EXCHANGE NATIONAL BANCSHARES INC
Form 8-K/A
July 18, 2005

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

FORM 8-K/A
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

May 2, 2005

Date of Report (Date of earliest event reported)

EXCHANGE NATIONAL BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Missouri	0-23636	43-1626350
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

132 East High Street, Jefferson City, MO 65101

(Address of principal executive offices) (Zip Code)

(573) 761-6100

Registrant's telephone number, including area code

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

As previously reported, our Company, Exchange National Bancshares, Inc., completed its acquisition of Bank 10, a Missouri state bank. This Current Report on Form 8-K/A is filed to include the financial statements of Bank 10 required by Item 9.01(a) of Form 8-K and the pro forma financial statements required by

Item 9.01(b) of Form 8-K.

ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS

On May 2, 2005, our Company, Exchange National Bancshares, Inc., completed its acquisition of 100% of the outstanding capital stock of Bank 10, a Missouri state bank with offices in the Missouri communities of Belton, Drexel, Harrisonville, Independence and Raymore, Missouri. The press release that our Company used to announce the completion of this acquisition is attached to this report as Exhibit 99.1 and is incorporated herein by reference.

The terms and conditions of the acquisition were provided in an Acquisition Agreement dated January 28, 2005 among our Company, Drexel Bancshares, Inc., and certain other persons and entities, which Acquisition Agreement was amended by an Agreement Altering Transaction Structure dated February 28, 2005 between our Company, Drexel Bancshares and the representative for the shareholders of Drexel Bancshares. A copy of the Acquisition Agreement was attached as Exhibit 2.1 to our Company's Current Report on Form 8-K dated February 28, 2005 and is incorporated herein by reference. A copy of the Agreement Altering Transaction Structure was attached as Exhibit 2.1.1 to our Company's Current Report on Form 8-K dated February 28, 2005 and is incorporated herein by reference.

Under the terms of the Acquisition Agreement, as amended by an Agreement Altering Transaction Structure, the purchase price payable to Drexel Bancshares, Inc. for the outstanding capital stock of Bank 10 was an amount in cash equal to $32,862,000, plus (or minus) any amount by which the book value of Bank 10 as of the business day preceding the closing date was greater (or less) than $13,144,800, subject to further adjustments to eliminate any unrealized gain or loss in Bank 10's investment portfolio and to cause Bank 10's reserve for loan losses to be at least 1.1% of the amount of its outstanding loans. In applying these terms at the transaction closing, the purchase price for all of the outstanding shares of Bank 10's common stock was determined to be approximately $33,988,000. This amount was paid by our Company to Drexel Bancshares in cash at the May 2, 2005 transaction closing. A final purchase adjustment of $32,000 was made on June 27, 2005 resulting in a final purchase consideration of $34,020,000.

The foregoing description of our Company's acquisition of Bank 10 does not purport to be complete and is qualified in its entirety by reference to the full text of the Acquisition Agreement and the Agreement Altering Transaction Structure referred to above, each of which was previously filed with our Company's Current Report on Form 8-K dated February 28, 2005.

Statements made in this report, including the exhibits hereto, that suggest our Company's or our management's intentions, hopes, beliefs, expectations, or predictions of the future constitute "forward-looking statements" within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, and include statements suggesting that the acquisition would be accretive to our Company's earnings per share. It is important to note that actual results could differ materially from those projected in such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, among other things, the following possibilities: (i) revenues following the acquisition may be lower than expected; (ii) competitive pressure among depository institutions may increase significantly; (iii) costs related to the integration of Bank 10 may be greater than expected; (iv) changes in the interest rate environment may reduce interest margins; and (v) general economic conditions, either nationally or in our market, may be less favorable than expected. Additional information concerning factors that could cause actual results to differ materially from those projected in such forward-looking statements is contained from time to time in Exchange's quarterly and annual reports filed with the Securities and Exchange Commission.

ITEM 9.01. FINANCIAL STATEMENTS AND OTHER EXHIBITS

(a) Financial Statements of Business Acquired

The following financial statements of Bank 10, together with the report of the independent registered public accounting firm, are included in this Current Report on Form 8-K/A:

(b) Pro Forma Financial Information

The following pro forma financial information reflecting our Company's acquisition of Bank 10 is included in this Current Report on Form 8-K/A:

(c) Exhibits

Exhibit No.	Description
2.1	Acquisition Agreement, dated January 28, 2005 among Exchange National Bancshares, Inc., 2005 Acquisition Company, Inc., Drexel Bancshares, Inc.,

and the shareholders of Drexel Bancshares, Inc. (filed as Exhibit 2.1 to our Company's Current Report on Form 8-K dated February 28, 2005 and incorporated herein by reference).

2.1.1	Agreement Altering Transaction Structure, dated February 28, 2005, among Exchange National Bancshares, Inc., Drexel Bancshares, Inc., and the shareholder representative of the shareholders of Drexel Bancshares, Inc. (filed as Exhibit 2.1.1 to our Company's Current Report on Form 8-K dated February 28, 2005 and incorporated herein by reference).
23.1	Consent of Independent Registered Public Accounting Firm.
99.1	Press Release of Exchange National Bancshares, Inc. dated May 2, 2005 (filed as Exhibit 99.1 to the original filing of our Company's Current Report on Form 8-K dated May 2, 2005 and incorporated herein by reference).

* * *

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 hereunto duly authorized.

EXCHANGE NATIONAL BANCSHARES, INC.

Dated: July 15, 2005

By: /s/ James E. Smith
James E. Smith
Chairman & CEO

BANK 10

(A WHOLLY OWNED SUBSIDIARY OF DREXEL BANCSHARES, INC.)

Financial Statements

December 31, 2004

(With Report of Independent Registered Public Accounting Firm Thereon)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Bank 10:

We have audited the accompanying balance sheet of Bank 10, a wholly owned subsidiary of Drexel Bancshares, Inc., as of December 31, 2004, and the related statements of income, stockholder's equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank 10 as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP
St. Louis, Missouri
July 15, 2005

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BANK 10

(A Wholly Owned Subsidiary of Drexel Bancshares, Inc.)

Balance Sheet
December 31, 2004

ASSETS	
Loans, net of allowance for loan losses of $1,356,477	$ 127,259,180
Investment in available-for-sale debt and equity securities, at fair value	26,469,003
Federal funds sold	3,049,000
Cash and due from banks	6,867,227
Premises and equipment	5,345,314
Accrued interest receivable	1,137,669
Cash surrender value - life insurance	1,486,968
Other assets	126,010
Total assets	$ 171,740,371

LIABILITIES AND STOCKHOLDER'S EQUITY

Deposits:	
Demand	$ 24,020,430
NOW	13,591,817
Savings	9,865,319
Money market	25,828,897
Time deposits $100,000 and over	22,562,009
Other time deposits	44,447,392
Total deposits	140,315,864
Securities sold under agreements to repurchase	946,240
Interest-bearing demand notes to U.S. Treasury	19,857
Other borrowed money	16,270,909
Accrued interest payable	169,564
Other liabilities	380,924
Total liabilities	158,103,358
Stockholder's equity:	
Common stock, $100 par value. Authorized 1,000 shares; issued 1,000 shares at December 31, 2004	100,000
Surplus	1,150,000
Retained earnings	12,472,389
Accumulated other comprehensive loss	(85,376)
Total stockholder's equity	13,637,013
Total liabilities and stockholder's equity	$ 171,740,371

See accompanying notes to financial statements.

BANK 10

(A Wholly Owned Subsidiary of Drexel Bancshares, Inc.)

Statement of Income
Year ended December 31, 2004

Interest income:	
Interest and fees on loans	$ 7,981,078
Interest and dividends on debt and equity securities:	
Securities of U.S. government agencies	355,237
Obligations of states and political subdivisions	303,475
Other securities	22,124
Interest on federal funds sold	83,547
Total interest income	8,745,461
Interest expense:	
NOW accounts	40,564
Savings accounts	45,625
Money market accounts	391,236
Time deposit accounts $100,000 and over	405,470
Other time deposit accounts	962,411

Securities sold under agreements to repurchase	11,274
Federal funds purchased	763
Other borrowed money	495,421
Total interest expense	2,352,764
Net interest income	6,392,697
Provision for loan losses	11,829
Net interest income after provision for loan losses	6,380,868
Noninterest income:	
Service charges on deposit accounts	1,552,947
Other	176,009
Total noninterest income	1,728,956
Noninterest expense:	
Salaries and employee benefits	3,115,130
Occupancy expense, net	358,262
Furniture and equipment expense	338,435
Processing expense	350,898
Advertising and promotion	172,990
Postage and printing and supplies	270,631
Other	607,406
Total noninterest expense	5,213,752
Income before income taxes	2,896,072
Income taxes	16,653
Net income	$ 2,879,419

See accompanying notes to financial statements.

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BANK 10

(A Wholly Owned Subsidiary of Drexel Bancshares, Inc.)

Statement of Stockholder's Equity and Comprehensive Income (Loss)
Year Ended December 31, 2004

	COMMON STOCK	SURPLUS	RETAINED EARNINGS	ACCUMULATE OTHER COMPREHENSI INCOME (LOS
Balance, December 31, 2003	$ 100,000	1,150,000	10,879,470	197,6
Comprehensive income:				
Net income	--	--	2,879,419	
Other comprehensive loss:				
Unrealized loss on debt and equity securities available-for-sale	--	--	--	(283,0

Total other comprehensive loss				
Total comprehensive income				
Cash dividends declared	--	--	(1,286,500)	
Balance, December 31, 2004	$ 100,000	1,150,000	12,472,389	(85,3

See accompanying notes to financial statements.

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BANK 10

(A Wholly Owned Subsidiary of Drexel Bancshares, Inc.)

Statement of Cash Flows

Year Ended December 31, 2004

Cash flows from operating activities:	
Net income	$ 2,879,419
Adjustments to reconcile net income to net cash cash provided by operating activities:	
Provision for loan losses	11,829
Depreciation expense	316,955
Net amortization of debt securities premiums and discounts	150,003
Increase in accrued interest receivable	(70,865)
Increase in cash surrender value - life insurance	(55,291)
Increase in other assets	(64,128)
Increase in accrued interest payable	46,905
Increase in other liabilities	94,067
Loss on disposition of premises and equipment	6,994
Loss on sale other real estate owned	12,954
Net cash provided by operating activities	3,328,842
Cash flows from investing activities:	
Net increase in loans	(19,137,626)
Purchase of available-for-sale debt securities	(15,600,990)
Proceeds from maturities of available-for-sale debt securities	6,503,656
Proceeds from calls of available-for-sale debt securities	2,384,000
Purchase of premises and equipment	(331,109)
Proceeds from dispositions of premises and equipment	46,500
Proceeds from sales of other real estate owned and repossessions	1,154,286
Net cash used in investing activities	$(24,981,283)
Cash flows from financing activities:	
Net increase in demand deposits	$ 3,008,722
Net decrease in interest-bearing transaction accounts	(6,019,071)
Net increase in time deposits	23,173,437
Net increase in securities sold under agreements to repurchase	392,386
Net decrease in interest-bearing demand notes to U.S. Treasury	(38,877)
Proceeds from Federal Home Loan Bank borrowings	5,200,000
Repayment of Federal Home Loan Bank borrowings	(11,818)

Cash dividends paid	(1,286,500)
Net cash provided by financing activities	24,418,279
Net decrease in cash and cash equivalents	2,765,838
Cash and cash equivalents, beginning of year	7,150,389
Cash and cash equivalents, end of year	$ 9,916,227
Supplemental disclosure of cash flow information -	
Cash paid during year for:	
Interest	$ 2,305,859
Income taxes	-
Supplemental schedule of noncash investing activities -	
Other real estate and repossessions acquired in settlement of loans	$ 1,180,914

See accompanying notes to financial statements.

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BANK 10

(A Wholly Owned Subsidiary of Drexel Bancshares, Inc.)

Notes to Financial Statements
December 31, 2004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bank 10 (the Company) a wholly owned subsidiary of Drexel Bancshares, Inc., provides a full range of banking services to individual and corporate customers through Belton, Independence, Harrisonville and Raymore, Missouri. The Company is subject to competition from other financial and nonfinancial institutions providing financial products. Additionally, the Company is subject to the regulations of certain regulatory agencies and undergoes periodic examinations by those regulatory agencies.

The financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles and conform to predominant practices within the banking industry. The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions, including the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosure or in satisfaction of loans, which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The significant accounting policies used by the Company in the preparation of the financial statements are summarized below:

LOANS

Loans are stated at unpaid principal balance amount less unearned income and the allowance for loan losses. Income on loans is accrued on a simple-interest basis.

Loans are placed on nonaccrual status when management believes that the borrower's financial condition, after consideration of business conditions and collection efforts, is such that collection of interest is doubtful. Interest accrued in the current year is reversed against interest income. 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.

Loan origination fees are deferred and recognized using a straight line basis over the life of the loan.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is increased by provisions charged to expense and is reduced by loan charge-offs, net of recoveries. Management utilizes a systematic, documented approach in determining an adequate allowance for loan losses. Management's approach, which provides for general and specific valuation allowances, is based on current economic conditions, past losses, collection experience, risk characteristics of the portfolio, assessment of collateral values by obtaining independent appraisals for significant properties, and such other factors, which, in management's judgment, deserve current recognition in estimating loan losses.

Management believes the allowance for loan losses is adequate to absorb probable losses in the loan portfolio. While management uses available information to recognize loan losses,

future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require the Company to increase the allowance for loan losses based on their judgment about information available to them at the time of their examination.

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. When measuring impairment, the expected future cash flows of an impaired loan are discounted at the loan's effective interest rate. Alternatively, impairment is measured by reference to an observable market price, if one exists, or the fair value of the collateral for a collateral-dependent loan. Regardless of the historical measurement method used, the Company measures impairment based on the fair value of the collateral when foreclosure is probable. Additionally, impairment of a restructured loan is measured by discounting the total expected future cash flows at the loan's effective rate of interest as stated in the original loan agreement.

The Company follows its nonaccrual method for recognizing interest income on impaired loans.

INVESTMENT IN DEBT AND EQUITY SECURITIES

At the time of purchase, debt securities are classified into one of two categories: available-for-sale or held-to-maturity. Held-to-maturity securities are those securities which the Company has the ability and positive intent to hold until maturity. All equity securities and debt securities not classified as held-to-maturity, are classified as available-for-sale.

Available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization of premiums or discounts. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and reported as accumulated other comprehensive income, a separate component of stockholders' equity, until realized.

Premiums and discounts are amortized using the interest method over the lives of the respective securities, with consideration of historical and estimated prepayment rates for mortgage-backed securities, as an adjustment to yield. Dividend and interest income are recognized when earned. Realized gains and losses for securities classified as available-for-sale are included in earnings based on the specific identification method for determining the cost of securities sold.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment

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until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the investee.

The Company, a member of the Federal Home Loan Bank System (FHLB) administered by the Federal Housing Finance Board, is required to maintain an investment in the capital stock of the FHLB in an amount equal to 0.12% of the Company's total assets, plus 4.45% of advances from the FHLB to the Company.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Depreciation applicable to buildings and improvements and furniture and equipment is charged to expense using straight-line and accelerated methods over the estimated useful lives of the assets. Such lives are estimated to be 7 to 40 years for buildings and improvements and 3 to 10 years for furniture and equipment. Maintenance and repairs are charged to expense as incurred.

IMPAIRMENT OF LONG-LIVED ASSETS

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 144, (SFAS No. 144) Accounting for the Impairment or Disposal of Long-Lived Assets.

In accordance with SFAS No. 144, long-lived assets, such as premises and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

OTHER REAL ESTATE

Other real estate, included in other assets in the accompanying balance sheets, is recorded at fair value, less estimated selling costs. If the fair value of other real estate declines subsequent

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to foreclosure, the difference is recorded as a valuation allowance through a charge to expense. Subsequent increases in fair value are recorded through a reversal of the valuation allowance. Expenses incurred in maintaining the properties are charged to expense.

STATEMENT OF CASH FLOWS

For the purpose of the statement of cash flows, cash and cash equivalents consist of federal funds sold, and cash and due from banks.

COMPREHENSIVE INCOME

The Company reports comprehensive income in the statement of stockholder's equity and comprehensive income.

RECENTLY ISSUED ACCOUNTING STANDARDS

SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, was issued in May 2003. This statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The statement also includes required disclosures for financial instruments within its scope. For the Company, the statement was effective for instruments entered into or modified after May 31, 2003 and otherwise was effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, the statement will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of manditorily redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of SFAS No. 150.

In November 2003, the Emerging Issues Tasks Force (EITF) reached a consensus on certain disclosure requirements under EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The new disclosure requirements apply to investment in debt and marketable equity securities that are accounted under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Effective for fiscal years ending after December 15, 2003, companies are required to disclose information about debt or marketable equity securities with market values below carrying values. The Company has adopted the disclosure requirements of EITF Issue No. 03-1 and they are included in note 5 of this report.

In March 2004, the EITF came to a consensus regarding EITF Issue No. 03-1. Securities in scope are those subject to SFAS No. 115 and SFAS No. 124. The EITF adopted a three-step model that requires management to determine if impairment exists, decide whether it is other than temporary, and record other than temporary losses in earnings.

In September 2004, FASB, approved issuing a staff position to delay the requirement to record impairment losses under EITF Issue No. 03-1, but broadened the delay's scope to

(Continued)

include additional types of securities. As proposed, the delay would have applied only to those debt securities described in paragraph 16 of EITF Issue No. 03-1, the consensus that provides guidance for determining whether an investment's impairment is other than temporary and should be recognized in income. The approved delay will apply to all securities within the scope of EITF Issue No. 03-1 and is expected to end when new guidance is issued and comes into effect.

In December 2003, the Accounting Standards Executive Committee, (AcSEC) issued Statement of Position 03-3, (SOP 03-3) Accounting for Certain Loans or Debt Securities Acquired in a Transfer, effective for loans acquired in fiscal years beginning after December 15, 2004. The scope of SOP 03-3 applies to "problem" loans that have been acquired, either individually in a portfolio, or in an acquisition. These loans must have evidence of credit deterioration and the purchaser must not expect to collect contractual cash flows. SOP 03-3 updates Practice Bulletin (PB) No. 6, Amortization of Discounts on Certain Acquired Loans, for more recently issued literature, including FASB Statements No. 114, Accounting by Creditors for Impairment of a Loan; No. 115, Accounting for Certain Investments in Debt and Equity Securities; and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Additionally, it addresses FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, which requires that discounts be recognized as an adjustment of yield over a loan's life.

SOP 03-3 states that an institution may no longer display discounts on purchased loans within the scope of SOP 03-3 on the balance sheet and may not carry over the allowance for loan losses. For those loans within the scope of SOP 03-3, this statement clarifies that a buyer cannot carry over the seller's allowance for loan losses for the acquisition of loans with credit deterioration. Loans acquired with evidence of deterioration in credit quality since origination will need to be accounted for under a new method using an income recognition model. This prohibition also applies to purchases of problem loans not included in a purchase business combination, which would include syndicated loans purchased in the secondary market and loans acquired in portfolio sales. The Company will adopt SOP 03-3 effective January 1, 2005 and does not expect it to have a material effect on the Company's financial statements.

(2) SUBSEQUENT EVENT

On February 18, 2005, Exchange National Bancshares, Inc. (Exchange) entered into an agreement to acquire the Company. The transaction was consummated on May 2, 2005, at which time the Company became a wholly owned subsidiary of Exchange. Exchange purchased for cash all of the outstanding shares of the Company's common stock for a purchase price of $34,020,000.

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(3) CAPITAL REQUIREMENTS

The Company is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines, the Company must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the Company is subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulations to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital to risk-weighted assets, and of Tier I capital to adjusted-average assets. Management believes, as of December 31, 2004, the Company met all capital adequacy requirements to which they are subject.

As of December 31, 2004, the most recent notification from the regulatory authorities categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since the notifications that management believes have changed the Company's categories.

The actual and required capital amounts and ratios for the Company as of December 31, 2004 are as follows (dollars in thousands):

	ACTUAL		CAPITAL REQUIREMENTS		TO BE WE UNDER PRO ACTIO
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT
Total capital (to risk-weighted assets):	$15,077	10.21%	$11,810	8.00%	$14,763
Tier I capital (to risk-weighted assets):	13,721	9.31	5,905	4.00	8,858
Tier I capital (to adjusted average assets):	13,721	7.91	5,205	3.00	8,674

Bank dividends are the principal source of funds for payment of dividends by the Company to its stockholder. The Company is subject to regulations, which require the maintenance of minimum capital requirements. At December 31, 2004, unappropriated retained earnings of approximately $1,724,000 were available for the declaration of dividends by the Company without prior approval from regulatory authorities.

December 31, 2004

(4) LOANS

A summary of loans, by classification, at December 31, 2004 is as follows:

Real estate - construction	$ 44,049,287
Real estate - mortgage	70,617,423
Commercial	11,083,468
Installment and other consumer	3,031,597
Unamortized loan origination fees	(166,118)
	128,615,657
Less allowance for loan losses	1,356,477
	$ 127,259,180

The Company grants real estate, commercial, installment, and other consumer loans to customers located within the communities surrounding Belton, Independence, Harrisonville, and Raymore, Missouri. As such, the Company is susceptible to changes in the economic environment in these communities. The Company does not have a concentration of credit in any one economic sector. Installment and other consumer loans consist primarily of the financing of vehicles.

Changes in the allowance for loan losses for 2004 are as follows:

Balance, beginning of year	$ 1,367,547
Provision for loan losses	11,829
Charge-offs	(103,311)
Recoveries of loans previously charged off	80,412
Balance, end of year	$ 1,356,477

At December 31, 2004, the balance of nonaccrual loans was $236,246 and the corresponding allowance for loan losses was $42,089. The average balance of impaired loans during 2004 was $456,000.

A summary of interest income on nonaccrual loans for 2004 is as follows:

Income recognized	$14,646
Interest income had interest accrued	85,314

(Continued)

BANK 10

Notes to Financial Statements

December 31, 2004

(5) INVESTMENT IN DEBT AND EQUITY SECURITIES

The amortized cost and fair value of debt and equity securities classified as available-for-sale at December 31, 2004 are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Securities of U.S. government agencies	$10,793,362	15,904	94,376	10,714,890
Asset backed securities	2,879,539	5,523	34,743	2,850,319
Obligations of states and political subdivisions	11,833,253	125,145	102,829	11,855,569
Total debt securities	25,506,154	146,572	231,948	25,420,778
Midwest Independent Bancshares stock	150,625	--	--	150,625
Federal Home Loan Bank stock	897,600	--	--	897,600
	$26,554,379	146,572	231,948	26,469,003

The amortized cost and fair value of debt securities classified as available-for-sale at December 31, 2004, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without prepayment penalties.

	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 5,064,993	5,051,872
Due after one year through five years	10,893,371	10,875,641
Due after five years through ten years	6,423,470	6,400,825
Due after ten years	244,781	242,121
	22,626,615	22,570,459
Asset-backed securities	2,879,539	2,850,319
	$25,506,154	25,420,778

Debt securities with carrying values aggregating approximately $11,500,000 at December 31, 2004 were pledged to secure public funds, securities sold under agreements to repurchase, and for other purposes as required or permitted by law.

(Continued)

BANK 10

Notes to Financial Statements

December 31, 2004

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2004, were as follows:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Securities of U.S. government agencies	$ 8,254,600	(80,466)	1,998,125	(13,910)
Asset-backed securities	941,512	(11,408)	1,478,909	(23,335)
Obligations of states and political subdivisons	4,525,425	(84,797)	1,489,024	(18,032)
	$ 13,721,537	(176,671)	4,966,058	(55,277)

Securities of U.S. government agencies: The unrealized losses on investments in securities of U.S. government agencies were caused by interest rate increases. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Asset-backed securities: The unrealized losses on asset-backed securities were caused by interest rate increases. The contractual cash flows of these securities are guaranteed by various government or government sponsored agencies. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Obligations of states and political subdivisions: The unrealized losses on investments in obligations of states and political subdivisions were caused by interest rate increases. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

(Continued)

BANK 10

Notes to Financial Statements

December 31, 2004

(6) PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, 2004 is as follows:

Land	$1,177,934
Buildings and improvements	4,491,196
Furniture and equipment	2,832,972
	8,502,102
Less accumulated depreciation...	3,156,788
	$5,345,314

(7) DEPOSITS

The scheduled maturities of time deposits at December 31, 2004 are as follows:

Due within:	
One year	$54,715,439
Two - three years	11,493,774
Over three years	800,188
	$67,009,401

(8) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Information relating to securities sold under agreements to repurchase at December 31, 2004 is as follows:

Average daily balance	$ 755,814
Maximum balance at month-end	1,370,408
Weighted average interest rate at year-end	2.00%
Weighted average interest rate for the year	1.49%

The securities underlying the agreements to repurchase are under the control of the Company.

Under agreements with unaffiliated banks, the Company may borrow up to $5,000,000 in federal funds on an unsecured basis at December 31, 2004.

(Continued)

BANK 10

Notes to Financial Statements

December 31, 2004

(9) OTHER BORROWED MONEY

Other borrowed money at December 31, 2004 is summarized as follows:

FHLB advances, weighted average rate of 3.338%, due at various dates through 2009	$16,270,909

The advances from the FHLB are secured under a blanket agreement which assigns all investment in FHLB stock, as well as mortgage loans equal to 120% of the outstanding advance balance, to secure amounts borrowed by the Company.

Based upon the collateral pledged to the FHLB at December 31, 2004, the Company had a credit line of $25,605,000 of which $9,346,000 was available for additional borrowings.

The scheduled principal reduction of other borrowed money at December 31, 2004 was as follows:

2005	$ 5,523,636
2006	5,211,818
2007	2,511,818
2008	1,000,000
2009	2,023,637
	$16,270,909

(10) RESERVE REQUIREMENTS AND COMPENSATING BALANCES

The Federal Reserve Bank required the Company to maintain cash or balances of $667,000 at December 31, 2004, to satisfy reserve requirements.

Average compensating balances held at correspondent banks were $2,231,000 at December 31, 2004. The Company maintains such compensating balances with correspondent banks to offset charges for services rendered by those banks.

(11) INCOME TAXES

The Company elected S Corporation status effective January 1, 1997. Earnings and losses after that date are included in the personal federal income tax returns of the stockholders and taxed at their effective tax rates. Accordingly, the Company is not subject to income tax obligations, except for possible "built-in gains taxes" and State of Missouri bank franchise taxes. Therefore, the financial statements generally do not include provisions for federal income taxes after January 1, 1997.

(Continued)

BANK 10

Notes to Financial Statements

December 31, 2004

The composition of income tax expense for 2004 is as follows:

Current:	
State	$16,653
Total current	$16,653

(12) PENSION AND RETIREMENT PLANS

The Company participates in a 401 (k) plan. The plan was originally effective on January 1, 1983. The amended and restated provisions of the Plan became effective January 1, 2003. All eligible employees receive a contribution of a fixed amount equal to 50% of the elected salary deferral up to 5% of their annual compensation. For the year, the Company contributed $151,914 to the plan.

(13) Commitments and Contingencies

The Company issues financial instruments with off-balance-sheet risk in the normal course of business of meeting the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments may involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets.

The Company's extent of involvement and maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for financial instruments included on its balance sheets. At December 31, 2004, no amounts have been accrued for any estimated losses for these financial instruments.

The contractual amount of off-balance-sheet financial instruments as of December 31, 2004 is as follows:

Commitments to extend credit	$21,149,575
Standby letters of credit	247,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Of the total commitments to extend credit at December 31, 2004, approximately $16,751,000 represents fixed-rate loan commitments. Since certain of the commitments and letters of credit are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, furniture and equipment, and real estate.

(Continued)

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BANK 10

Notes to Financial Statements

December 31, 2004

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These standby letters of credit are primarily issued to support contractual obligations of the Company's customers. The credit risk involved in issuing letters of credit is essentially the same as the risk involved in extending loans to customers. The approximate remaining term of standby letters of credit range from one month to ten years at December 31, 2004.

(14) DISCLOSURES ABOUT FINANCIAL INSTRUMENTS

A summary of the carrying amounts and fair values of the Company's financial instruments at December 31, 2004 is as follows:

	CARRYING AMOUNT	FAIR VALUE
Assets:		
Loans	$ 127,259,180	126,533,000
Investment in debt and equity securities	26,469,003	26,469,003
Federal fund sold and securities purchased under agreements to resell	3,049,000	3,049,000
Cash and due from banks	6,867,227	6,867,227
Accrued interest receivable	1,137,669	1,137,669
	$ 164,782,079	164,055,899
Liabilities:		
Deposits:		
Demand	$ 24,020,430	24,020,430
NOW	13,591,817	13,591,817
Savings	9,865,319	9,865,319
Money market	25,828,897	25,828,897
Time	67,009,401	67,122,000
Federal funds purchased and securities sold under agreements to repurchase	946,240	946,240
Interest-bearing demand		

notes to U.S. Treasury	19,857	19,857
Other borrowed money	16,270,909	16,333,000
Accrued interest payable	169,564	169,564
	$ 157,722,434	157,897,124

(Continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

LOANS

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, such as real estate - construction, real estate - mortgage, installment and other consumer, and commercial. Each loan category is further segmented into fixed and adjustable interest rate terms and by performing and nonperforming categories.

The fair value of loans is calculated by discounting scheduled cash flows through estimated maturity using estimated market discount rates that reflect the interest rate risk inherent in the loan. The estimate of maturity is based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions.

INVESTMENT IN DEBT AND EQUITY SECURITIES

Fair values are based on quoted market prices or dealer quotes.

FEDERAL FUNDS SOLD, CASH, AND DUE FROM BANKS

For federal funds sold, cash, and due from banks, the carrying amount is a reasonable estimate of fair value, as such instruments reprice in a short time period.

ACCRUED INTEREST RECEIVABLE AND PAYABLE

For accrued interest receivable and payable, the carrying amount is a reasonable estimate of fair value because of the short maturity for these financial instruments.

DEPOSITS

The fair value of deposits with no stated maturity, such as noninterest-bearing demand, NOW accounts, savings, and money market, is equal to the amount payable on demand. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND INTEREST-BEARING DEMAND NOTES TO U.S. TREASURY

For securities sold under agreements to repurchase and interest-bearing demand notes to U.S. Treasury, the carrying amount is a reasonable estimate of fair value, as such instruments reprice in a short time period.

OTHER BORROWED MONEY

The fair value of other borrowed money is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for other borrowed money of similar remaining maturities.

(Continued)

BANK 10

Notes to Financial Statements

December 31, 2004

The fair value estimates provided are made at a point in time based on market information and information about the financial instruments. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the fair value estimates.

(15) LITIGATION

Various legal claims have arisen in the normal course of business, which, in the opinion of management of the Company, will not result in any material liability to the Company.

(Continued)

BANK 10

(A Wholly Owned Subsidiary of Drexel Bancshares, Inc.)

Condensed Balance Sheet
March 31, 2005

(Unaudited)

ASSETS

Loans, net of allowance for loan losses of $1,357,517	$ 127,979,846
Investment in available-for-sale debt and equity securities, at fair value	25,412,516
Federal funds sold	4,293,000
Cash and due from banks	6,067,782
Premises and equipment	5,317,213
Accrued interest receivable	1,175,323
Cash surrender value - life insurance	1,500,334
Other assets	81,061
Total assets	$ 171,827,075
LIABILITIES AND STOCKHOLDER'S EQUITY	
Deposits:	
Demand	$ 22,938,737
NOW	14,886,135
Savings	10,202,904
Money market	25,670,747
Time deposits $100,000 and over	24,427,797
Other time deposits	44,864,705
Total deposits	142,991,025
Securities sold under agreements to repurchase	969,450
Interest-bearing demand notes to U.S. Treasury	8,778
Other borrowed money	13,259,091
Accrued interest payable	215,794
Other liabilities	499,142
Total liabilities	157,943,280
Stockholder's equity:	
Common stock, $100 par value. Authorized 1,000 shares; issued 1,000 shares at December 31, 2004	100,000
Surplus	1,150,000
Retained earnings	12,955,488
Accumulated other comprehensive loss	(321,693
Total stockholder's equity	13,883,795
Total liabilities and stockholder's equity	$ 171,827,075

See accompanying notes to unaudited condensed financial statements.

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BANK 10

(A Wholly Owned Subsidiary of Drexel Bancshares, Inc.)

Condensed Statements of Income
Three Months Ended March 31, 2005 and 2004

(Unaudited)

	2005
Interest income:	
Interest and fees on loans	$2,090,444
Interest and dividends on debt and equity securities:	
Securities of U.S. government agencies	88,768
Obligations of states and political subdivisions	107,887
Other securities	13,390
Interest on federal funds sold	10,705
Total interest income	2,311,194
Interest expense:	
NOW accounts	10,845
Savings accounts	11,515
Money market accounts	84,471
Time deposit accounts $100,000 and over	172,543
Other time deposit accounts	280,971
Securities sold under agreements to repurchase	4,994
Other borrowed money	132,833
Total interest expense	698,172
Net interest income	1,613,022
Provision for loan losses	1,400
Net interest income after provision for loan losses	1,611,622
Noninterest income:	
Service charges on deposit accounts	360,008
Gain on sales and calls of debt securities	15,391
Other	51,810
Total noninterest income	427,209
Noninterest expense:	
Salaries and employee benefits	823,435
Occupancy expense, net	87,409
Furniture and equipment expense	91,924
Processing expense	75,421
Advertising and promotion	33,160
Postage and printing and supplies	76,590
Other	213,437
Total noninterest expense	1,401,376
Income before income taxes	637,455
Income taxes	5,470
Net income	$ 631,985

See accompanying notes to unaudited condensed financial statements.

(Continued)

BANK 10

(AWholly Owned Subsidiary of Drexel Bancshares, Inc.)

Condensed Statements of Cash Flows
Three Months Ended March 31, 2005 and 2004

(Unaudited)

	2005
Cash flows from operating activities:	
Net income	$ 631,985
Adjustments to reconcile net income to net cash cash provided by operating activities:	
Provision for loan losses	1,400
Depreciation expense	79,309
Net amortization of debt securities premiums and discounts	42,199
(Increase) decrease in accrued interest receivable	(37,654)
Increase in cash surrender value - life insurance	(13,366)
(Increase) decrease in other assets	38,456
Increase (decrease) in accrued interest payable	46,230
Increase in other liabilities	118,218
Gain on sales and calls of debt securities	(15,392)
Gain on disposition of premises and equipment	-
Net cash provided by operating activities	891,385
Cash flows from investing activities:	
Net increase in loans	(733,266)
Purchase of available-for-sale debt securities	(1,200,870)
Proceeds from maturities of available-for-sale debt securities	762,411
Proceeds from calls of available-for-sale debt securities	510,000
Proceeds from sales of available-for-sale debt securities	721,822
Purchase of premises and equipment	(51,208)
Proceeds from dispositions of premises and equipment	-
Proceeds from sales of other real estate owned and repossessions	17,693
Net cash provided (used) in investing activities	$ 26,582

Continued on next page

Continued

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BANK 10

(A Wholly Owned Subsidiary of Drexel Bancshares, Inc.)

Condensed Statements of Cash Flows (Continued)
Three Months Ended March 31, 2005 and 2004

(Unaudited)

	2005	200
Cash flow from financing activities:		
Net increase (decrease) in demand deposits	$ (1,081,693)	$ 2,
Net increase in interest-bearing transaction accounts	1,473,753	3,
Net increase (decrease) in time deposits	2,283,101	(
Net increase (decrease) in securities sold under agreements to repurchase	23,210	(
Net decrease in interest-bearing demand notes to U.S. Treasury	(11,079)	
Proceeds from Federal Home Loan Bank borrowings	-	2,
Repayment of Federal Home Loan Bank borrowings	(3,011,818)	
Cash dividends paid	(148,886)	(
Net cash provided by financing activities	(473,412)	7,
Net increase in cash and cash equivalents	444,555	2,
Cash and cash equivalents, beginning of period	9,916,227	7,
Cash and cash equivalents, end of period	$ 10,360,782	$ 10,
Supplemental disclosure of cash flow information -		
Cash paid during period for:		
Interest	$ 651,942	$
Income taxes	7,474	
Supplemental schedule of noncash investing activities -		
Other real estate and repossessions acquired in settlement of loans	$ 11,200	$

See accompanying notes to unaudited condensed financial statements.

(Continued)

BANK 10

(A Wholly Owned Subsidiary of Drexel Bancshares, Inc.)

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Three Months Ended March 31, 2005 and 2004

The accompanying unaudited condensed financial statements include all adjustments that in the opinion of management are necessary in order to make those statements not misleading. Operating results for the period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

The accompanying unaudited 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. These financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of March 31, 2005 and the statements of income and cash flows for the three months ended March 31, 2005 and 2004.

COMPREHENSIVE INCOME

For the three-month periods ended March 31, 2005 and 2004, unrealized holding gains and losses on investments in debt and equity securities available-for-sale were the only other comprehensive income component. Comprehensive income for the three-month periods ended March 31, 2005 and 2004 is summarized as follows:

	THREE MONTHS ENDED MARCH 31,	
	2005	2004
Net income	$ 631,985	$ 738,
Other comprehensive income (loss):		
Net unrealized holding gains (losses) on investments in debt and equity securities available-for-sale	(251,709)	92,
Adjustment for net securities losses (gains) realized in net income	15,391	
Total other comprehensive income (loss)	(236,318)	92,
Comprehensive income	$ 395,667	$ 831,

BANK 10

(A Wholly Owned Subsidiary of Drexel Bancshares, Inc.)

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Three Months Ended March 31, 2005 and 2004

SUBSEQUENT EVENT

On May 2, 2005, Exchange National Bancshares, Inc. completed its acquisition of all of the outstanding shares of Bank 10 for cash of $34,020,000. As a result, Bank 10 has become a wholly owned subsidiary of Exchange. Bank 10 will apply purchase accounting as of May 2, 2005, adjusting Bank 10's assets and liabilities to the their fair values, including goodwill resulting from the acquisition.

EXCHANGE NATIONAL BANCSHARES

UNAUDITED PRO FORMA FINANCIAL STATEMENTS

On May 2, 2005 Exchange National Bancshares, Inc. (Company) completed the purchase of Bank 10 of Belton, Missouri from Drexel Bancshares, Inc. Our Company paid $34,020,000 in cash which resulted in the recording of approximately $4,500,000 of core deposit intangible and approximately $13,968,000 of goodwill. The core deposit intangible value is subject to final adjustment pending the completion of a third party core deposit valuation. At the date of acquisition, Bank 10 had total assets of approximately $178,296,000, loans of approximately $133,278,000, and deposits of approximately $149,299,000.

$23,000,000 of the purchase price was funded thru the issuance of Trust Preferred securities with the balance of the purchase price provided by cash on hand. The following unaudited pro forma balance sheet and income statements reflect all significant pro forma adjustments for the periods presented. The pro forma statements do not reflect anticipated cost savings that our Company expects to recognize from the consolidation operations.

EXCHANGE NATIONAL BANCSHARES

UNAUDITED CONSOLIDATED PRO FORMA BALANCE SHEET
MARCH 31, 2005

	EXCHANGE NATIONAL BANCSHARES	BANK 10	PRO FORM ADJUSTMEN
ASSETS			
Loans, net of allowance for loan losses	$ 633,572,974	$ 127,979,846	$
Investment in available for sale debt and equity securities, at fair value	223,793,181	25,412,516	(23,000
Federal funds sold	37,135,691	4,293,000	(11,017
Cash and due from banks	22,222,447	6,067,782	
Premises and equipment	22,284,338	5,317,213	1,665
Accrued interest receivable	5,719,294	1,175,323	
Mortgage servicing rights	1,588,292	-	
Goodwill	25,196,736	-	13,968
Intangible assets	744,354	-	4,500
Cash surrender value - life insurance	-	1,500,334	
Other assets	4,330,248	81,061	
Total assets	$ 976,587,555	$ 171,827,075	$ (13,883
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Demand	$ 95,141,393	$ 22,938,737	$
NOW	121,622,912	14,886,135	
Savings	50,395,643	10,202,904	
Money market	127,957,574	25,670,747	
Time deposits $100,000 and over	91,379,067	24,427,797	
Other time deposits	251,432,212	44,864,705	

Total deposits	737,928,801	142,991,025	
Federal funds purchased and securities sold under agreements to repurchase	51,288,037	969,450	
Interest-bearing demand notes to U.S. Treasury	705,725	8,778	
Subordinated notes	49,486,000	-	
Other borrowed money	39,253,899	13,259,091	
Accrued interest payable	2,044,364	215,794	
Other Liabilities	3,674,466	499,142	
Total liabilities	884,381,292	157,943,280	
STOCKHOLDERS' EQUITY			
Common stock - $1 par value; 15,000,000 shares authorized; 4,298,353 issued	4,298,353	100,000	(100
Surplus	22,030,074	1,150,000	(1,150
Retained earnings	69,203,552	12,955,488	(12,955
Accumulated other comprehensive income (loss) net of tax	(673,207)	(321,693)	321
Treasury stock, 128,506 shares at cost	(2,652,509)	-	
Total stockholders' equity	92,206,263	13,883,795	(13,883
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 976,587,555	$ 171,827,075	$ (13,883

Pro forma adjustments:

(1) To record purchase of Bank 10.

(2) To record pro forma adjustments:

Premises and equipment - fair value adjustment	$ 1,665,219
Goodwill	13,968,289
Core deposit intangible	4,500,000
	$ 20,133,508

(3) Eliminate stockholder's equity of Bank 10

33 (Continued)

EXCHANGE NATIONAL BANCSHARES

UNAUDITED CONSOLIDATED PRO FORMA INCOME STATEMENT
FOR THE YEAR ENDED
DECEMBER 31, 2004

	EXCHANGE NATIONAL BANCSHARES	BANK 10	PRO ADJU DR
Interest Income:			
Interest and fees on loans	$ 35,266,846	$ 7,981,078	$ -
Interest on debt and equity securities:			
Securities of U.S. Government agencies	3,920,940	355,237	-
Obligations of states and political subdivisions	1,301,547	303,475	-
Other securities	164,850	22,124	-
Interest on federal funds sold	402,818	83,547	172,328

Interest on interest-bearing deposits	33,595	-	-
Total interest income	41,090,596	8,745,461	172,328
Interest expense:			
NOW accounts	794,070	40,564	-
Savings	318,461	45,625	-
Money market account	1,265,068	391,256	-
Time deposit accounts $100,000 and over	1,928,942	405,470	-
Other time deposit accounts	5,931,091	962,391	-
Federal funds purchased and securities sold under agreements to repurchase	688,248	12,037	-
Subordinated Notes	886,324	-	1,493,856
Federal Home Loan Bank borrowings	1,567,248	495,421	-
Other borrowings	7,459	-	-
Total interest expense	13,386,911	2,352,764	1,493,856
Net interest income	27,703,685	6,392,697	(1,666,184
Provision for loan losses	942,000	11,829	-
Net Interest Income after provision for loan losses	26,761,685	6,380,868	(1,666,184
Noninterest income:			
Service charges on deposit accounts	3,041,056	1,552,947	-
Trust department income	694,132	-	-
Brokerage income	100,463	-	-
Mortgage loan servicing fees, net	431,284	-	-
Gain on sales of mortgage loans	796,595	-	-
Credit card fees	173,012	-	-
Other	496,015	176,009	-
Total noninterest income	5,732,557	1,728,956	-
Noninterest expense:			
Salaries and employee benefits	11,226,511	3,115,130	-
Occupancy expense	1,142,734	358,262	66,600
Furniture and equipment expense	2,014,375	338,435	-
FDIC insurance assessment	100,232	9,301	-
Advertising and promotion	574,586	172,990	-
Postage, printing and supplies	102,181	270,631	-
Legal, examination, and professional fees	215,112	44,452	-
Other	5,006,975	904,551	562,500
Total noninterest expense	20,382,706	5,213,752	629,100
Income before income taxes	12,111,536	2,896,072	(2,295,284
Income taxes	3,806,556	16,653	1,013,625
Net income	$ 8,304,980	$ 2,879,419	$(3,308,910
Basic earnings per share	$ 1.99		
Diluted earnings per share	$ 1.98		
Weighted average shares of common stock outstanding			

Basic	4,169,847
Diluted	4,204,752

Pro forma adjustments:

(1) Interest expense on subordinated notes of $23,712,000 @ 6.30% and interest income on equity securities of $712,000 @ 6.30%.

(2) Interest income lost on $10,771,000 of net funds used in excess of funds provided at 1.60%.

(3) To record amortization of fair value adjustments to assets under pushdown accounting ($1,665,000 / 25 yrs) plus amortization of core deposit intangible ($4,500,000 / 8 yrs)

(4) Income taxes on S Corp Income at 35%

(5) Income tax benefit of net acquisition adjustments at 35%

(Continued)

EXCHANGE NATIONAL BANCSHARES

UNAUDITED CONSOLIDATED PRO FORMA INCOME STATEMENT
FOR THE THREE MONTH PERIOD ENDED
MARCH 31, 2005

	EXCHANGE NATIONAL BANCSHARES	BANK 10	DR	P AD
Interest Income:				
Interest and fees on loans	$ 9,736,094	$ 2,090,444	$ -	
Interest on debt and equity securities:				
Securities of U.S. government agencies	1,121,606	88,768	25,875	
Obligations of states and political subdivisions	342,914	107,887	-	
Other securities	58,190	13,390	-	
Interest on federal funds sold	252,652	10,705	71,612	
Interest on interest-bearing deposits	15,922	-	-	
Total interest income	11,527,378	2,311,194	97,487	
Interest expense:				
NOW accounts	355,545	10,845	-	
Savings	71,245	11,515	-	
Money market account	644,726	84,471	-	
Certificates of deposit:				
$100,000 and over	620,082	172,543	-	
Other time deposits	1,659,442	280,971	-	
Federal funds purchased and securities sold under agreements to repurchase	268,122	4,994	-	
Subordinated Notes	403,065	-	311,220	
Federal Home Loan Bank borrowings	414,690	132,833	-	
Other borrowings	3,350	-	-	

Total interest expense	4,440,267	698,172	311,220
Net interest income	7,087,111	1,613,022	(408,707)
Provision for loan losses	235,500	1,400	-
Net Interest Income after provision for loan losses	6,851,611	1,611,622	(408,707)
Noninterest income:			
Service charges on deposit accounts	680,509	360,008	-
Trust department income	182,011	-	-
Brokerage income	40,562	-	-
Mortgage loan servicing fees, net	112,767	-	-
Gain on sales of mortgage loans	129,696	-	-
Credit card fees	34,968	-	-
Other	150,831	67,201	-
Total noninterest income	1,331,344	427,209	-
Noninterest expense:			
Salaries and employee benefits	2,885,789	823,435	-
Occupancy expense	289,770	87,409	16,650
Furniture and equipment expense	504,229	91,924	-
FDIC insurance assessment	24,776	9,729	-
Advertising and promotion	152,752	33,160	-
Postage, printing and supplies	164,151	76,590	-
Legal, examination, and professional fees	251,096	20,640	-
Other	702,695	258,489	140,625
Total noninterest expense	4,975,258	1,401,376	157,275
Income before income taxes	3,207,697	637,455	(565,982)
Income taxes	970,083	5,470	223,109
Net income	$ 2,237,614	$ 631,985	$ (789,092)
Basic earnings per share	$ 0.54		
Diluted earnings per share	$ 0.53		
Weighted average shares of common stock outstanding			
Basic	4,169,847		
Diluted	4,204,752		

Pro forma adjustments.

(1) Interest expense on subordinated notes of $23,712,000 @ 6.30% and interest income on equity securities of $712,000 @ 6.30%.

(2) Interest income on $23,000,000 invested short-term prior to closing at 2.70%.

(3) Interest income lost on $11,017,000 of cash used in purchase at 2.60%.

(4) To record amortization of fair value adjustments to assets under pushdown accounting ($1,665,000 / 25 yrs) plus amortization of core deposit intangible ($4,500,000 / 8 yrs)

(5) Income taxes on S Corp Income at 35%

(6) Income tax benefit of net acquisition adjustments at 35%

(Continued)

EXHIBIT INDEX

Exhibit No.	Description
23.1	Consent of Independent Registered Public Accounting Firm

(continued)