economic conditions as they relate to borrowers' abilities to service existing debt. See Lending and Credit Management in this report for further discussion of 2006 charge-offs.

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

(DOLLARS EXPRESSED IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,		INCREASE (DECREASE)	
	2006	2005	AMOUNT	%
NONINTEREST INCOME				
Service charges on deposit accounts	$ 4,339	$ 2,951	$1,388	47.0%
Trust department income	623	595	28	4.7
Net loss on sales of calls of debt securities	(18)	--	(18)	NM
Mortgage loan servicing fees, net	327	318	9	2.8
Gain on sale of mortgage loans	328	508	(180)	(35.4)
Other	893	768	125	16.3
	$ 6,492	$ 5,140	$1,352	26.3%
NONINTEREST EXPENSE				
Salaries and employee benefits	$12,942	$10,220	$2,722	26.6%
Occupancy expense	1,400	1,108	292	26.4
Furniture and equipment expense	1,654	1,592	62	3.9
Advertising and promotion	622	574	48	8.4
Postage, printing and supplies	861	707	154	21.8
Legal, examination, and professional fees	947	985	(38)	(3.9)
Amortization - CDI	783	531	252	47.5
Processing expense	776	508	268	52.8
Other	2,266	2,080	186	8.9
	$22,251	$18,305	$3,946	21.6%

Noninterest income increased $1,352,000 or 26.3% to $6,492,000 for the first nine months of 2006 compared to $5,140,000 for the same period of 2005. The acquisition of Bank 10 contributed an additional $666,000 of noninterest income. Bank 10 contributed nine months of noninterest income during the first three quarters of 2006 versus five months during the same period in 2005. Excluding the additional noninterest income contributed by Bank 10, service charges on deposit accounts increased $789,000 or 26.7% 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 $180,000 or 35.4% due to a decrease in volume of loans originated and sold to the secondary market from approximately $30,244,000 in the first nine months of 2005 to approximately $15,247,000 for the first nine months of 2006.

Noninterest expense increased $3,946,000 or 21.6% to $22,251,000 for the first nine months of 2006 compared to $18,305,000 for the same period in 2005. The acquisition of Bank 10 contributed an additional $2,218,000 to noninterest expense. Bank 10 contributed nine months of noninterest expense during the first three quarters of 2006 versus five months during the same period in 2005. Excluding the impact of the Bank 10 acquisition, salaries and benefits increased $1,460,000 or 14.3%, occupancy expense increased $155,000 or 14.0%, postage, printing, and supplies increased $61,000 or 8.6%, legal, examination and professional fees decreased $94,000 or 9.5%, and processing expense increased $141,000 or 27.8%. In addition to the increase in salaries and employees benefits represented by normal salary increases and additional hires, $162,000 of the increase reflects share-based compensation expense recorded as a result of the adoption of SFAS No. 123R, $252,000 reflects increased pension expense, and $185,000 represents increased profit sharing expense. The $155,000 increase in occupancy expense reflects additional costs associated with three new branch facilities. The $61,000 increase in postage, printing, and supplies reflects both higher postage rates and additional mail volume. The $94,000 decrease in legal, examination, and professional fees reflects lower costs associated with Sarbanes-Oxley compliance and outsourced internal audits projects. The $141,000 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 nine months of 2006 compared to 30.6% 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.

LENDING AND CREDIT MANAGEMENT

Interest earned on the loan portfolio is a primary source of interest income for our Company. Net loans represented 70.6% of total assets as of September 30, 2006 compared to 71.4% as of December 31, 2005 and 66.8% as of September 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 September 30, 2006, our Company was servicing approximately $219,160,000 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 and $361,000, and $253,000 respectively for the first, second and third quarters of 2006 compared to $2,000, $48,000, and $804,000 respectively for the first, second and third 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, $310,000 for the second quarter, and $300,000 for the third quarter of 2006. That compares to a provision of $236,000 for the first quarter of 2005, $237,000 for the second quarter of 2005 and $261,000 for the third quarter of 2006.

The balance of the allowance for loan losses was $9,381,000 at September 30, 2006 compared to $9,085,000 at December 31, 2005 and $8,793,000 at September 30, 2005. The allowance for loan losses as a percent of outstanding loans was 1.14% at September 30, 2006 compared to 1.12% at December 31, 2005 and 1.10% at September 30, 2005. In light of current economic conditions which are impacting borrowers' abilities to service debt and as a result of growth in the loan portfolio management believes it is necessary to increase the level of the provision for loan losses.

Nonperforming loans, defined as loans on nonaccrual status, loans 90 days or more past due and still accruing, and restructured loans totaled $6,626,000 or 0.81% of total loans at September 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)

	SEPTEMBER 30, 2006		DECEMBER 31, 2005	
	BALANCE	% OF GROSS LOANS	BALANCE	% OF GROSS LOANS
Nonaccrual loans:				
Commercial	$2,513	0.31%	$ 5,705	0.70%
Real estate:				
Construction	1,448	0.18	1,760	0.22
Mortgage	2,424	0.30	1,090	0.13
Consumer	39	--	56	0.01
	6,424	0.79	8,611	1.06
Loans contractually past-due 90 days or more and still accruing:				
Commercial	4	--	238	0.03
Real estate:				
Construction	--	--	--	--
Mortgage	116	0.01	187	0.02
Consumer	82	0.01	14	--
	202	0.02	439	0.05
Restructured loans	--	--	--	--
Total nonperforming loans	6,626	0.81%	9,050	1.11%
Other real estate	1,471		1,568	
Repossessions	15		--	
Total nonperforming assets	$8,112		$10,618	

The allowance for loan losses was 141.6% of nonperforming loans at September 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. The decrease in commercial nonaccrual loans is partially offset by a $1,334,000 increase in nonaccrual mortgage loans since 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 $764,000 and $489,000 for the nine months ended September 30, 2006 and 2005, respectively. Approximately $35,000 and $43,000 was recorded as interest income on such loans for the nine months ended September 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 $2,382,000 of additional loans as being impaired at September 30, 2006. The average balance of nonaccrual and other impaired loans for the first nine months of 2006 was approximately $11,005,000. At September 30, 2006 the portion of the allowance for loan losses allocated (both asset-specific and percentage) to impaired loans was $2,012,000 compared to $2,392,000 at December 31, 2005. The balance of impaired loans with no specific loan loss allocations was approximately $1,418,000 at September 30, 2006 compared to approximately $1,217,000 at December 31, 2005.

As of September 30, 2006 and December 31, 2005 approximately $11,518,000 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 decrease in loans having more than normal risk is primarily represented by one large commercial real estate credit which has paid down approximately $4,885,000 since the 2005 year-end. 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 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 September 30, 2006, management allocated $7,431,000 of the $9,335,000 total allowance for loan losses to specific loans and loan categories and $1,950,000 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 believes the increase in the unallocated portion of the allowance for loan losses is appropriate. Considering the size of several of our Company's lending relationships and the loan portfolio in total, management believes that the September 30, 2006 overall 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 $22,045,000 or 2.0% to $1,148,516,000 at September 30, 2006 compared to $1,126,470,000 at December 31, 2005. Total liabilities increased $15,770,000 or 1.5% to $1,045,508,000 compared to $1,029,738,000 at December 31, 2005. Stockholders' equity increased $6,275,000 or 6.5% to $103,008,000 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 $7,015,000 to $820,550,000 at September 30, 2006 compared to $813,535,000 at December 31, 2005. Commercial loans decreased $7,977,000; real estate construction loans increased $529,000; real estate mortgage loans increased $18,379,000; and consumer loans decreased $3,916,000. The decrease in commercial loans primarily reflects the repayments of several large commercial credits in the Jefferson City market. The increase in real estate 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 $5,652,000 or 3.3% to $179,041,000 at September 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 $476,000 to ($1,163,000) to reflect the fair value of available-for-sale investments at September 30, 2006 and the net after tax decrease resulting from the change in the market valuation adjustment of $259,000 increased the stockholders' equity component to ($813,000) at September 30, 2006.

Investment in equity securities increased $266,000 or 4.2% to $6,569,000 at September 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 due from banks and Federal funds sold, increased $9,226,000 or 19.3% to $56,956,000 at September 30, 2006 compared to $47,730,000 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 $564,000 or 1.7% to $33,455,000 at September 30, 2006 compared to $32,891,000 at December 31, 2005. The increase reflects purchases of premises and equipment of $2,020,000 offset by depreciation expense of $1,360,000.

Total deposits increased $10,281,000 or 1.2% to $891,736,000 at September 30, 2006 compared to $881,455,000 at December 31, 2005. This increase in deposits primarily reflects growth in our banks in the Kansas City market.

Federal funds purchased and securities sold under agreements to repurchase increased $4,548,000 or 12.3% to $41,544,000 at September 30, 2006 compared to $36,996,000 at December 31, 2005. The increase primarily reflects additional public funds placed with our Company during the period.

Other borrowed money decreased $1,569,000 or 3.0% to $50,611,000 at September 30, 2006 compared to $52,179,000 at December 31, 2005. The decrease reflects net repayment of Federal Home Loan Bank advances.

The increase in stockholders' equity reflects net income of $8,480,000 less dividends declared of $2,627,000, a $259,000 change in unrealized holding losses, net of taxes, on investment in debt and equity securities available-for-sale, and a $163,000 increase, net of taxes, related to stock option compensation expense.

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 September 30, 2006, the amounts of available credit from the FHLB totaled $79,967,000. As of September 30, 2006, the Banks had $50,611,000 in outstanding borrowings with the FHLB. The Banks have federal funds purchased lines with correspondent banks totaling $44,000,000. 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 September 30, 2006.

SOURCES AND USES OF FUNDS

For the nine months ended September 30, 2006 and 2005, net cash provided by operating activities was $12,813,000 and $10,849,000, respectively. $1,246,000 of the increase in net cash provided by operating activities reflects a higher level of net income.

Net cash used in investing activities was $15,012,000 in 2006 versus $74,597,000 in 2005. The primary decrease in cash used in investing activities

reflects lower purchases of debt securities during the first nine months of 2006 versus the same period in 2005 as well as cash used for the purchase of Bank 10 in 2005.

Net cash provided by financing activities was $11,425,000 in 2006 versus $83,322,000 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 $12,401,000 of cash during the first nine months of 2005 compared to a decrease in interest-bearing accounts of approximately $19,314,000 during the same period in 2006. Approximately $28,692,000 of cash was provided by an increase in federal funds purchased and securities sold under agreements to repurchase in 2005 compared to $4,548,000 of cash provided by an increase in such items for 2006. Our Company experienced a $26,367,000 increase in time deposits in 2006 compared to an $8,413,000 increase during the same period of 2005.

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 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.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. The changes to current practice resulting from the application of this statement relates to the definition of fair value, the methods used to estimate fair value, and the requirements for expanded disclosures about estimates of fair value. SFAS No. 157 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Our Company is currently evaluating the impact of the adoption of SFAS No. 157; however, it is not expected to have a material impact on our Company's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 will be effective for our Company for the current fiscal year ending December 31, 2006. Based upon the December 31, 2005 actuarial information, we would record a pretax charge to other comprehensive income of approximately $600,000 in the fourth quarter of 2006. By the time of adoption, plan performance and actuarial assumptions could have a significant impact on the actual amounts recorded.

In September, 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB No. 108). SAB No. 108 requires an entity to consider the effects of prior year misstatements when quantifying misstatements in current year financial statements for purposes of determining materiality. SAB No. 108 is effective for an entity's first interim period of the first fiscal year ending after November 15, 2006. Application of SAB No. 108 is not expected to have a material impact on our Company's financial position or results of operations.

In September 2006, the Emerging Issues Task Force Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements, was ratified. This EITF Issue addresses accounting for separate agreements which split life insurance policy benefits between an employer and employee. The Issue requires the employer to recognize a liability for future benefits payable to the employee under these agreements. The effects of applying this Issue must be recognized through either

a change in accounting principle through an adjustment to equity or through the retrospective application to all prior periods. For calendar year companies, the Issue is effective beginning January 1, 2008. Early adoption is permitted as of January 1, 2007. Our Company does not expect the adoption of the Issue to have a material effect on our Company's consolidated financial statements.

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 September 30, 2006, the rate shock scenario models indicated that annual net interest income could decrease or increase by as much as 1.7% 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 September 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 September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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	

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

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	
	/s/ James E. Smith
November 9, 2006	James E. Smith, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
	/s/ Richard G. Rose
November 9, 2006	Richard G. Rose, Treasurer (Principal Financial Officer and Principal Accounting Officer)

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** Incorporated by reference.

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