MIDDLEBURY NATIONAL CORPORATION

30 Main Street, P.O. Box 189, Middlebury, Vermont 05753-0189

April 6, 2006

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Our Shareholders:

NOTICE IS HEREBY GIVEN that, pursuant to the call of its Directors, the Annual Meeting of Shareholders of the Middlebury National Corporation will be held at The Middlebury Inn, Middlebury, Vermont, on Wednesday, May 10, 2006, at 3:30 p.m. for the following purposes:

1. Election of three (3) Directors to serve until the 2009 Annual Meeting of Shareholders.
2. To ratify the appointment of A.M. Peisch & Company, LLP, independent auditors, to serve as auditors for the Corporation for the year 2006.
3. To transact any other business that may properly come before the meeting or any adjournment thereof.

The close of business March 29, 2006, has been fixed as a record date for determining shareholders entitled to notice of a vote at the Annual Meeting.

By order of the Board of Directors,

Sarah D. Stahl
President

MIDDLEBURY NATIONAL CORPORATION

30 Main Street, P.O. Box 189, Middlebury, Vermont 05753-0189

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
MAY 10, 2006

This proxy statement is furnished in connection with the solicitation of proxies by or on behalf of the Directors of the Middlebury National Corporation for use at the Annual Meeting of Shareholders to be held on Wednesday, May 10, 2006, at 3:30 p.m. at The Middlebury Inn, Middlebury, Vermont, or any adjournment thereof.

A proxy duly executed and returned by the shareholder will be voted as directed by the proxy. If no choice is specified, the proxy will be voted for the election of nominees set forth in the proxy. If other matters are voted upon, persons named in the proxy will take action in accordance with the recommendations of management. Any proxy may be revoked by written notice to the Secretary of the Corporation prior to the voting of the proxy.

ELECTION OF DIRECTORS

As provided for in the Articles of Association, the Board is divided into three classes of directors: Class I, Class II, and Class III, so that approximately one third of the directors' terms expire each year. Directors whose terms expire at the 2006 Shareholders' Meeting are Caroline R. Carpenter, John M McCardell, Jr., and Sarah D. Stahl. All will stand for re-election to hold office until the year 2009 Shareholders' Meeting. The Board of Directors recommends a vote "FOR" the Election of Directors.

The persons listed below and on the next page constitute the total members of the Board of Directors.

Name	Age	Position with Middlebury National Corporation and Principal Occupation	Director Since	Term Expires	Shares Beneficially Owned
Class I Directors					
Paul J. Carrara, Jr.	36	Director of Middlebury National Corporation and National Bank of Middlebury; Project Manager, JP Carrara & Sons, Inc., Middlebury, VT	2002	2007	60
Lawrence W. Miller, II	39	Director of Middlebury National Corporation and National Bank of Middlebury; Financial Consultant; Chair of the Vermont Economic Progress Council, Montpelier, VT	2004	2007	52
G. Kenneth Perine	54	Director of Middlebury National Corporation and National Bank of Middlebury; Executive Vice President, Middlebury National Corporation; President, National Bank of Middlebury Middlebury, VT	1990	2007	1,330

Name	Age	Position with Middlebury National Corporation and Principal Occupation	Director Since	Term Expires	Shares Beneficially Owned
Class II Directors					
Edward M. Foster	72	Director of Middlebury National Corporation and National Bank of Middlebury; Secretary and First Vice President, Middlebury National Corporation; Chairman, National Bank of Middlebury; President, Foster Motors, Inc., Middlebury, VT	1970	2008	15,180
Linda K. Harmon	56	Director of Middlebury National Corporation and National Bank of Middlebury; President, H&M Mountain Enterprises, Inc., dba Mary's at Baldwin Creek, Bristol, VT	1995	2008	150
Roch F. MacIntyre	61	Director of Middlebury National Corporation and National Bank of Middlebury; Manager, MacIntyre Services, LLC, Middlebury, VT	1980	2008	4,614
Class III Directors					
Caroline R. Carpenter	40	Director of Middlebury National Corporation and National Bank of Middlebury; Executive Vice President and Technology Manager, National Bank of Middlebury, Middlebury, VT	2005	2006	200
John M. McCardell, Jr.	56	Director of Middlebury National Corporation and National Bank of Middlebury; President Emeritus, Middlebury College; Professor of History, Middlebury College, Middlebury, VT	1992	2006	1,000
Sarah D. Stahl	56	Director of Middlebury National Corporation and National Bank of Middlebury; President, Middlebury National Corporation; Operations Manager, Vermont Folklife Center, Middlebury, VT	1988	2006	380

REMUNERATION OF MANAGEMENT

Directors and officers were compensated as directors and officers of the bank, and received no compensation for their position in the holding company. The aggregate compensation paid during 2005 to nine outside directors was $111,842. The aggregate compensation paid to the fourteen officers was $1,005,338. The aggregate cost for contributions to the officers' retirement plan accounts was $170,482.

APPROVAL OF INDEPENDENT AUDITORS

A.M. Peisch & Company, LLP, a certified public accounting firm with five offices in Vermont, has been independent auditor for the Middlebury National Corporation since its organization in 1985 and for the National Bank of Middlebury many years prior to 1985. The Board of Directors recommends a vote "FOR" the appointment of A.M. Peisch & Company, LLP, as independent auditors for the year 2006.

OTHER MATTERS

As of the date of the notice of meeting, the Board of Directors knows of no other business that may come before the meeting except as set forth above. If other matters should properly come before the meeting, it is expected that proxies will be voted on such matters in accordance with the recommendations of management.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
and Shareholders of
Middlebury National Corporation
Middlebury, Vermont

We have audited the accompanying consolidated balance sheets of Middlebury National Corporation and Subsidiary (National Bank of Middlebury) as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Middlebury National Corporation and Subsidiary as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

A. M. Peisch & Company, LLP

January 6, 2006
Rutland, Vermont
VT Reg. No 92-0000102

CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004

	2005	2004
ASSETS		
Cash and cash equivalents	**$ 6,823,142**	$ 4,556,300
Interest bearing balances due from FHLB and other financial institutions	**140,958**	90,126
Federal funds sold	**1,450,000**	2,870,000
Securities held-to-maturity (market value of $5,324,472 in 2005 and $5,749,169 in 2004)	**5,308,278**	5,684,405
Securities available-for-sale	**43,244,910**	33,892,990
Restricted equity securities	**1,377,700**	772,800
Mortgage loans held for sale	**-0-**	531,856
Loans, net	**139,237,155**	125,600,148
Bank premises and equipment, net	**5,082,912**	4,892,090
Accrued interest receivable	**1,048,368**	846,031
Bank owned life insurance	**4,285,919**	4,115,873
Other assets	**2,873,880**	2,179,108
Total assets	**$210,873,222**	$186,031,727
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	**$ 22,432,347**	$ 20,309,897
NOW	**61,966,519**	49,228,022
Savings and money market	**51,953,381**	59,430,539
Time $100,000 and over	**9,124,360**	5,479,671
Other time	**27,492,855**	19,292,121
Total deposits	**172,969,462**	153,740,250
Borrowed Funds	**10,126,165**	142,792
Securities sold under agreements to repurchase	**7,318,846**	13,095,042
Other liabilities	**1,882,744**	1,165,299
Total liabilities	**192,297,217**	168,143,383
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock, no par value 1,200,000 shares authorized, 960,000 shares issued	**400,000**	400,000
Surplus	**1,000,000**	1,000,000
Retained earnings	**18,314,680**	17,069,664
Accumulated other comprehensive income (loss)	**(526,119)**	31,236
	19,188,561	18,500,900
Less: Treasury stock at cost (69,848 shares in 2005 and 2004)	**(612,556)**	(612,556)
Total shareholders' equity	**18,576,005**	17,888,344
Total liabilities and shareholders' equity	**$210,873,222**	$186,031,727

See notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2005 and 2004

	2005	2004
Interest income		
Interest and fees on loans	**$ 8,356,881**	$7,289,884
Interest and dividends on securities		
Mortgage back securities	**901,661**	941,376
U.S. Government agencies	**272,577**	233,761
Corporate debt	**253,024**	213,606
States and political subdivisions	**485,023**	161,112
Other securities	**46,694**	25,698
Interest on federal funds sold and FHLB balances	**117,805**	43,809
Total interest income	**10,433,665**	8,909,246
Interest expense		
Interest on time $100,000 and over	**207,760**	105,582
Interest on other deposits	**1,475,978**	911,766
Interest on borrowings	**525,617**	132,265
Total interest expense	**2,209,355**	1,149,613
Net interest income	**8,224,310**	7,759,633
Less: provision for loan losses	**-0-**	30,000
Net interest income after provision for loan losses	**8,224,310**	7,729,633
Other operating income		
Service charges on deposit accounts	**343,391**	378,954
Other service charges, collection and exchange	**480,140**	386,817
Gain on sale of loans - Net	**193,498**	123,359
Income from bank owned life insurance	**170,046**	173,134
Other	**103,174**	156,213
Total other operating income	**1,290,249**	1,218,477
Other operating expenses		
Salaries	**2,807,946**	2,544,952
Pension and other employee benefits	**1,127,050**	855,793
Occupancy expense	**516,830**	472,360
Equipment expense	**548,611**	532,892
Other	**2,163,252**	2,105,382
Total other operating expenses	**7,163,689**	6,511,379
Income before income taxes	**2,350,870**	2,436,731
Income tax expense	**500,550**	610,842
Net income	**$ 1,850,320**	$1,825,889
Earnings per share	**$ 2.08**	$ 2.05

See notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2005 and 2004

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2003	$400,000	$1,000,000	$15,813,439	$260,831	$(614,455)	$16,859,815
Comprehensive income						
Net Income	-0-	-0-	1,825,889	-0-	-0-	1,825,889
Other comprehensive income, net of tax						
Net changes in unrealized gain on securities available-for-sale - Net of tax $118,276	-0-	-0-	-0-	(229,595)	-0-	(229,595)
Total comprehensive income	-0-	-0-	-0-	-0-	-0-	1,596,294
Sale of treasury stock	-0-	-0-	-0-	-0-	1,899	1,899
Cash dividends declared ($.64 per share)	-0-	-0-	(569,664)	-0-	-0-	(569,664)
Balance, December 31, 2004	$400,000	$1,000,000	$17,069,664	$31,236	$(612,556)	$17,888,344
Comprehensive income						
Net Income	-0-	-0-	1,850,320	-0-	-0-	1,850,320
Other comprehensive income, net of tax						
Net changes in unrealized gain on securities available-for-sale - Net of tax $287,122	-0-	-0-	-0-	(557,355)	-0-	(557,355)
Total comprehensive income	-0-	-0-	-0-	-0-	-0-	1,292,965
Cash dividends declared ($.68 per share)	-0-	-0-	(605,304)	-0-	-0-	(605,304)
Balance, December 31, 2005	$400,000	$1,000,000	$18,314,680	$(526,119)	$(612,556)	$18,576,005

See notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	**$ 1,850,320**	$ 1,825,889
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**466,336**	438,340
Provision for possible loan losses	**-0-**	30,000
Provision for deferred taxes	**(53,514)**	(23,611)
Increase in accrued income tax	**74,004**	15,861
Increase in interest receivable	**(202,337)**	(61,481)
Net amortization	**135,807**	213,073
Increase (decrease) in interest payable	**85,028**	(7,889)
Increase in bank owned life insurance	**(170,046)**	(2,071,425)
Change in other - Net	**204,277**	(210,877)
(Increase) decrease in mortgage loans held-for-sale	**531,856**	(531,856)
Loss on disposal of assets	**7,491**	22,807
Gain on sale of loans	**(193,498)**	(123,359)
(Gain) loss on sale of OREO	**1,876**	(36,907)
Gain on security transactions	**-0-**	(11,888)
Net cash provided by (used in) operating activities	**2,737,600**	(533,323)
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities held-to-maturity		
Maturities/paydowns	**356,200**	505,700
Purchases	**-0-**	(1,586,336)
Securities available-for-sale		
Sales, maturities, and paydowns	**4,892,292**	17,461,495
Purchases	**(15,204,569)**	(14,548,764)
Sale (purchase) of restricted equity securities	**(604,900)**	307,100
Net changes in federal funds and interest bearing balances	**1,369,168**	(2,783,762)
Loans - Net increase	**(13,513,415)**	(3,203,174)
Proceeds from sale of OREO	**68,030**	336,129
Capital acquisitons	**(664,649)**	(1,329,441)
Net cash used in investing activities	**(23,301,843)**	(4,841,053)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits,		
NOW accounts and savings accounts	**7,383,789**	3,485,733
Certificates of deposit - Net change	**11,845,423**	592,022
Increase (decrease) in securities sold under agreement	**(5,776,196)**	2,008,742
Increase (decrease) in Borrowed Funds	**9,983,373**	(15,320)
Sale of treasury stock	**-0-**	1,899
Dividend payments	**(605,304)**	(569,664)
Net cash provided by financing activities	**22,831,085**	5,503,412
Net increase in cash and cash equivalents	**2,266,842**	129,036
Cash and cash equivalents		
Beginning	**4,556,300**	4,427,264
Ending	**$ 6,823,142**	$ 4,556,300

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS *(Continued)*
Years ended December 31, 2005 and 2004

	2005	2004
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	**$2,124,328**	$1,157,502
Income taxes	**$ 472,823**	$ 618,593
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Other real estate acquired in settlement of loans - net	**$ 69,906**	$ 55,799
Unrealized loss on securities available-for-sale	**$ (844,477)**	$ (347,873)

See notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies
The accounting policies of Middlebury National Corporation and Subsidiary are in conformity with U.S. generally accepted accounting principles and general practices within the banking industry. The following is a description of the more significant policies.

Basis of consolidation
The consolidated financial statements include the accounts of Middlebury National Corporation (Company) and the National Bank of Middlebury (Bank), its wholly owned subsidiary. All significant intercompany accounts have been eliminated.

Nature of operations
Middlebury National Corporation is a one bank holding company located in Middlebury, Vermont. Its subsidiary, National Bank of Middlebury, provides a variety of financial services to individuals and business customers through its four branches in central Vermont, which is primarily a small business and manufacturing area. The Bank's primary deposit products are checking and savings accounts and certificates-of-deposit. Its primary lending products are commercial, real estate and consumer loans.

Concentration of risk
The Company's operations are affected by various risk factors, including interest-rate risk, credit risk and risk from geographic concentration of lending activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to credit-worthy borrowers, although credit losses are expected to occur because of subjective factors and factors beyond the control of the Company. Although the Company has a diversified loan portfolio and economic conditions are stable, most of its lending activities are conducted within the geographic area where it is located. As a result, the Company and its borrowers may be especially vulnerable to the consequences of changes in the local economy. Note 2 discusses the types of investments the Company invests in, and Note 4 discusses the type of lending the Company engages in.

Use of estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that 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.

Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for losses on loans. In connection with the determination of the allowance for losses on loans, management obtains independent appraisals for significant properties. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is susceptible to changes in local market conditions.

Note 1. Significant Accounting Policies *(Continued)*
While management uses available information to recognize losses on loans, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Presentation of Cash Flows
For the purpose of presentation in the Statements of Cash Flows, the Company considers cash and due from banks to be cash equivalents.

Investment securities
Debt securities the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost adjusted for amortization of premiums and accretion of discounts using methods approximating the interest method. Debt and equity securities purchased and held primarily for resale in the near future are classified as trading. Trading securities are carried at fair value with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale. Investments classified as available-for-sale are carried at market value with unrealized gains and losses reported as a net amount in other comprehensive income net of tax. The specific identification method is used to determine realized gains and losses on sales of securities available-for-sale.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted Equity Investments
As a member of the Federal Home Loan Bank and the Federal Reserve Bank, the Company is required to invest in their stock. The stock is nonmarketable, and when redeemed, the Company would receive from the Federal Home Loan Bank and the Federal Reserve Bank an amount equal to the par value of the stock.

Loans
Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal, reduced by an allowance for loan losses and unearned fees. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Sales are made with limited recourse. Net unrealized losses are recognized through a valuation allowance by charges to income.

Loan interest income is accrued daily on the outstanding balances. Accrual of interest is discontinued when a loan is specifically determined to be impaired or when the loan is delinquent 90 days and management believes, after considering collection efforts and other factors that the borrowers financial condition is such that collection of interest is doubtful. Any unpaid interest previously accrued on those loans is removed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are generally applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are charged off when collection of principal is considered doubtful.

Loan origination and commitment fees and certain direct loan origination costs are being deferred and amortized as an adjustment of the related loans' yield. The Bank is generally amortizing these amounts over the contractual life.

Allowance for loan losses
The allowance for loan losses is maintained at a level, which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally deter-

mined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Past due status is determined on a contractual basis.

Bank premises and equipment
Bank premises and equipment are stated at cost, less an allowance for depreciation. The provision for depreciation is computed primarily on the straight-line method over the estimated useful lives of the related assets. The cost of assets sold or otherwise disposed of, and the related allowance for depreciation, are eliminated from the accounts and the resulting gains or losses are reflected in the income statement. Maintenance and repairs are charged to current expenses as incurred and the cost of major renewals and improvements are capitalized.

Mortgage Servicing
The Bank recognizes as separate assets, rights to service mortgage loans for others, however those servicing rights are acquired. When the Bank acquires mortgage servicing rights through either the purchase or origination of mortgage loans (originated mortgage servicing rights) and sells or securitizes those loans with servicing rights retained, it allocates the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. To determine the fair value of the servicing rights created, the Bank uses the market prices under comparable servicing sale contracts. The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate.

Income taxes
The Company recognizes income taxes under the asset and liability method. Under this method, net deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Adjustments to the Company's deferred tax assets are recognized as deferred income tax expense or benefit based on management's judgments relating to the realizability of such assets. The Company files a consolidated tax return with its subsidiary.

Other real estate owned
Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of the Bank's carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its costs or fair value less cost to sell.

Off-balance-sheet financial instruments
In the ordinary course of business the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Earnings per share
Earnings per share are computed using the weighted average number of shares of common stock outstanding during the year, which was 890,152 and 890,106 shares for 2005 and 2004, respectively.

Fair value of financial instruments
The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and due from banks: The carrying amounts reported in the balance sheet for cash and due from banks approximate those assets' fair values.

Note 1. Significant Accounting Policies *(Continued)*

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying amounts of FHLB and Federal Reserve Bank stock approximates fair value.

Loans and loans held for sale: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values of other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

Deposits: The fair values disclosed for demand deposits (for example, checking and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits.

Repurchase agreements and borrowed funds: For repurchase agreements and borrowed funds (including federal funds purchased) that reprice frequently, fair values are based on carrying amounts. The fair values for other borrowings are estimated using a discounted cash flow calculation that applies interest rates currently being offered on such debt to a schedule of aggregated contractual maturities on such debt.

Accrued interest: The carrying amount of accrued interest receivable and payable approximates fair value.

Other liabilities: Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements and the present creditworthiness of the counter parties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Transfers of financial assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities net of tax, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Note 2. Investment Securities

Investment securities held-to-maturity consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
December 31, 2005				
States & Political Subdivisions	$ 5,308,278	$ 50,874	$ 34,680	$ 5,324,472
December 31, 2004				
States & Political Subdivisions	$ 5,684,405	$ 80,597	$ 15,833	$ 5,749,169

Investment securities available-for-sale consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
December 31, 2005				
U.S. Government and agency securities	$ 7,501,640	$ 17,923	$137,863	$ 7,381,700
Mortgage backed securities	20,152,362	34,184	497,314	19,689,232
Corporate debt	6,067,512	15,422	235,984	5,846,950
Other securities	2,500	-0-	-0-	2,500
State & political subdivisions	10,318,047	59,219	52,738	10,324,528
	$44,042,061	$126,748	$923,899	$43,244,910
December 31, 2004				
U.S. Government and agency securities	$ 6,536,517	$ 78,616	$ 50,343	$ 6,564,790
Mortgage backed securities	22,145,328	168,256	200,514	22,113,070
Corporate debt	5,161,319	79,523	28,212	5,212,630
Other securities	2,500	-0-	-0-	2,500
	$33,845,664	$326,395	$279,069	$33,892,990

Restricted equity securities consisted of the following at December 31:

	2005	2004
Federal Home Loan Bank Stock	**$1,335,700**	$730,800
Federal Reserve Bank Stock	**42,000**	42,000
	$1,377,700	$772,800

Assets, principally U.S. Agency and Mortgaged Backed Securities, carried at $23,160,596 and $22,616,028 and with fair market values of $22,614,817 and $22,562,913 at December 31, 2005 and 2004, respectively were pledged to secure public deposits and for other purposes required or permitted by law.

Note 2. Investment Securities *(Continued)*
The following is a summary of maturities of securities held-to-maturity and available-for-sale as of December 31, 2005:

	Securities held-to-maturity		*Securities available-for-sale*	
	Amortized Cost	Market Value	Amortized Cost	Market Value
One year or less	$1,716,021	$1,716,567	$ 2,001,372	$ 2,021,950
After one year through five years	1,795,291	1,768,449	11,958,589	11,591,940
After five years through ten years	-0-	-0-	882,905	868,857
After ten years	1,586,566	1,629,056	9,044,333	9,070,431
Mortgage backed securities	210,400	210,400	20,152,362	19,689,232
Other securities	-0-	-0-	2,500	2,500
	$5,308,278	$5,324,472	$44,042,061	$43,244,910

During 2004, the Company sold available-for-sale securities for $9,081,747 resulting in realized gains of $43,178 and realized losses of $31,290. There were no securities sold in 2005.

Information pertaining to securities with gross unrealized losses at December 31, 2005 and 2004, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		*12 Months or Greater*		*Total*	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2005						
States & political Subdivisions	$ 5,815,974	$ 52,739	$ 2,160,970	$ 34,679	$ 7,976,944	$ 87,418
U.S. Government and agency securities	972,200	5,508	4,892,800	132,355	5,865,000	137,863
Mortgage backed Securities	9,144,255	108,922	9,510,333	388,392	18,654,588	497,314
Corporate debt	1,414,850	97,301	2,447,750	138,683	3,862,600	235,984
	$17,347,279	$264,470	$19,011,853	$694,109	$36,359,132	$958,579
December 31, 2004						
States & political subdivisions	$ 716,387	$ 3,631	$ 1,477,781	$ 12,202	$2,194,168	$ 15,833
U.S. Government and agency securities	4,988,950	50,343	-0-	-0-	4,988,950	50,343
Mortgage backed securities	4,783,722	39,990	7,375,908	160,524	12,159,630	200,514
Corporate debt	2,607,550	28,212	-0-	-0-	2,607,550	28,212
	$13,096,609	$122,176	$ 8,853,689	$172,726	$21,950,298	$294,902

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2005, the fifty one debt securities with unrealized losses have depreciated less than 3% from the Company's amortized cost basis. These securities are primarily guaranteed by either the U.S. Government or other government agencies. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 3. Loan Servicing
Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of mortgage loans serviced for others were $34,085,391 and $28,422,984 at December 31, 2005 and 2004 respectively.

Mortgage servicing rights of $60,320 and $47,239 were capitalized in 2005 and 2004 respectively. Amortization of mortgage servicing rights was $55,946 and $53,000 in 2005 and 2004 respectively.

Note 4. Loans
Loans at December 31, 2005 and 2004 were as follows:

	2005	2004
Commercial	**$ 7,435,163**	$ 6,264,639
Real estate:		
Construction and land development	**8,808,231**	5,369,416
Residential	**87,490,256**	82,571,734
Commercial	**32,469,623**	30,045,055
Total real estate	**128,768,110**	117,986,205
Installment	**1,701,088**	1,388,531
Other	**2,573,336**	1,283,341
	140,477,697	126,922,716
Less: Allowance for loan losses	**(1,467,366)**	(1,508,455)
Deferred loan costs	**226,824**	185,887
	$139,237,155	$125,600,148

The total recorded investment in impaired loans, all of which had allowances determined in accordance with U.S. generally accepted accounting principles, amounted to approximately $-0- and $639,264 at December 31, 2005 and 2004, respectively. The average recorded investment in impaired loans amounted to approximately $365,090 and $683,010 for the years ended December 31, 2005 and 2004, respectively. The allowance for loan losses related to impaired loans amounted to approximately $ -0- and $371,462 at December 31, 2005 and 2004, respectively.

Interest payments on impaired loans of $27,052 and $31,678, which primarily reduced loan princial, were received in 2005 and 2004, respectively.

In addition the Bank had other nonaccrual loans of approximately $172,665 and $76,316 at December 31, 2005 and 2004, respectively for which impairment had not been recognized. If interest on these loans had been recognized at the original interest rates, interest income would have increased approximately $387 and $7,066 for the years ended December 31, 2005 and 2004, respectively. Loans totaling $81,699 were delinquent 90 days or more and not in non accrual status.

The Bank has no commitments to loan additional funds to borrowers with impaired or nonaccrual loans.

Note 5. Allowance For Loan Losses

Changes in the allowance for loan losses during the years ended December 31, 2005 and 2004 were as follows:

	2005	2004
Balance at beginning of year	**$1,508,455**	$1,589,012
Recoveries credited to allowance	**5,216**	6,232
Provisions charged to operations	**-0-**	30,000
	1,513,671	1,625,244
Reclassification	**-0-**	(100,000)
Losses charged to allowance	**(46,305)**	(16,789)
Balance at end of year	**$1,467,366**	$1,508,455

During 2004 the Company reclassified $100,000 to other liabilities to provide for possible losses on off balance sheet items.

Note 6. Bank Premises and Equipment

Bank premises and equipment at December 31, 2005 and 2004 were as follows:

	2005	2004
Land	**$ 100,000**	$ 100,000
Bank building and improvements	**4,783,578**	3,707,687
Equipment	**2,994,766**	2,555,454
Construction in progress	**11,046**	1,103,888
	7,889,390	7,467,029
Allowances for depreciation and amortization	**(2,806,478)**	(2,574,939)
	$5,082,912	$4,892,090

Depreciation included in the statements of income amounted to $466,336 in 2005 and $438,340 in 2004, of which $337,024 and $328,287, respectively, represented equipment depreciation.

The bank leaseses its' Bristol and Plaza branches, under operating leases, that expire in 2024 and 2025 respectively. The plaza branch lease includes two renewal options of ten years each. Rental expense on these properties was $72,103 and $55,684 for 2005 and 2004 respectively. Minimum annual rentals, excluding common area charges, are as follows:

Years Ended December 31,

2006	$ 66,336
2007	66,839
2008	67,354
2009	67,881
2010	75,922
Thereafter	1,227,934
	$1,572,266

Note 7. Investments Carried at Equity

The Company purchased various partnership interests in limited partnerships. These were partnerships established to acquire, own and rent residential housing for low and moderate income Vermonters located in Vermont, and a limited liability company that offers trust and brokerage services. The investments are accounted for under the equity method of accounting. These equity investments, which are included in other assets, are recorded at cost and adjusted for the Company's proportionate share of the partnership's undistributed earnings or losses. The carrying values of these investments were $1,635,468 and $1,202,642 at December 31, 2005 and 2004 respectively. The provision for undistributed net losses of the partnerships charged to earnings was $67,174 and $107,537 for 2005 and 2004 respectively.

Note 8. Deposits

The maturity distribution of time deposits at December 31, 2005 is as follows:

One year or less	$21,277,638
After one year through year three	15,287,854
Thereafter	51,723
	$36,617,215

U.S. Treasury and agency securities with a cost of $14,464,054 and $7,540,610 and a market value of $14,172,025 and $7,579,234 were pledged to collateralize certain municipal deposits at December 31, 2005 and 2004, respectively.

Note 9. Repurchase Agreements

Repurchase Agreements at December 31, 2005 and 2004 are as follows:

	2005		2004	
	Amount	**Weighted average rate**	Amount	Weighted average rate
Securities sold under agreements to repurchase				
Daily rollover	**$7,318,846**	***1.56%**	$13,095,042	*1.01%

** rate is adjusted on a daily basis.*

The securities sold under agreements to repurchase are secured by U.S. government and agency bonds and mortgage backed securities, all of which are under the Bank's control, with a cost of $8,197,256 and $14,078,723 and market values of $7,937,642 and $13,934,859 at December 31, 2005 and 2004, respectively.

The maximum amount of repurchase agreements outstanding at any month-end during 2005 and 2004 was $10,661,008 and $13,095,042, respectively. The daily average amount of repurchase agreements outstanding during 2005 and 2004 was $8,598,527 and $9,685,088, respectively.

Note 10. FHLB Borrowings

The Company maintains a $4,000,000 IDEAL Way Line of Credit with the Federal Home Loan Bank of Boston, which was unused at December 31, 2005 and 2004. Interest on these borrowings is chargeable at a rate determined daily by the Federal Home Loan Bank and payable monthly.

Collateral on borrowings consists of Federal Home Loan Bank stock purchased by the Company, all funds placed on deposit with the Federal Home Loan Bank, qualified first mortgages held by the Company ($75,088,000), and any additional holdings that may be pledged as security.

Note 11. Borrowed Funds
Borrowed Funds at December 31, 2005 and 2004 is as follows:

	2005	2004
Mortgage payable, secured by real estate, prime +1/2 currently 8% (floor), due 2011	**$ 126,165**	$142,792
Community development advance, 3.82% fixed rate, interest payable monthly, principal due at 12/11/06 maturity date.	**1,000,000**	-0-
Community development advances, 3.91% to 4.07% fixed rates, interest payable monthly, principal due in 2007.	**4,000,000**	-0-
Community development advances, 4.13% to 4.21% fixed rates, interest payable monthly, principal due in 2008	**2,000,000**	-0-
Community development advance, 4.31% fixed rate, interest payable monthly, principal due at 3/10/09 maturity date.	**1,000,000**	-0-
Capped floating advance, one month libor plus .55% Currently 4.92%, variable rate, principal due at 3/14/08 maturity date.	**2,000,000**	-0-
	$10,126,165	$142,792

Maturity distribution of long-term debt is as follows:

2006	$ 1,018,007
2007	4,019,501
2008	4,021,100
2009	1,022,871
2010	24,769
Thereafter	19,917
	$10,126,165

Note 12. Income Taxes
The Company prepares its federal income tax return on a consolidated basis. Federal income taxes are allocated to members of the consolidated group based on taxable income.

Income tax expense included in the statements of income for the years ended December 31, 2005 and 2004 were as follows:

	2005	2004
Currently payable	**$ 554,064**	$634,453
Deferred	**(53,514)**	(23,611)
Total income tax expense	**$ 500,550**	$610,842

Note 12. Income Taxes *(Continued)*

The provision for income taxes and the reasons for the difference between tax expense and the amount computed by applying the statutory federal tax rate to income before taxes were as follows:

	2005		2004	
	Amount	Percent	Amount	Percent
Federal Statutory Rate of Pre-Tax Income	$ 799,295	34	$828,489	34
Tax exempt income	(182,860)	(8)	(70,316)	(3)
Tax credits	(86,402)	(4)	(95,879)	(4)
Cash surrender value	(57,816)	(2)	(61,662)	(2)
Other	28,333	1	10,210	0
Total	$ 500,550	21	$610,842	25

The deferred income tax provision at December 31, 2005 and 2004 consisted of the following items:

	2005	2004
Depreciation/basis adjustment	($14,067)	$ 2,495
Bad debts	13,971	(6,611)
Deferred points	911	507
Non-accrual income	2,331	1,200
Deferred compensation	(80,320)	(47,664)
Deferred loan origination costs	13,891	21,317
Other	4,033	4,053
Start up costs	4,249	4,250
Mortgage servicing rights	1,487	(3,158)
	(53,514)	($23,611)

At December 31, 2005 and 2004, gross deferred tax assets and gross deferred tax liabilities were as follows:

	2005	2004
Gross deferred tax assets:		
Allowance for loan losses	$ 463,265	$477,236
Deferred points	-0-	911
Non-accrual interest	131	2,462
Deferred compensation	170,111	89,791
Start up costs	5,312	9,561
Unrealized loss on securities available for sale	271,031	-0-
	909,850	579,961
Valuation allowance	-0-	-0-
	909,850	579,961
Gross deferred tax liabilities:		
Depreciation/basis adjustment	233,867	247,934
Mortgage servicing rights	53,714	52,227
Deferred loan origination costs	90,612	76,721
Unrealized gain on securities available for sale	-0-	16,090
Other	19,990	15,957
	398,183	408,929
Net deferred tax asset	$ 511,667	$171,032

Net deferred income taxes are included in the captions "Other assets" on the balance sheets at December 31, 2005 and 2004, respectively.

The deferred tax asset valuation allowance did not change during 2005 and 2004.

Note 13. Pension Plan
The Bank has a discretionary 401(k) profit sharing plan covering substantially all employees who meet certain age and service requirements. Eligible employees may contribute a percentage of their annual compensation to the plan each year. The Company matches 100% of employee contributions up to 3% of compensation. The Company matched $72,389 and $61,735, respectively, of employee contributions under this plan for the years ended December 31, 2005 and 2004, respectively.

The Bank may also make additional discretionary contributions to the plan on behalf of employees who meet the eligibility requirements. These contributions are allocated based on the annual salary of the participants and amounted to $165,890 and $142,368 for the years ended December 31, 2005 and 2004, respectively.

Note 14. Commitments and Contingencies
In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, after consulting with the Company's legal counsel, any liability resulting from such proceedings would not have a material adverse effect on the Company's financial statements.

Note 15. Financial Instruments with Off-Balance-Sheet Risk
The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby and commercial letters of credit, interest rate caps and floors written on adjustable rate loans, and commitments to sell loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For interest rate caps and floors written on adjustable rate loans, the contract or notional amounts do not represent exposure to credit loss. The Bank controls the credit risk of its interest rate cap agreements through credit approvals, limits, and monitoring procedures.

The Company sells loans to the Federal Home Loan Bank (FHLB) under the FHLB Mortgage Partnership Finance program (MPF). The Company shares a portion of the credit risk on each mortgage it sells into the MPF program and receives fee income in return. The Company had $32,748,380 and $26,833,840 in loans outstanding with MPF at December 31, 2005 and 2004, respectively. The credit risk associated with these loans is deemed to be immaterial.

The Bank generally requires collateral or other security to support financial instruments with credit risk.

	Contract or Notional Amount	
	2005	2004
Financial instruments whose contract amount represent credit risk:		
Commitments to extend credit and available lines of credit	**$26,059,089**	$26,449,957
Standby letters of credit and commercial letters of credit	**$ 186,000**	$ 164,305
MPF credit enhancement obligation	**$ 793,539**	$ 623,223

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the counter-party. Collateral held varies but may include real estate, accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Note 15. Financial Instruments with Off-Balance-Sheet Risk *(continued)*
Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Bank enters into a variety of interest rate contracts, including interest rate caps and floors written on adjustable rate loans in managing its interest rate exposure. Interest rate caps and floors on loans written by the Bank enables customers to transfer, modify, or reduce their interest rate risk.

Note 16. Transactions With Related Parties
In the ordinary course of business, the Bank has loan, deposit and other transactions with its executive officers and directors and organizations with which such persons are associated. In the opinion of management such transactions are on substantially the same terms, including interest rates and collateral as to loans, as those prevailing at the time for comparable transactions with others.

At December 31, 2005 and 2004, loans to the parties mentioned above are as follows:

	2005	2004
Balance, beginning	**$1,761,735**	$2,283,433
Additions	**456,064**	1,053,075
Repayments	**(732,417)**	(1,574,773)
Balance, ending	**$1,485,382**	$1,761,735

Total deposits to related parties approximated $750,472 and $506,637 on December 31, 2005 and 2004, respectively. Amounts due officers and directors under non-qualified deferred compensation agreements amounts to $500,327 and $264,090 at December 31, 2005 and 2004 respectively.

Note 17. Fair Value of Financial Instruments

The estimated fair values of the Bank's financial instruments at December 31, 2005 and 2004, are as follows:

	2005		2004	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalent	**$ 6,823,142**	**$ 6,823,142**	$ 4,556,300	$ 4,556,300
Investment securities	**49,930,888**	**49,947,082**	40,350,195	40,414,959
Other short-term investments	**1,590,958**	**1,590,958**	2,960,126	2,960,126
Mortgage loans held-for-sale	**-0-**	**-0-**	531,856	531,856
Loans, net of allowance	**139,237,155**	**138,117,299**	125,600,148	127,172,583
Accrued interest receivable	**1,048,368**	**1,048,368**	846,031	846,031
Financial liabilities:				
Deposits	**172,969,462**	**173,335,715**	153,740,250	153,912,843
Repurchase agreements	**7,318,846**	**7,318,846**	13,095,042	13,095,042
Borrowed Funds	**10,126,165**	**9,948,650**	142,792	149,641
Accrued interest payable	**106,207**	**106,207**	21,179	21,179

The estimated fair values of deferred fees on commitments to extend credit and letters of credit were immaterial at December 31, 2005 and 2004.

The carrying amounts in the preceding table are included in the balance sheets under the applicable captions.

Note 18. Regulatory Matters

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of the their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to quantitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2005, that the Corporation and the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2005, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory frame work for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Corporation's and the Bank's actual capital amounts (000's omitted) and ratios are also presented in the table.

	Actual		Minimums For Capital Adequacy Purposes:		Minimums To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2005:						
Total capital (to risk weighted assets)						
Consolidated	$ 20,652	14.0%	$ 11,825	8.0%	$ N/A	N/A
Bank	$ 18,882	12.9%	$ 11,681	8.0%	$ 14,602	10.0%
Tier 1 capital (to risk weighted assets)						
Consolidated	$ 19,065	12.9%	$ 5,913	4.0%	$ N/A	N/A
Bank	$ 17,295	11.8%	$ 5,841	4.0%	$ 8,761	6.0%
Tier 1 capital (to average assets)						
Consolidated	$ 19,065	9.2%	$ 8,326	4.0%	$ N/A	N/A
Bank	$ 17,295	8.4%	$ 8,254	4.0%	$ 10,318	5.0%
As of December 31, 2004:						
Total capital (to risk weighted assets)						
Consolidated	$19,386	15.5%	$10,010	8.0%	N/A	N/A
Bank	$17,500	14.2%	$ 9,860	8.0%	$ 12,324	10.0%
Tier 1 capital (to risk weighted assets)						
Consolidated	$17,821	14.2%	$5,005	4.0%	N/A	N/A
Bank	$15,958	12.9%	$4,930	4.0%	$ 7,395	6.0%
Tier 1 capital (to average assets)						
Consolidated	$17,821	9.5%	$7,479	4.0%	N/A	N/A
Bank	$15,958	8.6%	$7,405	4.0%	$ 9,256	5.0%

Note 18. Regulatory Matters *(continued)*
The Bank is restricted as to the amount of dividends that can be paid. Dividends declared by national banks that exceed the net income (as defined) for the current year plus retained net income for the preceding two years must be approved by the OCC. Regardless of formal regulatory restrictions, the Bank may not pay dividends that would result in its capital levels being reduced below the minimum requirements shown above.

Note 19. Restrictions on Cash and Due from Banks
The Company is required to maintain reserve balances in cash with Federal Reserve Banks. The totals of those reserve balances were approximately $303,000 and $348,000 at December 31, 2005 and 2004, respectively. In addition, the Company was required to maintain contracted clearing balances of $500,000 at December 31, 2005 and 2004, respectively.