

MIDDLEBURY NATIONAL CORPORATION

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

April 3, 2007

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 Tuesday, May 1, 2007, at 2:00 p.m. for the following purposes:

1. Election of three (3) Directors to serve until the 2010 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 2007
3. To transact any other business that may properly come before the meeting or any adjournment thereof

The close of business March 28, 2007, 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 1, 2007

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 Tuesday, May 1, 2007, at 2:00 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 2007 Shareholders' Meeting are Paul J. Carrara, Jr., Lawrence W. Miller, II, and G. Kenneth Perine. All will stand for re-election to hold office until the year 2010 Shareholders' Meeting. The Board of Directors recommends a vote "FOR" the Election of Directors.

The persons listed below 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.	37	Director of Middlebury National Corporation and National Bank of Middlebury; General Manager, JP Carrara & Sons, Inc., Middlebury, VT	2002	2007	60
Lawrence W. Miller, II	40	Director of Middlebury National Corporation and National Bank of Middlebury; Financial Consultant, Middlebury, VT	2004	2007	52
G. Kenneth Perine	55	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	1,630

Name	Age	Position with Middlebury National Corporation and Principal Occupation	Director Since	Term Expires	Shares Beneficially Owned
Class II Directors					
Edward M. Foster	73	Director of Middlebury National Corporation and National Bank of Middlebury; First Vice-Chairman, National Bank of Middlebury; President, Foster Motors, Inc., Middlebury, VT	1970	2008	15,180
Linda K. Harmon	57	Director of Middlebury National Corporation and National Bank of Middlebury; Secretary Middlebury National Corporation; President, H&M Mountain Enterprises, Inc., dba Mary's at Baldwin Creek, Bristol, VT	1995	2008	150
Roch F. MacIntyre	62	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	41	Director of Middlebury National Corporation and National Bank of Middlebury; Executive Vice President and Information Technology Manager, National Bank of Middlebury, Middlebury, VT	2005	2009	200
John M. McCardell, Jr.	57	Director of Middlebury National Corporation and National Bank of Middlebury; Chairman, National Bank of Middlebury; President Emeritus, Middlebury College; Professor of History, Middlebury College, Middlebury, VT	1992	2009	1,000
Sarah D. Stahl	57	Director of Middlebury National Corporation and National Bank of Middlebury; President, Middlebury National Corporation; Operations Manager, Vermont Folklife Center, Middlebury, VT	1988	2009	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 2006 to seven outside directors was \$95,825. The aggregate compensation paid to the fourteen officers was \$1,076,894. The aggregate cost for contributions to the officers' retirement plan accounts was \$193,311.

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 2007.

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, 2006 and 2005, 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, 2006 and 2005, 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 24, 2007
Rutland, Vermont
VT Reg. No 92-0000102

CONSOLIDATED BALANCE SHEETS
December 31, 2006 and 2005

	2006	2005
ASSETS		
Cash and cash equivalents	\$ 6,768,157	\$ 6,823,142
Interest bearing balances due from FHLBB and other financial institutions	116,524	140,958
Federal funds sold	1,120,000	1,450,000
Securities held-to-maturity (market value of \$3,579,687 in 2006 and \$5,324,472 in 2005)	3,576,883	5,308,278
Securities available-for-sale	41,031,173	43,244,910
Restricted equity securities	1,564,700	1,377,700
Mortgage loans held for sale	130,000	-0-
Loans, net	147,360,491	139,237,155
Bank premises and equipment, net	6,265,395	5,082,912
Accrued interest receivable	1,100,301	1,048,368
Bank owned life insurance	4,471,184	4,285,919
Other assets	2,878,107	2,873,880
Total assets	\$216,382,915	\$210,873,222
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	\$ 23,486,765	\$ 22,432,347
NOW	60,627,598	61,966,519
Savings and money market	50,028,044	51,953,381
Time \$100,000 and over	8,994,593	9,124,360
Other time	29,051,579	27,492,855
Total deposits	172,188,579	172,969,462
Borrowed Funds	12,108,245	10,126,165
Securities sold under agreements to repurchase	10,392,998	7,318,846
Other liabilities	1,687,165	1,882,744
Total liabilities	196,376,987	192,297,217
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	19,638,168	18,314,680
Accumulated other comprehensive loss	(419,684)	(526,119)
Less: Treasury stock at cost (69,848 shares in 2006 and 2005)	(612,556)	(612,556)
Total shareholders' equity	20,005,928	18,576,005
Total liabilities and shareholders' equity	\$216,382,915	\$210,873,222

See notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2006 and 2005

	2006	2005
Interest income		
Interest and fees on loans	\$10,105,311	\$8,356,881
Interest and dividends on securities		
Mortgage back securities	907,192	901,661
U.S. Government agencies	276,298	272,577
Corporate debt	271,119	253,024
States and political subdivisions	539,862	485,023
Other securities	101,319	46,694
Interest on federal funds sold and FHLBB balances	187,240	117,805
Total interest income	12,388,341	10,433,665
Interest expense		
Interest on time \$100,000 and over	326,422	207,760
Interest on other deposits	2,380,263	1,475,978
Interest on borrowings	1,088,801	525,617
Total interest expense	3,795,486	2,209,355
Net interest income	8,592,855	8,224,310
Less: provision for loan losses	-0-	-0-
Net interest income after provision for loan losses	8,592,855	8,224,310
Other operating income		
Service charges on deposit accounts	369,780	343,391
Other service charges, collection and exchange	578,922	480,140
Gain on sale of loans - Net	146,260	193,498
Income from bank owned life insurance	185,265	170,046
Other	209,419	103,174
Total other operating income	1,489,646	1,290,249
Other operating expenses		
Salaries	3,054,245	2,807,946
Pension and other employee benefits	1,132,714	1,127,050
Occupancy expense	593,907	516,830
Equipment expense	514,295	548,611
Other	2,361,521	2,163,252
Total other operating expenses	7,656,682	7,163,689
Income before income taxes	2,425,819	2,350,870
Income tax expense	470,324	500,550
Net income	\$ 1,955,495	\$1,850,320
Earnings per share	\$2.20	\$2.08

See notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2006 and 2005

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
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 loss on securities available- for-sale - Net of tax \$287,122	-0-	-0-	-0-	(557,355)	-0-	<u>(557,355)</u>
Total comprehensive income	-0-	-0-	-0-	-0-	-0-	<u>1,292,965</u>
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
Comprehensive income						
Net Income	-0-	-0-	1,955,495	-0-	-0-	1,955,495
Other comprehensive income, net of tax						
Net changes in unrealized loss on securities available- for-sale - Net of tax \$54,831	-0-	-0-	-0-	106,435	-0-	<u>106,435</u>
Total comprehensive income	-0-	-0-	-0-	-0-	-0-	<u>2,061,930</u>
Cash dividends declared (\$.71 per share)	-0-	-0-	(632,007)	-0-	-0-	(632,007)
Balance, December 31, 2006	\$400,000	\$1,000,000	\$19,638,168	\$(419,684)	\$(612,556)	\$20,005,928

See notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 1,955,495	\$ 1,850,320
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	450,157	466,336
Provision for possible loan losses	-0-	-0-
Provision for deferred taxes	(75,529)	(53,514)
(Decrease) increase in accrued income tax	(51,506)	74,004
Increase in interest receivable	(51,933)	(202,337)
Net amortization	74,817	135,807
Increase in interest payable	14,185	85,028
Increase in bank owned life insurance	(185,265)	(170,046)
Change in other - Net	(141,787)	204,277
(Increase) decrease in mortgage loans held-for-sale	(130,000)	531,856
Loss on disposal of assets	16,237	7,491
Gain on sale of loans	(146,260)	(193,498)
Loss on sale of OREO	-0-	1,876
Net cash provided by operating activities	<u>1,728,611</u>	<u>2,737,600</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities held-to-maturity		
Maturities/paydowns	1,721,700	356,200
Securities available-for-sale		
Sales, maturities, and paydowns	5,430,719	4,892,292
Purchases	(3,120,838)	(15,204,569)
Purchases of restricted equity securities	(187,000)	(604,900)
Net decrease in federal funds and interest bearing balances	354,434	1,369,168
Net increase in loans	(7,977,076)	(13,513,415)
Proceeds from sale of OREO	-0-	68,030
Capital acquisitions	(1,648,877)	(664,649)
Net cash used in investing activities	<u>(5,426,938)</u>	<u>(23,301,843)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in demand deposits,		
NOW accounts and savings accounts	(2,209,840)	7,383,789
Net increase in certificates of deposit	1,428,957	11,845,423
Increase (decrease) in securities sold under agreement	3,074,152	(5,776,196)
Increase in Borrowed Funds	1,982,080	9,983,373
Dividend payments	(632,007)	(605,304)
Net cash provided by financing activities	<u>3,643,342</u>	<u>22,831,085</u>
Net (decrease) increase in cash and cash equivalents	<u>(54,985)</u>	<u>2,266,842</u>
Cash and cash equivalents		
Beginning	6,823,142	4,556,300
Ending	<u>\$ 6,768,157</u>	<u>\$ 6,823,142</u>

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years ended December 31, 2006 and 2005

	2006	2005
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$3,781,301	\$2,124,328
Income taxes	\$ 597,399	\$ 472,823

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Other real estate acquired in settlement of loans - net	\$ -0-	\$ 69,906
Unrealized gain (loss) on securities available-for-sale	\$ 161,266	\$ (844,477)

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 of Boston (FHLBB) and the Federal Reserve Bank of Boston, the Company is required to invest in their stock. The stock is nonmarketable, and when redeemed, the Company would receive from the FHLBB and the Federal Reserve Bank of Boston 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 borrower's 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 determined based on collateral values or the present value of estimated cash flows. Although management uses available

Note 1. Significant Accounting Policies (Continued)

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 shares for 2006 and 2005, 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 FHLBB and Federal Reserve Bank of Boston 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, 2006				
States & Political Subdivisions	\$ 3,576,883	\$ 35,705	\$ 32,901	\$ 3,579,687
December 31, 2005				
States & Political Subdivisions	\$ 5,308,278	\$ 50,874	\$ 34,680	\$ 5,324,472

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
December 31, 2006				
U.S. Government and agency securities	\$ 6,192,821	\$ 3,661	\$ 89,282	\$ 6,107,200
Mortgage backed securities	19,635,792	80,418	469,885	19,246,325
Corporate debt	5,518,398	201	68,099	5,450,500
Other securities	2,500	-0-	-0-	2,500
States & political subdivisions	10,317,546	12,072	104,970	10,224,648
	<u>\$41,667,057</u>	<u>\$ 96,352</u>	<u>\$732,236</u>	<u>\$41,031,173</u>
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
States & political subdivisions	10,318,047	59,219	52,738	10,324,528
	<u>\$44,042,061</u>	<u>\$126,748</u>	<u>\$ 923,899</u>	<u>\$43,244,910</u>

Restricted equity securities consisted of the following at December 31:

	2006	2005
Federal Home Loan Bank of Boston Stock	\$1,522,700	\$1,335,700
Federal Reserve Bank of Boston Stock	42,000	42,000
	<u>\$1,564,700</u>	<u>\$1,377,700</u>

Assets, principally U.S. Agency and Mortgaged Backed Securities, carried at \$26,379,373 and \$23,160,596 and with fair market values of \$26,085,208 and \$22,614,817 at December 31, 2006 and 2005, 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, 2006:

	<i>Securities held-to-maturity</i>		<i>Securities available-for-sale</i>	
	Amortized Cost	Market Value	Amortized Cost	Market Value
One year or less	\$ 859,387	\$ 851,301	\$ 6,041,551	\$ 5,975,950
After one year through five years	927,077	906,434	5,868,847	5,767,670
After five years through ten years	816,953	825,582	1,550,322	1,540,040
After ten years	769,766	792,670	8,568,045	8,498,688
Mortgage backed securities	203,700	203,700	19,635,792	19,246,325
Other securities	-0-	-0-	2,500	2,500
	\$3,576,883	\$3,579,687	\$41,667,057	\$41,031,173

There were no securities sold in 2006 or 2005.

Information pertaining to securities with gross unrealized losses at December 31, 2006 and 2005, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	<i>Less Than 12 Months</i>		<i>12 Months or Greater</i>		<i>Total</i>	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2006						
States & political Subdivisions	\$ 1,191,605	\$ 3,121	\$ 7,203,949	\$134,750	\$ 8,395,554	\$137,871
U.S. Government and agency securities	-0-	-0-	5,909,400	89,282	5,909,400	89,282
Mortgage backed Securities	-0-	-0-	15,534,948	469,885	15,534,948	469,885
Corporate debt	967,100	7,233	3,983,300	60,866	4,950,400	68,099
	\$ 2,158,705	\$ 10,354	\$32,631,597	\$754,783	\$34,790,302	\$765,137
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

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, 2006, the fifty five 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 \$36,673,725 and \$34,085,391 at December 31, 2006 and 2005, respectively.

Mortgage servicing rights totaled \$130,974 and \$157,982 at December 31, 2006 and 2005, respectively. Mortgage servicing rights of \$31,693 and \$60,320 were capitalized in 2006 and 2005, respectively. Amortization of mortgage servicing rights was \$58,701 and \$55,946 in 2006 and 2005, respectively.

Note 4. Loans

Loans at December 31, 2006 and 2005 were as follows:

	2006	2005
Commercial	\$ 7,785,047	\$ 7,435,163
Real estate:		
Construction and land development	6,865,407	8,808,231
Residential	97,670,910	87,490,256
Commercial	33,160,248	32,469,623
Total real estate	137,696,565	128,768,110
Installment	2,013,400	1,701,088
Other	1,135,777	2,573,336
	148,630,789	140,477,697
Less: Allowance for loan losses	(1,502,512)	(1,467,366)
Deferred loan costs	232,214	226,824
	\$ 147,360,491	\$ 139,237,155

The total recorded investment in impaired loans, all of which had allowances determined in accordance with U.S. generally accepted accounting principles, amounted to \$-0- at December 31, 2006 and 2005. The average recorded investment in impaired loans amounted to approximately \$-0- and \$365,090 for the years ended December 31, 2006 and 2005, respectively. The allowance for loan losses related to impaired loans amounted to \$-0- at December 31, 2006 and 2005.

Interest payments on impaired loans of \$-0- and \$27,052, which primarily reduced loan principal, were received in 2006 and 2005, respectively.

In addition the Bank had other nonaccrual loans of approximately \$21,558 and \$172,665 at December 31, 2006 and 2005, 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 \$146 and \$387 for the years ended December 31, 2006 and 2005, respectively. Loans totaling \$117,923 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, 2006 and 2005 were as follows:

	2006	2005
Balance at beginning of year	\$ 1,467,366	\$ 1,508,455
Recoveries credited to allowance	56,560	5,216
Provisions charged to operations	-0-	-0-
	1,523,926	1,513,671
Losses charged to allowance	(21,414)	(46,305)
Balance at end of year	\$ 1,502,512	\$ 1,467,366

Note 6. Bank Premises and Equipment

Bank premises and equipment at December 31, 2006 and 2005 were as follows:

	2006	2005
Land	\$ 100,000	\$ 100,000
Bank building and improvements	5,757,412	4,783,578
Equipment	3,202,542	2,994,766
Construction in progress	157,784	11,046
	9,217,738	7,889,390
Allowances for depreciation and amortization	(2,952,343)	(2,806,478)
	\$ 6,265,395	\$ 5,082,912

Depreciation included in the statements of income amounted to \$450,157 in 2006 and \$466,336 in 2005, of which \$317,780 and \$337,024, respectively, represented equipment depreciation.

The bank leases its Bristol and Route 7 South branches, under operating leases, which expire in 2024 and 2025, respectively. The Route 7 South lease includes two renewal options of ten years each. Rental expense on these properties was \$73,044 and \$72,103 for 2006 and 2005, respectively. Minimum annual rentals, excluding common area charges, are as follows:

Years Ended December 31,

2007	\$ 66,839
2008	67,354
2009	67,881
2010	75,921
2011	76,476
Thereafter	1,154,956
	<u>\$1,509,427</u>

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 \$1,547,824 and \$1,635,468 at December 31, 2006 and 2005 respectively. The provision for net undistributed losses of the partnerships charged to earnings was \$87,644 and \$67,174 for 2006 and 2005 respectively.

Note 8. Deposits

The maturity distribution of time deposits at December 31, 2006 is as follows:

One year or less	\$32,654,176
After one year through year three	5,355,408
Thereafter	36,588
	<u>\$38,046,172</u>

U.S. Treasury and agency securities with a cost of \$14,863,558 and \$14,464,054 and a market value of \$14,835,582 and \$14,172,025 were pledged to collateralize certain municipal deposits at December 31, 2006 and 2005, respectively.

Note 9. Repurchase Agreements

Repurchase Agreements at December 31, 2006 and 2005 are as follows:

	2006		2005	
	Amount	Weighted average rate	Amount	Weighted average rate
Securities sold under agreements to repurchase				
Daily rollover	\$10,392,998	*3.74%	\$7,318,846	*1.56%

* 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 \$11,321,676 and \$8,197,256 and market values of \$11,051,826 and \$7,937,642 at December 31, 2006 and 2005, respectively.

The maximum amount of repurchase agreements outstanding at any month-end during 2006 and 2005 was \$10,392,998 and \$10,661,008, respectively. The daily average amount of repurchase agreements outstanding during 2006 and 2005 was \$8,321,575 and \$8,598,527, respectively.

Note 10. FHLBB 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, 2006 and 2005. Interest on these borrowings is chargeable at a rate determined daily by the Federal Home Loan Bank of Boston and payable monthly.

Collateral on borrowings consists of Federal Home Loan Bank of Boston stock purchased by the Company, all funds placed on deposit with the FHLBB, qualified first mortgages held by the Company of \$85,137,395, and any additional holdings that may be pledged as security.

Note 11. Borrowed Funds

Borrowed Funds at December 31, 2006 and 2005 is as follows:

	2006	2005
Mortgage payable, secured by real estate, prime +1/2 currently 8.75%, due 2011	\$ 108,245	\$ 126,165
Community development advance, 3.82% fixed rate, interest payable monthly, principal due at 12/11/06 maturity date.	-0-	1,000,000
Short-term borrowings, 5.42% fixed rate, interest payable monthly, principal due at 1/31/07 maturity date.	1,000,000	-0-
Community development advances, 3.91% to 5.42% fixed rates, interest payable monthly, principal due in 2007.	5,000,000	4,000,000
Community development advances, 4.13% to 4.89% fixed rates, interest payable monthly, principal due in 2008	3,000,000	2,000,000
Community development advance, 4.31% fixed rate, interest payable monthly, principal due at 3/10/09 maturity date.	1,000,000	1,000,000
Capped floating advance, one month Libor plus .55% Currently 5.05%, variable rate, principal due at 3/14/08 maturity date.	2,000,000	2,000,000
	\$12,108,245	\$10,126,165

Maturity distribution of long-term debt is as follows:

2007	\$ 5,019,225
2008	6,020,955
2009	1,022,886
2010	24,970
2011	20,209
	<u>\$12,108,245</u>

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, 2006 and 2005 were as follows:

	2006	2005
Currently payable	\$545,853	\$554,064
Deferred	(75,529)	(53,514)
Total income tax expense	\$470,324	\$500,550

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:

	2006		2005	
	Amount	Percent	Amount	Percent
Federal Statutory Rate of Pre-Tax Income	\$ 824,778	34%	\$ 799,295	34%
Tax exempt income	(201,806)	(8)	(182,860)	(8)
Tax credits	(119,045)	(5)	(86,402)	(4)
Cash surrender value	(62,990)	(3)	(57,816)	(2)
Other	29,387	1	28,333	1
Total	\$ 470,324	19%	\$ 500,550	21%

The deferred income tax provision at December 31, 2006 and 2005 consisted of the following items:

	2006	2005
Depreciation/basis adjustment	(\$ 8,504)	(\$14,067)
Bad debts	(11,950)	13,971
Deferred points	-0-	911
Non-accrual income	81	2,331
Deferred compensation	(76,598)	(80,320)
Deferred loan origination costs	6,126	13,891
Other	20,249	4,033
Start up costs	4,250	4,249
Mortgage servicing rights	(9,183)	1,487
	(\$75,529)	(\$53,514)

At December 31, 2006 and 2005, gross deferred tax assets and gross deferred tax liabilities were as follows:

	2006	2005
Gross deferred tax assets:		
Allowance for loan losses	\$475,215	\$463,265
Non-accrual interest	50	131
Deferred compensation	246,709	170,111
Start up costs	1,062	5,312
Unrealized loss on securities available for sale	216,201	271,031
	939,237	909,850
Valuation allowance	-0-	-0-
	939,237	909,850
Gross deferred tax liabilities:		
Depreciation/basis adjustment	225,363	233,867
Mortgage servicing rights	44,531	53,714
Deferred loan origination costs	96,738	90,612
Other	40,239	19,990
	406,871	398,183
Net deferred tax asset	\$532,366	\$511,667

Net deferred income taxes are included in the captions "Other assets" on the balance sheets at December 31, 2006 and 2005, respectively. The deferred tax asset valuation allowance did not change during 2006 and 2005.

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 \$78,041 and \$72,389, respectively, of employee contributions under this plan for the years ended December 31, 2006 and 2005, 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 \$152,590 and \$165,890 for the years ended December 31, 2006 and 2005, 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. During 2006, the Bank purchased a building lot in Hinesburg, Vermont with the intent to build a branch in 2008. The Bank is still in the process of acquiring permits for the construction.

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 of Boston (FHLBB) under the FHLBB 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 \$33,885,105 and \$32,748,380 in loans outstanding with MPF at December 31, 2006 and 2005, 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	
	2006	2005
Financial instruments whose contract amount represents credit risk:		
Commitments to extend credit and available lines of credit	\$30,848,279	\$26,059,089
Standby letters of credit and commercial letters of credit	\$ 388,340	\$ 186,000
MPF credit enhancement obligation	\$ 772,684	\$ 793,539

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, 2006 and 2005, loans to the parties mentioned above are as follows:

	2006	2005
Balance, beginning	\$1,485,382	\$1,761,735
Additions	923,407	456,064
Repayments	(194,680)	(732,417)
Balance, ending	\$2,214,109	\$1,485,382

Total deposits to related parties approximated \$1,052,397 and \$750,472 on December 31, 2006 and 2005, respectively. Amounts due officers and directors under non-qualified deferred compensation agreements amounts to \$725,615 and \$500,327 at December 31, 2006 and 2005, respectively.

Note 17. Fair Value of Financial Instruments

The estimated fair values of the Bank's financial instruments at December 31, 2006 and 2005, are as follows:

	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalent	\$ 6,768,157	\$6,768,157	\$ 6,823,142	\$ 6,823,142
Investment securities	46,172,756	46,175,560	49,930,888	49,947,082
Other short-term investments	1,236,524	1,236,524	1,590,958	1,590,958
Mortgage loans held-for-sale	130,000	131,878	-0-	-0-
Loans, net of allowance	147,360,491	145,193,671	139,237,155	138,117,299
Accrued interest receivable	1,100,301	1,100,301	1,048,368	1,048,368
Financial liabilities:				
Deposits	\$172,188,579	\$172,721,150	\$172,969,462	\$173,335,715
Repurchase agreements	10,392,998	10,392,998	7,318,846	7,318,846
Borrowed Funds	12,108,245	12,037,652	10,126,165	9,948,650
Accrued interest payable	120,392	120,392	106,207	106,207

The estimated fair values of deferred fees on commitments to extend credit and letters of credit were immaterial at December 31, 2006 and 2005.

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 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, 2006, that the Corporation and the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2006, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework 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, 2006:						
Total capital (to risk weighted assets)						
Consolidated	\$ 22,048	14.9%	\$ 11,834	8.0%	N/A	N/A
Bank	\$ 20,236	13.9%	\$ 11,693	8.0%	\$14,612	10.0%
Tier 1 capital (to risk weighted assets)						
Consolidated	\$ 20,426	13.8%	\$ 5,917	4.0%	N/A	N/A
Bank	\$ 18,614	12.7%	\$ 5,846	4.0%	\$8,770	6.0%
Tier 1 capital (to average assets)						
Consolidated	\$ 20,426	9.3%	\$ 8,827	4.0%	N/A	N/A
Bank	\$ 18,614	8.5%	\$ 8,757	4.0%	\$ 10,946	5.0%
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%

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 \$323,000 and \$303,000 at December 31, 2006 and 2005, respectively. In addition, the Company was required to maintain contracted clearing balances of \$500,000 at December 31, 2006 and 2005.

