400,000 Shares

Community National Bank of the Lakeway Area

COMMON STOCK

Community National Bank of the Lakeway Area, a national bank with offices in Morristown and Jefferson City, Tennessee, is offering 400,000 shares or our common stock to our shareholders in a rights offering. The rights offering shares will be offered to our shareholders of record on the close of business on June 23, 2006. The rights offering price is $12.50 per share. Each shareholder has the right to purchase one rights offering share for each 2.53 shares of common stock beneficially owned on June 23, 2006. To the extent that rights offering shares are available, shareholders will be permitted to oversubscribe. **The rights offering will expire at 5:00 P.M. Eastern Time on July 27, 2006.**

Our common stock is not currently listed or traded on any national securities exchange, and there is currently no established public market for our common stock. We have applied to have our common stock qualified for listing on the Nasdaq Capital market under the symbol "CNLA" and we intend to have such listing effective immediately after the closing of the offerings. However, we cannot assure you that the listing will be approved or that an active trading market for our common stock will develop or be sustained after the offerings.

Any unsubscribed rights offering shares, plus an additional 400,000 shares of common stock, will be offered in a public offering on a best efforts basis by our underwriter, McKinnon & Company, Inc., as selling agent for us, at a price currently anticipated to be between $12.50 and $13.50 per public offering share. If the public offering prices exceeds $12.50 per share, persons who are subscribing for the rights offering shares will not pay more than $12.50 per rights offering share. If the public offering price is less than $12.50 per share, subscribers in the rights offering will receive a rebate without interest immediately following the closing of the offerings for the difference between $12.50 and the public offering price. Because the public offering is a best efforts offering, McKinnon & Company is not required to sell any specific number or dollar amount of shares, but will use its best efforts to sell the shares offered. We reserve the right to increase the total number of shares offered in the public offering by not more than 120,000 shares. Neither the rights offering nor the public offering is contingent upon the occurrence of any event or the sale of a minimum or maximum number of shares.

Neither the Securities and Exchange Commission, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, nor any state securities regulator has approved or disapproved of the common stock or determined if this Offering Circular is truthful or complete. It is illegal to tell you otherwise.

Our shares of common stock represent equity interests in our bank. They are not bank deposits or savings accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency or other person. They will be subject to investment risk, including the possible loss of your principal.

Investing in our common stock involves risks. You should read the "Risk Factors" section beginning on page 6 before buying shares of our common stock.

	Rights Offering Price (1)	Proceeds to the Bank (2) (3)
Per Share	$ 12.50	$ 12.375
Total (4)	$5,000,000	$4,950,000

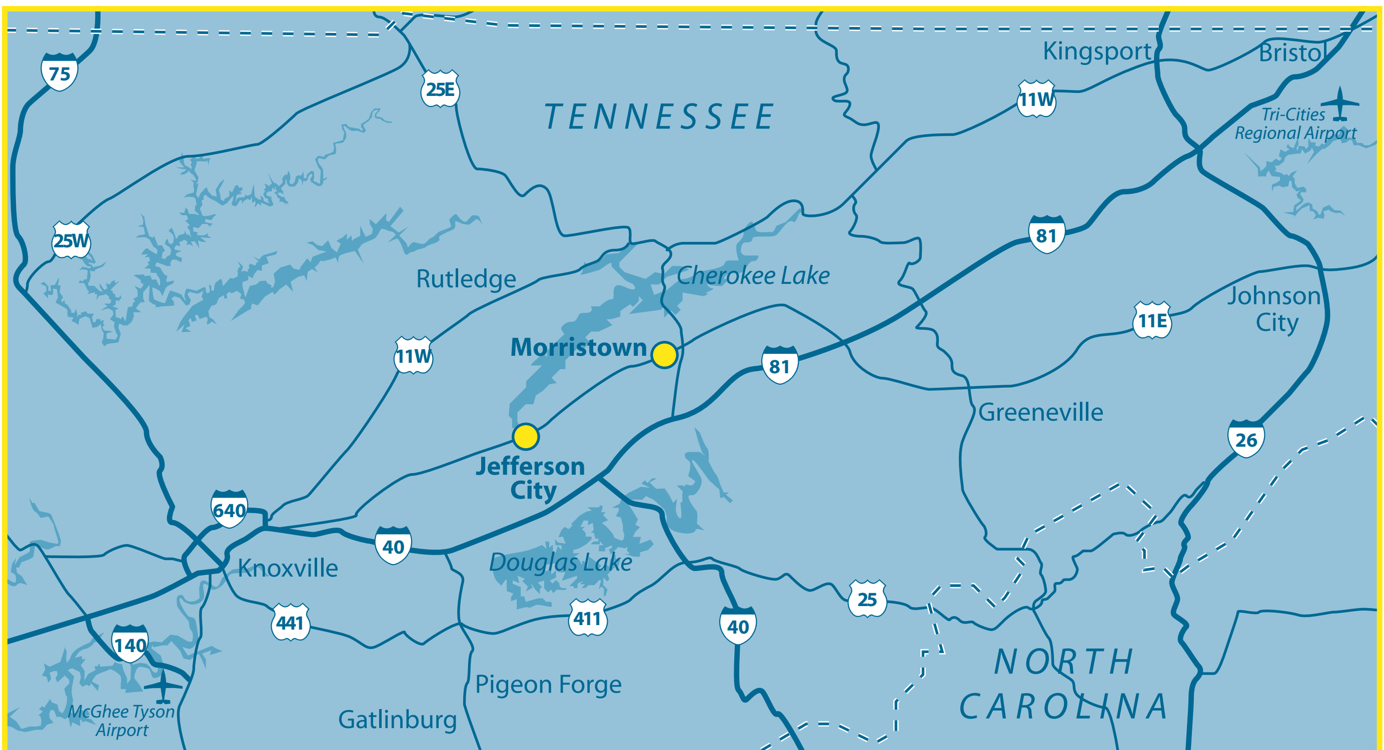
(1) We have agreed to indemnify McKinnon & Company, Inc., our underwriter, against certain civil liabilities. The terms of our arrangement with McKinnon & Company, Inc. are described under the caption "Underwriting" on page 55.
(2) Before deducting expenses of the offerings payable by us estimated at approximately $100,000.
(3) Assumes the payment of a financial advisory fee of 1% of the aggregate sales price of all 400,000 rights offering shares.
(4) Assumes the sale of all 400,000 shares being offered in the rights offering.

The rights offering will close on or about July 27, 2006. Funds received by us will be deposited in a noninterest bearing escrow account. It is anticipated that delivery of the rights offering shares and the public offering shares will be made on or about August 7, 2006.

McKinnon & Company, Inc.

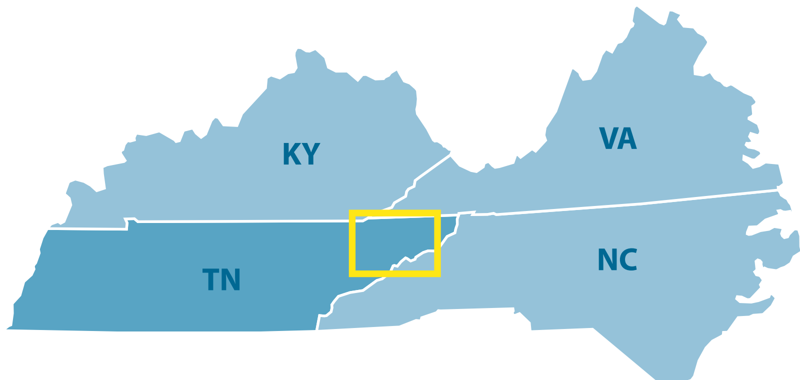
The date of this Offering Circular is June 30, 2006

COMMUNITY National Bank



Main Office
225 West First North Street
Morristown, TN 37814

Jefferson City Branch
156 East Broadway
Jefferson City, TN 37760



OFFERING CIRCULAR SUMMARY

This summary highlights information contained in this Offering Circular. Because this is a summary, it may not contain all of the information that is important to you. Therefore, you should also read the more detailed information set forth in this Offering Circular and our financial statements that are included in this Offering Circular. In particular, you should read the information under the caption "Risk Factors" beginning on page 6. In this Offering Circular, the terms "you," "your" and similar terms refer to the prospective investor reading it. The terms "we," "us," "our" and similar terms refer to Community National Bank of the Lakeway Area.

Except as otherwise indicated, all information in this Offering Circular assumes that we do not exercise our right to increase the total number of shares being offered in the public offering.

COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

Who We Are

Community National Bank of the Lakeway Area is a national bank headquartered in Morristown, Tennessee, that opened for business on April 9, 2003, with a branch in Jefferson City, fifteen miles south of Morristown. We are one of the four independent banks headquartered in the Morristown Metropolitan Statistical Area. Our primary market area represents a geographic area that covers approximately 492 square miles and a population in excess of 130,000.

At March 31, 2006, we had total assets of $97.4 million, net loans of $57.3 million, deposits of $80.4 million, and shareholders' equity of $5.5 million. Net loss for the first three months of 2006, was $40 thousand, or $0.04 per diluted share compared with a loss of $112 thousand, or $0.11 per diluted share for the first three months of 2005. As of March 31, 2006, we had a federal income tax net loss carryforward totaling approximately $3.5 million.

Though we are a relatively new bank, the combined commercial banking experience of our four executive officers and some of our directors exceeds 100 years. Our Chairman and Chief Executive Officer, Samuel F. Grigsby, Jr. was formerly a director and Chief Executive Officer of Union Planters Bank of the Lakeway Area in Morristown, Tennessee, and a director and Chief Financial Officer of Bank of East Tennessee, headquartered in Knoxville, Tennessee. Both of these banks had branches in both the Hamblen and Jefferson County markets where our bank is located. Our President, Charles A. Hughes, was Executive Vice President and Chief Lending Officer of Union Planters Bank of the Lakeway Area, Chief Lending Officer of Bank of East Tennessee, and a director and Chief Executive Officer of First National Bank in Jefferson City. Our Chief Financial Officer, Darwin K. Kilday, was a Senior Commercial Lender at Union Planters Bank of the Lakeway Area, and Vice President and Chief Financial Officer of Franklin Federal Bank in Morristown. M. Edward Stiner, Jr., Regional President of our Jefferson County operations, was formerly Area Executive for BB&T Financial Corporation of Jefferson County. Director J. Armistead Smith is Chairman of the Board of Directors of American Trust Bank of East Tennessee, headquartered in Knoxville, Tennessee. He is also the former Vice Chairman of Union Planters Corporation of Memphis, Tennessee and was the Regional President of Union Planters Banks in Tennessee, Alabama, and Kentucky. Jerry C. Cranford and Mary Maude Briggs are experienced bank directors having served on the board of Union Planters Bank of the Lakeway Area.

Our primary purpose is to serve the banking needs of individuals and businesses in Grainger, Hamblen and Jefferson Counties. We emphasize personalized service, access to decision makers and a quick response on lending decisions. We have been, and intend to remain, a community-focused financial institution offering a full range of financial services to small- to medium-sized businesses, professionals and individual consumers in our community. We offer a wide range of banking services including checking and savings accounts; commercial, installment, mortgage and personal loans; safe deposit boxes; and other associated services.

Since we opened in April of 2003, we have accomplished the following:

- Approached our break-even point in the first quarter of 2006, which included our first profitable month;
- Expanded our products and services to serve the needs of businesses and individuals in Grainger, Hamblen and Jefferson Counties, including insurance products, and executed the operating plan by emphasizing personal service, access to decision makers and a quick response time on loans; and
- Created and maintained a strong credit culture. As of March 31, 2006, our non-performing assets totaled $8,000 or 0.01% of total assets, and our allowance for loan losses was $583,000 or 1.01% of total loans and 7,288% of non-performing loans.

Community National Bank of the Lakeway Area is a member of the Federal Reserve Bank of Atlanta and the Federal Home Loan Bank of Cincinnati and our deposits are insured up to applicable limits by the Bank Insurance Fund of the Federal Deposit Insurance Corporation. The address of our headquarters is 225 West First North Street, Morristown, Tennessee 37814, and our telephone number is (423) 587-2345. Our website is located at http://www.cnbla.com. Information on the website is not incorporated by reference and is not a part of this Offering Circular.

Market Area

We consider our primary market area to be the Morristown Metropolitan Statistical Area (MSA) which consists of Grainger, Hamblen and Jefferson counties. Our extended market area includes Knoxville and the counties of Knox, Sevier, Cocke and Greene. The Morristown Metropolitan Statistical Area is the newest freestanding MSA in Tennessee and has a population base of over 130,000. Morristown is just 35 miles from Knoxville and is within a 50 minute drive to two major regional airports, Knoxville's McGee Tyson Airport and Tri-Cities Regional Airport. Manufacturing, transportation and tourism are all key drivers of growth.

Morristown is located at a strategic transportation junction where several major interstates intersect in a relatively small area. I-40, I-81 and I-75 are all critical transportation lanes connecting the United States north-south (I-81, I-75) and east-west (I-40). More than 70% of the nation's population can be reached within a days drive.

In 2006, Forbes Magazine ranked Morristown in the top 100 "Best Small Places for Business and Careers." In Forbes' survey for larger cities "Best Places for Business and Careers," Knoxville ranked 5th in the nation. Ten Fortune 500 companies have operations in Morristown as well as numerous international companies. Colgate-Palmolive is scheduled to build a 150,000-square-foot, $50 million plant in the Morristown Airport Industrial District this year.

The region is known for its natural beauty. Its diverse recreational activities attract millions of visitors each year; sportsmen refer to the region as the "Lakeway Area" because of the proximity of two of Tennessee's largest lakes – Cherokee Lake and Douglas Lake. The resort and vacation areas of Pigeon Forge, Gatlinburg and the Great Smoky Mountains National Park are all within an hour's drive.

The Offerings

Securities Offered	A total of 800,000 shares of common stock, of which 400,000 shares are being offered in a rights offering to our shareholders of record as of June 23, 2006 on the basis of one share for each 2.53 shares beneficially owned on that date. The shares not subscribed for in the rights offering by July 27, 2006, together with 400,000 additional shares, will be offered to the public by McKinnon & Company, Inc., as underwriter, on a best efforts basis. We reserve the right to increase the total number of shares being offered in the public offering by not more than 120,000 shares.
Determination of Offering Price	We expect that the public offering price will be between $12.50 and $13.50 per share. It will be determined through negotiations between us and McKinnon & Company, Inc., the underwriter for the public offering. It will be based upon various factors including the per share book value of our common stock as of March 31, 2006, the trading history of our common stock, our operating history and our prospects for further earnings, our current performance and the prices of equity securities of comparable companies.
Shares Outstanding	As of March 31, 2006, we had 1,002,876 shares of common stock outstanding. Assuming the sale of all 800,000 shares, we would have 1,802,876 shares outstanding upon the completion of the offerings. This number excludes 300,583 shares issuable upon exercise of stock options outstanding as of March 31, 2006. Subsequent to March 31, 2006, 10,000 shares were issued pursuant to the exercise of options.
Use of proceeds..............................	We expect to use the net proceeds from the offerings to increase our equity and for general corporate purposes, including future growth and expansion.
Market for Our Common Stock	Our common stock is not currently listed or traded on any securities exchange, and there is currently no established public market for our shares. We have applied to have our common stock qualified for listing on the Nasdaq Capital market under the symbol “CNLA” immediately after the closing of the offerings. However, we cannot assure you that our common stock will be approved for listing or that an active trading market for our common stock will develop or be sustained after the offerings. McKinnon & Company, Inc. has informed us that it intends to make a market in our common stock following completion of the offerings, but is has no obligation to do so for any particular length of time or at all. It may discontinue any market making at any time without notice.
Risk Factors...................................	In addition to general investment risks, purchasing our common stock in the offerings will involve other specific investment considerations related to us and our business. We urge you to review carefully and consider the information contained in the “Risk Factors” section of this Offering Circular beginning on page 6 before purchasing any shares.

SUMMARY FINANCIAL DATA

You should read the summary financial and other data presented below in conjunction with our audited financial statements and related notes that begin on page F-1 of this Offering Circular and the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18. The summary financial and other information presented below at and for the years ended December 31, 2005 and 2004 is qualified in its entirety by our audited financial statements and related notes included in this Offering Circular. The selected financial and other information presented below at December 31, 2003 and for the period from April 9, 2003 to December 31, 2003, is derived from audited financial statements, related notes, and related supplementary information not included in this Offering Circular. The summary financial and other data presented below at and for periods ended March 31, 2006 and 2005 are derived from unaudited information. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

	(Unaudited)		(Audited)		
	At or for the Three Months Ended March 31,		At or for the Years Ended December 31,		At or for the Period from April 9 to December 31,
	2006	2005	2005	2004	2003
	(Dollars in thousands, except per share data)				
Summary of Operations:					
Interest income	$ 1,366	$ 743	$ 3,900	$ 2,156	$ 525
Interest expense	750	301	1,851	721	157
Net interest income	616	442	2,049	1,435	368
Provision for loan losses	41	0	131	151	295
Net interest income after provision for loan losses	575	442	1,918	1,284	73
Non-interest income	83	69	319	230	123
Non-interest expense	698	623	2,649	2,418	1,731
Income before income taxes	(40)	(112)	(412)	(904)	(1,535)
Provision for income taxes	-	-	-	-	-
Net income (loss)	$ (40)	$ (112)	$ (412)	$ (904)	$ (1,535)
Per Share Data and Shares Outstanding Data: (1)					
Basic net income (loss) per share	$ (0.04)	$ (0.11)	$ (0.42)	$ (0.92)	$ (1.69)
Diluted net income (loss) per share	(0.04)	(0.11)	(0.42)	(0.92)	(1.69)
Book value at period end	$ 5.52	$ 6.07	$ 5.64	$ 6.40	$ 7.35
Weighted average number of common shares outstanding:					
Basic	1,002,876	989,626	990,694	987,876	907,857
Diluted	1,002,876	989,626	990,694	987,876	907,857
Shares outstanding at period end	1,002,876	990,376	1,002,876	987,876	987,876
Balance Sheet Data:					
Total assets	$ 97,444	$ 69,026	$ 92,714	$ 61,433	$ 32,322
Total loans	57,864	40,730	53,569	38,988	19,650
Allowance for loan losses	583	429	547	434	295
Other interest-earning assets	36,279	24,403	34,545	19,262	9,466
Deposits	80,367	62,498	75,877	54,596	24,673
Borrowings (7)	10,000	0	10,000	0	0
Shareholders' equity	5,538	6,001	5,659	6,320	7,258
Selected Performance Ratios:					
Return (loss) on average assets (2)	(0.16)%	(0.70)%	(0.54)%	(1.83)%	(9.50)%
Return (loss) on average equity (2)	(0.68)	(1.77)	(6.91)	(13.45)	(28.56)
Net interest margin (2) (3)	2.65	2.96	2.81	3.14	3.87
Net interest spread (2) (4)	2.29	2.59	2.42	2.79	3.87
Noninterest income to average assets (2)	0.34	0.43	0.42	0.47	0.76
Noninterest expense to average assets (2)	2.84	3.88	3.46	4.90	10.71
Efficiency ratio (5)	99.86	121.92	111.87	145.23	352.55

	(Unaudited)		(Audited)		
	At or for the Three Months Ended March 31,		At or for the Years Ended December 31,		At or for the Period from April 9 to December 31,
	2006	2005	2005	2004	2003
	(Dollars in thousands, except per share data)				
Asset Quality Ratios:					
Nonperforming loans to period-end loans	0.01%	0.01%	0.04%	0.00%	0.00%
Allowance for loan losses to period-end loans	1.01	1.05	1.02	1.11	1.50
Allowance for loan losses to nonperforming loans	7287.50	14300.00	2486.40	N/A	N/A
Nonperforming assets to total assets (6)	0.01	0.00	0.02	0.00	0.00
Net loan charge-offs to average loans outstanding (2)	0.01	0.01	0.04	0.04	0.00
Capital Ratios:					
Total risk-based capital ratio	11.26%	16.13%	13.90%	17.30%	34.00%
Tier 1 risk-based capital ratio	10.28	15.11	12.80	16.30	32.70
Leverage ratio	6.25	9.39	7.00	11.20	24.60%
Equity to assets ratio	5.68	8.69	6.10	10.29	22.46
Other Data:					
Number of banking offices	2	2	2	2	2
Number of full time equivalent employees	28	27	27	27	27

(1) Computed based on the weighted average number of shares outstanding during each period.
(2) Three month data presented on annualized basis.
(3) Net interest margin is net interest income divided by average interest earning assets.
(4) Net interest spread is the difference between the average yield on interest earning assets and the average cost of interest bearing liabilities.
(5) Efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income.
(6) Nonperforming assets consists of nonaccrual loans, restructured loans and foreclosed real estate, where applicable.
(7) Borrowings consist of advances from the Federal Home Loan Bank.

RISK FACTORS

An investment in our common stock involves risks. If any of the following risks or other risks, which have not been identified or which we may believe are immaterial or unlikely, actually occur, our business, financial condition and results of operations could be harmed. In such a case, the trading price of our common stock could decline, and you may lose all or part of your investment. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

Our profitability is vulnerable to interest rate fluctuations.

Our profitability depends substantially upon our net interest income. Net interest income is the difference between the interest earned on assets, such as loans and investment securities, and the interest paid for liabilities, such as savings and time deposits and out-of-market certificates of deposit. Market interest rates for loans, investments and deposits are highly sensitive to many factors beyond our control. Recently, interest rate spreads have generally narrowed due to changing market conditions, policies of various government and regulatory authorities and competitive pricing pressures, and we cannot predict whether these rate spreads will narrow even further. This narrowing of interest rate spreads could adversely affect our financial condition and results of operations. In addition, we cannot predict whether interest rates will continue to remain at present levels. Changes in interest rates may cause significant changes, up or down, in our net interest income. Depending on our portfolio of loans and investments, our results of operations may be adversely affected by changes in interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Sensitivity" on page 23.

If we fail to retain our key employees, our growth and profitability could be adversely affected.

Our success is, and is expected to remain, highly dependent on our executive management team, consisting of Samuel F. Grigsby, Jr., our Chairman and Chief Executive Officer, Charles A. Hughes, our President, Darwin K. Kilday, our Executive Vice President and Chief Financial Officer, and M. Edward Stiner, Jr., our Jefferson County Regional President. This is particularly true because, as a community bank, we depend on our management team's ties to the community to generate business for us. Our growth will continue to place significant demands on our management, and the loss of any such person's services may have an adverse effect upon our growth and profitability.

Our plans for future expansion depend, in some instances, on factors beyond our control, and an unsuccessful attempt to achieve growth could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We expect to continue to engage in new branch expansion in the future. We may also seek to acquire other financial institutions, or parts of those institutions, though we have no present plans in that regard. Expansion involves a number of risks, including:

- the time and costs of evaluating new markets, hiring experienced local management and opening new offices;
- the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- we may not be able to finance an acquisition without diluting the interests of our existing shareholders;
- the diversion of our management's attention to the negotiation of a transaction may detract from their business productivity;
- we may enter into new markets where we lack experience; and
- we may introduce new products and services with which we have no prior experience into our business.

Our business strategy includes the continuation of growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to continue pursuing a growth strategy for our business. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in growth stages of development.

We cannot assure you we will be able to expand our market presence in our existing markets or successfully enter new markets or that any such expansion will not adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, financial condition, results of operations, or future prospects, and could adversely affect our ability to successfully implement our business strategy. Also, if our growth occurs more slowly than anticipated or declines, our results of operations could be materially adversely affected.

Our ability to grow successfully will depend on a variety of factors including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and our ability to manage our growth. While we believe we have the management resources and internal systems in place to manage our future growth, there can be no assurance that growth opportunities will be available or growth will be managed successfully.

Opening new offices may not result in increased assets or revenues for us.

The investment necessary for branch expansion may negatively impact our efficiency ratio. There is a risk that we will be unable to manage our growth, as the process of opening new branches may divert our time and resources. There is also risk that we may fail to open any additional branches, and a risk that, if we do open these branches, they may not be profitable which would negatively impact our results of operations.

Additional growth may require us to raise additional capital in the future, but that capital may not be available when it is needed, which could adversely affect our financial condition and results of operations.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our capital resources following this offering will satisfy our capital requirements for the foreseeable future. We may at some point, however, need to raise additional capital to support our continued growth.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired.

Competition from other financial institutions may adversely affect our profitability.

The banking business is highly competitive, and we experience strong competition from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other financial institutions, which operate in our primary market areas and elsewhere. Presently 15 financial institutions serve Grainger, Hamblen and Jefferson Counties with a total of 39 branches.

We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established and much larger financial institutions. While we believe we can and do successfully compete with these other financial institutions in our markets, we may face a competitive disadvantage as a result of our smaller size and lack of geographic diversification.

Although we compete by concentrating our marketing efforts in our primary market area with local advertisements, personal contacts and greater flexibility in working with local customers, we can give no assurance that this strategy will be successful.

We could suffer loan losses from a decline in credit quality.

We could sustain losses if borrowers, guarantors and related parties fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and policies, including the establishment and review of the allowance for credit losses that we believe are appropriate to minimize this risk by

assessing the likelihood of nonperformance, tracking loan performance and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially adversely affect our results of operations.

An economic downturn, especially one affecting our market areas, could adversely affect our financial condition, results of operations or cash flows.

Our success depends upon the growth in population, income levels, deposits and housing starts in our primary market areas. If the communities in which we operate do not grow, or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. Unpredictable economic conditions may have an adverse effect on the quality of our loan portfolio and our financial performance. Economic recession over a prolonged period or other economic problems in our market areas could have a material adverse impact on the quality of the loan portfolio and the demand for our products and services. Future adverse changes in the economies in our market areas may have a material adverse effect on our financial condition, results of operations or cash flows. Further, the banking industry in Tennessee is affected by general economic conditions such as inflation, recession, unemployment and other factors beyond our control. As a community bank, we are less able to spread the risk of unfavorable local economic conditions than larger or more regional banks. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our primary market areas even if they do occur.

We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business, which limitations or restrictions could adversely affect our profitability.

As a national bank, we are primarily regulated by the Office of the Comptroller of the Currency (the "OCC"). Our compliance with OCC regulations is costly and may limit our growth and restrict certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capital requirements of our regulators.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks, our cost of compliance could adversely affect our ability to operate profitably.

The Sarbanes-Oxley Act of 2002, the related rules and regulations promulgated by the SEC that currently apply to us and the related exchange rules and regulations, have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices. As a result, we may experience greater compliance costs.

Changes in monetary policies may have an adverse effect on our business, financial condition and results of operations.

Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve Board. Actions by monetary and fiscal authorities, including the Federal Reserve Board, could have an adverse effect on our deposit levels, loan demand or business and earnings.

Our ability to pay dividends is limited and we may be unable to pay future dividends. As a result, capital appreciation, if any, of our common stock may be your sole opportunity for gains on your investment for the foreseeable future.

We make no assurances that we will pay any dividends in the future. Any future determination relating to dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, regulatory restrictions and other factors that our Board of Directors may deem relevant. The holders of our common stock are entitled to receive dividends when, and if declared by our Board of Directors out of funds legally available for that purpose. As part of our consideration to pay cash dividends, we intend to retain adequate funds from future earnings to support the development and growth of our business. In addition, our ability to pay dividends is restricted by federal policies

and regulations. Under federal law, approval of the OCC is required prior to paying dividends in any year that would exceed the total of our net profit for that year plus our retained net profits for the two preceding years.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the teamwork and increased productivity fostered by our culture, which could harm our business.

We believe that a critical contributor to our success has been our corporate culture, which we believe fosters teamwork and increased productivity. As our organization grows and we are required to implement more complex organization management structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future success.

If the value of real estate in our core market were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on our business, financial condition and results of operations.

With most of our loans concentrated in real estate loans, a decline in local economic conditions could adversely affect the values of our real estate collateral. Consequently, a decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse.

In addition to considering the financial strength and cash flow characteristics of borrowers, we often secure loans with real estate collateral. At March 31, 2006, approximately 75% of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

Lack of seasoning of our loan portfolio may increase the risk of credit defaults in the future.

Due to our rapid growth over the past several years and our short operating history, a large portion of the loans in our loan portfolio and our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer loan portfolio. Because our loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition.

Our directors and executive officers own a significant portion of our common stock and can influence stockholder decisions.

Our directors and executive officers, as a group, beneficially owned approximately 34.2% of our fully diluted outstanding common stock as of March 31, 2006. As a result of their ownership, the directors and executive officers will have the ability, if they voted their shares in concert, to influence the outcome of all matters submitted to our shareholders for approval, including the election of directors. We cannot assure you that the interests of our directors and executive officers will always align precisely with your interests as a holder of our common stock.

Our recent results may not be indicative of our future results, and may not provide guidance to assess the risk of an investment in our common stock.

We may not be able to sustain our historical rate of growth or may not even be able to grow our business at all. In addition, our recent and rapid growth may distort some of our historical financial ratios and statistics. In the future, we may not have the benefit of several recently favorable factors, such as a generally increasing interest rate environment, a strong residential mortgage market or the ability to find suitable expansion opportunities. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we experience a significant decrease in our historical rate of

growth, our results of operations and financial condition may be adversely affected due to a high percentage of our operating costs being fixed expenses.

As a community bank, we have different lending risks than larger banks.

We provide services to our local communities. Our ability to diversify our economic risks is limited by our own local markets and economies. We lend primarily to small to medium-sized businesses, and, to a lesser extent, individuals which may expose us to greater lending risks than those of banks lending to larger, better-capitalized businesses with longer operating histories.

We manage our credit exposure through careful monitoring of loan applicants and loan concentrations in particular industries, and through loan approval and review procedures. We have established an evaluation process designed to determine the adequacy of our allowance for loan losses. While this evaluation process uses historical and other objective information, the classification of loans and the establishment of loan losses is an estimate based on experience, judgment and expectations regarding our borrowers, the economies in which we and our borrowers operate, as well as the judgment of our regulators. We cannot assure you that our loan loss reserves will be sufficient to absorb future loan losses or prevent a material adverse effect on our business, financial condition, or results of operations.

Environmental liability associated with lending activities could result in losses.

In the course of our business, we may foreclose on and take title to properties securing our loans. If hazardous substances are discovered on any of these properties, we may be liable to governmental entities or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether we knew of, or were responsible for, the contamination. In addition, if we arrange for the disposal of hazardous or toxic substances at another site, we may be liable for the costs of cleaning up and removing those substances from the site, even if we neither own nor operate the disposal site. Environmental laws may require us to incur substantial expenses and may materially limit the use of properties that we acquire through foreclosure, reduce their value or limit our ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability.

There is very limited trading in our common stock, and this may limit resales.

There is currently no established public market for our common stock, and our common stock is not listed or traded on any national securities exchange. Although we plan to have our common stock qualified for quotation on the Nasdaq Capital market after the completion of offerings, we cannot assure you that our common stock will be approved for quotation or that an active and liquid trading market will develop in our common stock, or if one does develop, that it will continue after the offerings. Accordingly, we cannot assure you that you will be able to resell your shares of common stock for a price that is equal to or greater than the offering price. Before investing in this offering, you should consider the limited trading market for our common shares and be financially prepared and able to hold the shares for an indefinite period.

Management has discretionary use of the proceeds from this offering.

Management will have broad discretion with respect to the expenditures of the net proceeds from this offering, which might include expenditures for future growth and expansion. The discretion of management to allocate the proceeds of the offerings may also result in the use of proceeds for non-banking activities that are permitted for national banks. Accordingly, there is no assurance that you will agree with the uses that we choose to make of these funds.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in or incorporated by reference into this Offering Circular constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of invoking these safe harbor provisions. You can identify these statements from our use of the words "estimate," "project," "believe," "intend," "anticipate," "expect," "target," "may" and similar expressions. These forward-looking statements may include, among other things:

- statements relating to projected growth; anticipated improvements in earnings, earnings per share, and other financial performance measures; and management's long-term performance goals;
- statements relating to the anticipated effects on results of operations or financial condition from expected developments or events;
- statements relating to our business and growth strategies, including potential acquisitions and branch openings; and
- any other statements which are not historical facts.

Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from our expectations of future results, performance or achievements expressed or implied by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. We discuss these and other uncertainties in the "Risk Factors" section of this Offering Circular on page 6.

You should not place undue reliance on any forward-looking statement. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Offering Circular or to reflect the occurrence of unanticipated events.

THE RIGHTS OFFERING

We are offering 400,000 shares of our common stock in the rights offering which expires at 5:00 P.M. Eastern Time on Thursday, July 27, 2006. The rights offering shares are being offered for sale to our shareholders of record of our common stock at the close of business on June 23, 2006, at the price of $12.50 per share. Shareholders of record on the record date may buy one share for each 2.53 shares owned by them on that date. Fractional shares will not be sold, but shareholders may round any such fraction up to a full share. Shareholders also may subscribe for less than the maximum number of rights offering shares allocated to them.

Shareholders may oversubscribe for rights offering shares. If oversubscriptions exceed the available rights offering shares, the available rights offering shares will be allocated among the oversubscribers. This allocation will be based upon the ratio that the number of shares of common stock owned by the oversubscriber on the record date bears to the number of shares of common stock owned by all of the oversubscribers on the record date.

If the public offering price exceeds $12.50 per share, persons who are subscribing for rights offering shares will not pay more than $12.50 per rights offering share. If the public offering price is less than $12.50 per share, subscribers in the rights offering will receive a rebate without interest immediately following the closing of the offerings for the difference between $12.50 and the public offering price.

The rights offering to shareholders will terminate at 5:00 P.M. Eastern Time on July 27, 2006. Neither the rights offering nor the public offering is contingent upon the occurrence of any event, including consummation of the public offering, or the sale of a minimum or maximum number of shares. Funds received by us from shareholders in the rights offering will be deposited with and held by us in a non-interest bearing escrow account until simultaneous closing of both the rights offering and the public offering. We do not intend to return the funds of purchasers if fewer than all of the shares are sold.

The rights offering price was determined by us after consultation with McKinnon & Company and is based on a variety of factors including:

- the per share book value of our common stock as of March 31, 2006;

- the trading history of our common stock;
- our operating history and our prospects for future earnings;
- our current performance;
- the prospects of the banking industry in which we compete;
- the general condition of the securities market at the time of the offering; and
- the prices of equity securities of other community banks.

All rights offering shares unsubscribed for at 5:00 P.M. Eastern Time on July 27, 2006, plus an additional 400,000 shares, will be offered for sale to the public in the public offering on a best efforts basis by the underwriter, as our selling agent. We also reserve the right to increase the total number of shares being offered in the public offering by not more than 120,000 shares. There can be no assurance that any of the shares will be sold in the rights offering or the public offering. See "Plan of Distribution."

To subscribe for rights offering shares, shareholders should execute the Subscription Agreement accompanying this Offering Circular and deliver it, together with a check payable to the order of "Community National Bank of the Lakeway Area" for the full purchase price, to:

Darwin K. Kilday
Chief Financial Officer and Corporate Secretary of the Bank
Community National Bank of the Lakeway Area
225 West First North Street
Morristown, Tennessee 37814

Subscription agreements and full payment for rights offering shares subscribed for by shareholders must be received by us prior to 5:00 P.M. Eastern Time on July 27, 2006, or subscribing shareholders will forfeit their right to purchase shares of our common stock in this rights offering.

USE OF PROCEEDS

The following table sets forth the calculation of our net proceeds from the offerings at a price of $12.50 per share in the rights offering and an assumed price of $13.00 per share in the public offering and the anticipated use of these proceeds. Because we have not conditioned either offering on the sale of a minimum number of shares and because the public offering is a best efforts offering and there is no minimum number of shares to be sold, we are presenting this information assuming that we sell 10%, 50% and 100% of the 800,000 shares of common stock that we are offering.

	10%	50%	100%
Shares of Common Stock sold:			
Rights offering	40,000	200,000	400,000
Public offering	40,000	200,000	400,000
Gross offering proceeds from rights offering	$ 500,000	$ 2,500,000	$ 5,000,000
Gross offering proceeds from public offering	520,000	2,600,000	5,200,000
Aggregate gross offering proceeds	1,020,000	5,100,000	10,200,000
Underwriter's commission/fee (1)	36,200	181,000	362,000
Estimated expenses of the offering	100,000	100,000	100,000
Net proceeds to us	$ 883,800	$ 4,819,000	$ 9,738,000

(1) Includes a financial advisory/standby fee of 1% of the gross rights offering proceeds above and a 6% sales commission on the gross public offering proceeds above payable to McKinnon & Company, Inc.

We will use the net proceeds from the offerings to increase our equity and for general corporate purposes, including future growth and expansion. We have not otherwise made a specific allocation for the use of the net proceeds.

CAPITALIZATION

The following table reflects our actual, unaudited capitalization on March 31, 2006. You should read this table with our audited financial statements and unaudited interim financial statements, including the related financial statement footnotes, that begin on page F-1 of this Offering Circular.

	At March 31, 2006 (Unaudited) (Dollar amounts in thousands except per share amounts)
Shareholders' equity:	
Preferred stock, no par value; 2,000,000 shares authorized; no shares issued or outstanding	$ --
Common stock, $1.00 par value; 2,400,000 shares authorized; 1,002,876 shares outstanding	1,003
Capital in excess of par value	8,873
Accumulated deficit	(3,740)
Accumulated other comprehensive loss	(598)
Total shareholders' equity	$ 5,538
Book value per share	$ 5.52
Capital Ratios (1):	
Total Capital Ratio	11.26%
Tier 1 Capital Ratio	10.28%
Leverage Capital Ratio	6.25%

(1) These ratios are described under the captions "Supervision and Regulation — Capital Adequacy" on page 48 and "— Prompt Corrective Action" on page 47.

DILUTION

On March 31, 2006, the book value per share of our common stock was approximately $5.52. Because that amount is less than the purchase price of our common stock in the offerings, the book value of each of our outstanding shares will be increased as a result of the offerings (depending on how many shares we sell), and purchasers of the new shares we will sell in the offering will incur dilution. The amount of that dilution for each share purchased in both the rights offering and the pubic offering will be the difference between the purchase price per share paid and the *pro forma* book value per share of our common stock immediately after completion of both offerings.

The following table shows the calculation of the amount of dilution that a purchaser of our shares in both offerings will incur for each share purchased at a price of $12.50 per share in the rights offering and an assumed price of $13.00 per share in the public offering, deducting estimated offering expenses, and giving effect to the application of the estimated net proceeds described in “Use of Proceeds” on page 12. Because this is a best efforts offering and there is no minimum number of shares that must be sold in order to complete the offering, the table presents this information based on our sale of 10%, 50% and 100% of the shares of common stock that we are offering in each of the rights offering and the public offering. The amount of dilution that purchasers incur will depend on the actual offering price per share, the number of shares we actually sell, and the amount of expenses we actually incur. See “Underwriting” on page 55.

	10%	50%	100%
Book value per share at March 31, 2006 (1)	$ 5.52	$ 5.52	$ 5.52
Increase in book value per share as a result of the rights offering	0.20	0.91	1.45
Increase in book value per share as a result of the public offering	0.21	0.95	1.50
Pro forma book value per share after both offerings	$ 5.93	$ 7.38	$ 8.47
Purchase price per share in the rights offering	$ 12.50	$ 12.50	$ 12.50
Dilution per share to purchasers in the rights offering	$ 6.57	$ 5.12	$ 4.03
Dilution as a percentage of purchase price in the rights offering	52.6%	40.9%	32.2%
Purchase price per share in the public offering	$ 13.00	$ 13.00	$ 13.00
Dilution per share to purchasers in the public offering	$ 7.07	$ 5.62	$ 4.53
Dilution as a percentage of purchase price in the public offering	54.4%	43.2%	34.8%

(1) Our book value per share reflects our shareholders’ equity divided by the number of outstanding shares of our common stock.

MARKET FOR OUR COMMON STOCK

There is currently no established public trading market for our common stock. Our common stock trades from time to time in privately negotiated transactions. These trades typically involve a small number of shares. To our knowledge, during the three-month period ended March 31, 2006, 10,600 shares of our common stock were sold privately at prices ranging from $12.25 to $12.50 per share. To our knowledge, during the fiscal year ended December 31, 2005, 31,050 shares of our common stock were sold in private transactions at prices ranging from $11.00 to $12.70. To our knowledge, during the fiscal year ended December 31, 2004, 7,584 shares of our common stock were sold in private transactions at prices ranging from $10.00 to $11.00. These transactions may not be representative of all transactions during the indicated periods or the actual fair market value of our common stock at the time of such transactions due to the infrequency of trades and the limited market for our common stock.

As of March 31, 2006, there were 1,002,876 shares of our common stock outstanding held by approximately 800 holders of record. This number excludes 300,583 shares issuable upon exercise of stock options outstanding as of March 31, 2006. Subsequent to March 31, 2006, 10,000 shares were issued pursuant to outstanding options.

We have applied to have our common stock qualified for listing on the Nasdaq Capital market after completion of the offerings under the symbol "CNLA," however, we cannot assure you that our common stock will be approved for listing, that an active and liquid trading market for our common stock will develop, or if one dues develop, that it will continue after the offerings.

See "Underwriting" for information concerning the factors considered in determining the public offering price. There can be no assurance that the public offering price will correspond to the price at which the common stock will trade in a public market subsequent to the offerings.

DIVIDEND POLICY

We have not paid any cash dividends on our common stock since we opened for business. We expect that, for the foreseeable future, our profits will be retained as additional capital to support our operations and growth and that we will not pay any cash dividends.

We are required by federal law to obtain prior approval of the OCC for payments of dividends if the total of all dividends declared by our board of directors in any year will exceed (1) the total of our net profits for that year, plus (2) our retained net profits for the preceding two years, less any required transfers to surplus.

Our payment of dividends may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. If, in the opinion of the OCC, we were engaged in or about to engage in an unsafe or unsound practice, the OCC could require, after notice and a hearing, that we stop or refrain engaging in the practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that banks should generally only pay dividends out of current operating earnings.

Subject to the statutory and regulatory restrictions described above, to the extent we accumulate retained earnings in the future, the declaration of cash dividends is at the discretion of the board of directors after consideration of our earnings, financial condition, business projections, general business conditions and other pertinent factors. We cannot assure you that cash dividends will be declared at any time. If and when cash dividends are declared, they will be largely dependent upon our earnings.

SELECTED FINANCIAL INFORMATION

You should read the selected financial and other data presented below in conjunction with our audited financial statements and related notes that begin on page F-1 of this Offering Circular and the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18. The selected financial and other information presented below at and for the years ended December 31, 2005 and 2004 is qualified in its entirety by our audited financial statements and related notes included in this Offering Circular. The selected financial and other information presented below at December 31, 2003 and for the period from April 9, 2003 to December 31, 2003, is derived from audited financial statements, related notes, and related supplementary information not included in this Offering Circular. The selected financial and other data presented below at and for periods ended March 31, 2006 and 2005 are derived from unaudited information. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

	(Unaudited)		(Audited)		
	At or for the Three Months Ended March 31,		At or for the Years Ended December 31,		At or for the Period from April 9 to December 31,
	2006	2005	2005	2004	2003
	(Dollars in thousands, except per share data)				
Summary of Operations:					
Interest income	$ 1,366	$ 743	$ 3,900	$ 2,156	$ 525
Interest expense	750	301	1,851	721	157
Net interest income	616	442	2,049	1,435	368
Provision for loan losses	41	0	131	151	295
Net interest income after provision for loan losses	575	442	1,918	1,284	73
Non-interest income	83	69	319	230	123
Non-interest expense	698	623	2,649	2,418	1,731
Income before income taxes	(40)	(112)	(412)	(904)	(1,535)
Provision for income taxes	-	-	-	-	-
Net income (loss)	$ (40)	$ (112)	$ (412)	$ (904)	$ (1,535)
Per Share Data and Shares Outstanding Data: (1)					
Basic net income (loss) per share	$ (0.04)	$ (0.11)	$ (0.42)	$ (0.92)	$ (1.69)
Diluted net income (loss) per share	(0.04)	(0.11)	(0.42)	(0.92)	(1.69)
Book value at period end	$ 5.52	$ 6.07	$ 5.64	$ 6.40	$ 7.35
Weighted average number of common shares outstanding:					
Basic	1,002,876	989,626	990,694	987,876	907,857
Diluted	1,002,876	989,626	990,694	987,876	907,857
Shares outstanding at period end	1,002,876	990,376	1,002,876	987,876	987,876
Balance Sheet Data:					
Total assets	$ 97,444	$ 69,026	$ 92,714	$ 61,433	$ 32,322
Total loans	57,864	40,730	53,569	38,988	19,650
Allowance for loan losses	583	429	547	434	295
Other interest-earning assets	36,279	24,403	34,545	19,262	9,466
Deposits	80,367	62,498	75,877	54,596	24,673
Borrowings (7)	10,000	0	10,000	0	0
Shareholders' equity	5,538	6,001	5,659	6,320	7,258
Selected Performance Ratios:					
Return (loss) on average assets (2)	(0.16)%	(0.70)%	(0.54)%	(1.83)%	(9.50)%
Return (loss) on average equity (2)	(0.68)	(1.77)	(6.91)	(13.45)	(28.56)
Net interest margin (2) (3)	2.65	2.96	2.81	3.14	3.87
Net interest spread (2) (4)	2.29	2.59	2.42	2.79	3.87
Noninterest income to average assets (2)	0.34	0.43	0.42	0.47	0.76
Noninterest expense to average assets (2)	2.84	3.88	3.46	4.90	10.71
Efficiency ratio (5)	99.86	121.92	111.87	145.23	352.55

	(Unaudited)		(Audited)		
	At or for the Three Months Ended March 31,		At or for the Years Ended December 31,		At or for the Period from April 9 to December 31,
	2006	2005	2005	2004	2003
	(Dollars in thousands, except per share data)				
Asset Quality Ratios:					
Nonperforming loans to period-end loans	0.01%	0.01%	0.04%	0.00%	0.00%
Allowance for loan losses to period-end loans	1.01	1.05	1.02	1.11	1.50
Allowance for loan losses to nonperforming loans	7287.50	14300.00	2486.40	N/A	N/A
Nonperforming assets to total assets (6)	0.01	0.00	0.02	0.00	0.00
Net loan charge-offs to average loans outstanding (2)	0.01	0.01	0.04	0.04	0.00
Capital Ratios:					
Total risk-based capital ratio	11.26%	16.13%	13.90%	17.30%	34.00%
Tier 1 risk-based capital ratio	10.28	15.11	12.80	16.30	32.70
Leverage ratio	6.25	9.39	7.00	11.20	24.60
Equity to assets ratio	5.68	8.69	6.10	10.29	22.46
Other Data:					
Number of banking offices	2	2	2	2	2
Number of full time equivalent employees	28	27	27	27	27

(1) Computed based on the weighted average number of shares outstanding during each period.
(2) Three month data presented on annualized basis.
(3) Net interest margin is net interest income divided by average interest earning assets.
(4) Net interest spread is the difference between the average yield on interest earning assets and the average cost of interest bearing liabilities.
(5) Efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income.
(6) Nonperforming assets consists of nonaccrual loans, restructured loans and foreclosed real estate, where applicable.
(7) Borrowings consist of advances from the Federal Home Loan Bank.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following presents management's discussion and analysis of our financial condition and results of operations. You should read the discussion in conjunction with our financial statements and related notes that are included elsewhere in this Offering Circular. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those described in the forward-looking statements as a result of various factors, including those discussed under the caption "Risk Factors" beginning on page 6 and "Special Note Regarding Forward-Looking Statements" on page 11. This discussion is intended to assist in understanding our financial condition and results of operations. The data presented for the three-month periods ended March 31, 2006 and 2005 are derived from our unaudited interim financial statements and include, in the opinion of management, all adjustments, consisting only of normal recurring accruals, necessary to present fairly the data for such periods.

Financial Condition at March 31, 2006

Community National Bank of the Lakeway Area's total assets at March 31, 2006 were $97.4 million, an increase of $4.7 million or 5.1% from December 31, 2005. The majority of the asset growth was in our loan portfolio. While the asset growth is strong, total assets were 5.0% under management's projection of $102.0 million due to our decision to decrease reliance on brokered deposits causing our investment in overnight funds to be less than the targeted amount.

Net loans for the period increased to $57.3 million as compared to $53.0 million at December 31, 2005. This represents an increase during the three-month period of approximately 8.1%. The net loan growth was consistent with management's projection for the period of $57.3 million.

The allowance for loan losses at March 31, 2006 was $583 thousand or 1.01% of gross loans. This compares to $547 thousand or 1.02% of gross loans at December 31, 2005. The increase consisted of a provision to the reserve account of $41 thousand and net charged-off loans of $5 thousand. Management analyzes the loan portfolio to determine the adequacy of the allowance for loan losses. Provisions are made to the allowance to maintain a level adequate to absorb anticipated loan losses.

There were $8 thousand of nonaccrual loans at March 31, 2006 as compared to $22 thousand at December 31, 2005. Management continually monitors nonaccrual loans for trends that would indicate an underlying weakness in the loan portfolio. The decline in nonaccrual loans for the quarter confirms management's belief that no such trend is indicated.

Total investments at March 31, 2006 were $30.6 million as compared to $30.0 million at December 31, 2005. Management had projected investments to be approximately $30.3 million at March 31, 2006. The portfolio is classified as either available-for-sale or held-to-maturity. The held-to-maturity portfolio is reported at amortized cost and consists of $6.9 million of mortgage-backed securities. The $23.7 million available-for-sale portfolio is reported at fair value and consists of approximately 41.3% U.S. Government Agencies and 58.7% Mortgage-Backed Securities. Investment securities are an important tool used to manage our interest rate sensitivity.

Accrued interest receivable, prepaid expenses and other assets increased during the period from $1.2 million at December 31, 2005 to $1.3 million at March 31, 2006. The slight increase is attributed to the increase in accrued interest receivable as a result of the growth in the loan portfolio and an increase in prepaid annual fees and maintenance contracts.

Deposits at March 31, 2006 increased to $80.4 million, which represents an increase of $4.5 million or 5.9% as compared to December 31, 2005. Transaction accounts for the period increased from $37.4 million to $42.7 million representing an increase of 14.2% while time deposits decreased from $38.4 million to $37.6 million representing a decrease of 2.1%. Through the first three months of 2006 total deposits are running slightly behind (5.5%) management's target of $85.1 million. The slower growth rate is due largely to our pricing strategy and decision to decrease reliance on brokered certificates of deposit.

Shareholders' equity declined during the first three months by $121 thousand. The decline represents a current period net loss of $40 thousand and an increase in the unrealized loss on available-for-sale securities of $81 thousand.

Results of Operations for the Three-Month Periods Ended March 31, 2006 and 2005

We continue to make progress on becoming profitable on a monthly basis. The net loss for the quarter ended March 31, 2006 was $40 thousand as compared to $112 thousand for the first quarter of 2005. Of the $40 thousand loss for the first quarter of 2006, we recorded $41 thousand to the provision for loan losses as compared to a $112 thousand loss with no provision for loan losses recorded in the first quarter of 2005. While we have a significant amount of our loan portfolio in adjustable rate loans, many of them are three-year/one-year adjustable rate mortgages which will not reprice until the end of 2006 and future years. With deposit rates increasing and deposits repricing more quickly than the loan portfolio, the interest margin has declined in the short-term which has delayed month-to-month profitability. While we did have a slight loss for the quarter ended March 31, 2006, the month of March was profitable. With the current trend continuing, we could be profitable in the second quarter of 2006.

Interest income for the three months ended March 31, 2006 was $1.4 million as compared to $743 thousand for the period ended March 31, 2005. The increase was due to our significant growth and resulting increase in earning assets.

Interest expense for the three-month period ended March 31, 2006 was $750 thousand as compared to $301 thousand for the same period last year. The increase is tied to our growth as well as increasing interest rates paid on deposits. We also entered into a $10 million leveraged transaction during 2005 that increased both interest expense and interest income.

Net interest income after provision for loan losses for the three months ended March 31, 2006 was $575 thousand as compared to $442 thousand for the three months ended March 31, 2005. While margins continue to narrow, significant growth has allowed us to continue to increase net interest income each quarter.

For the three months ended March 31, 2006 we recorded a $41 thousand provision for loan losses as compared to no provision for the first quarter of 2005. Management reviews the loan portfolio each month to determine the appropriate reserve level. Provisions are made to maintain a level adequate to absorb anticipated loan losses. Currently, the allowance for loan losses is 1.01% of gross loans.

Noninterest income for the three months ended March 31, 2006 was $83 thousand as compared to $69 thousand for the same period in 2005. The increase in noninterest income is consistent with our growth. Noninterest income consists of loan fees and service charges, service charges on demand deposit accounts and other income.

Noninterest expense for the three-month period ended March 31, 2006 was $698 thousand. This compares to $623 thousand for the three-month period ended March 31, 2005. The increase again is primarily attributable to our growth, the addition of staff, and the resulting increase in benefit costs.

Financial Condition at December 31, 2005 and 2004

During 2005 we continued to experience very strong growth, ending the year with total assets of $92.7 million, representing growth of $31.3 million above the beginning of year total assets of $61.4 million. The growth in total assets was principally funded by inflows of customer deposits, which increased by $21.3 million to $75.9 million, up from $54.6 million at December 31, 2004. In addition to the growth in deposits, we entered into a leveraged transaction in August of 2005, borrowing $10 million in Federal Home Loan Bank advances and offsetting the advances with investments and loans. The increase in deposits as well as the advances helped to support the loan growth, as total loans receivable grew by $14.4 million and closed the year at $53.0 million. Liquid investments, consisting of cash and due from banks, interest-earning deposits with banks, federal funds sold and investment securities available-for-sale, totaled $28.8 million, or 31.1% of total assets, at December 31, 2005, representing an increase of $9.4 million over the beginning of year total of $19.4 million. Total stockholders' equity at year-end was $5.7 million, enabling us to maintain regulatory capital at levels deemed to be well capitalized under prompt corrective action provisions.

Results of Operations for the Years Ended December 31, 2005 and 2004

Overview. We incurred a net loss of $412 thousand of $.42 per share for the year 2005. New banks are generally expected to incur losses in the initial periods of operations, and our results for 2005 were in line with expected results. In comparison, we incurred a net loss of $904 thousand or $.92 per share for the year ended December 31, 2004.

Net Interest Income. For the year ended December 31, 2005, net interest income totaled $2.0 million (including net amortized loan fees), as compared to $1.4 million for the year ended December 31, 2004. The largest component of interest income is interest income from loans, including amortized net loan fees, which totaled $2.9 million, representing a yield of 6.30% for 2005, and $1.7 million, representing a yield of 5.66% for 2004. Interest expense for the year ended December 31, 2005 totaled $1.9 million. For the year ended December 31, 2004 interest expense totaled $721 thousand. The net interest margin realized on earning assets and the interest rate spread were 2.81% and 2.43% respectively, for the year ended December 31, 2005 as compared to 3.14% and 2.79%, respectively, for the year ended December 31, 2004. Due to significant growth in interest earning assets the net interest margin increased $600 thousand during 2005. While the net interest margin dollars increased, the margin percentage declined from 3.14% during the year ended December 31, 2004 to 2.81% for the year ended December 31, 2005.

The 33 basis point decline in interest margin from 3.14% in 2004 to 2.81% in 2005 was attributable to several factors. One, we entered into a leveraged transaction in September of 2005, where we borrowed $10 million in fixed rate structured advances from the Federal Home Loan Bank and matched them with the purchase of seasoned 15 and 20 year mortgage pass-thru securities, Federal Home Loan Bank stock and other loans both fixed and variable. The net spread on the transaction was 1.13% at its inception. While this adds approximately $10 thousand in net revenue each month, it has the effect of lowering the interest margin percentage because of the narrow spread on the transaction.

Secondly, the Federal Reserve Board increased the discount rate eight times during the calendar year ended December 31, 2005. With this overall increase, we have experienced a narrowing of our interest margin. We have a good portion of the loan portfolio in adjustable rate loans which are either tied to the Wall Street Journal prime rate (WSJ prime) or the one-year constant maturity treasury index (CMT). While the loans tied to the WSJ prime rate can reprice daily, quarterly or annually, the loans tied to the CMT are mostly three-year one-year adjustable rate mortgages. Due to our age and the resulting seasoning of our loan portfolio, all of the adjustable rate mortgages are currently floating at the floor and will not start adjusting upward until the fourth quarter of 2006. Conversely, deposits for the short run repriced more quickly than loans and investments. The investment portfolio has a relatively short average life, but was purchased over the past two years and is currently under market rates.

Provision for Loan Losses. The provision for loan losses is the charge to operating earnings that management believes is necessary to maintain the allowance for loan losses at an adequate level. The provision charged to expense was $131 thousand for the year ended December 31, 2005 as compared to $151 thousand for the year ended December 31, 2004. The provision is a result of management's efforts to increase the allowance to match the growth and risk in the in the loan portfolio. The allowance for loan losses was 1.03% of gross loans at December 31, 2005 as compared to 1.12% for the same period in 2004. There are risks inherent in making all loans, including risks with respect to the period of time over which loans may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and, in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral. We anticipate maintaining an allowance for loan losses based on, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Our judgment about the adequacy of the allowance is based upon a number of assumptions about future events, which we believe to be reasonable, but which may not prove to be accurate. Thus, there is a risk that charge-offs in future periods could exceed the allowance for loan losses or that substantial additional increases in the allowance for loan losses could be required. Additions to the allowance for loan losses would result in a decrease of our net income and, possibly, our capital. We had net charge-offs for 2005 of $17.6 thousand as compared to $11.9 thousand for 2004. We had loans of approximately $18.4 thousand that were 90 days or more past due as of December 31, 2005. There were no past due loans over 90 days at December 31, 2004. There were non-accrual loans totaling $22.4 thousand at December 31, 2005 ($0 in 2004). We had no other foreclosed real estate or repossessions at December 31, 2005 or 2004.

Non-Interest Income. Non-interest income was $319 thousand and $230.5 thousand for 2005 and 2004, respectively. Service fees and charges, which represent a relatively stable and predictable source on non-interest income, totaled $254 thousand and $181 thousand for the years ended 2005 and 2004, respectively, increasing as a result of our growth.

Our management will continue efforts to develop sources of additional non-interest income. Through associations with various mortgage-lending companies, we originate residential and commercial long-term mortgages, at both fixed and variable rates, earning fees for loans originated. By originating these mortgages, our customers receive personal face-to-face service from our employees, rather than dealing with third parties. For 2005 these fees from presold mortgages totaled $41 thousand as compared to $29 thousand in 2004.

Non-Interest Expenses. Total noninterest expense increased in 2005 by $230.8 thousand, or 9.5%, to $2.6 million. The largest dollar increase for the year was in salaries and employee benefits which increased $110.8 thousand. This increase was attributed primarily to the addition of staff in the lending area and an increase in costs for insurance benefits as compared to 2004. The largest percentage increase in noninterest expense was for the loss on the sale of investment securities which increased 240.2% from 2004. We sold agency securities from the available-for-sale portfolio at a loss and reinvested in higher yielding securities. The other area of concern is the increasing costs of legal and professional services we have to employ for audit, internal audit, IT audit, loan review, public securities filings and Sarbanes-Oxley compliance. While this area increased $16.3 thousand or 12.5% in 2005, this cost seems to be escalating for all public institutions. Depending on pending legislation, this cost could continue to rise in 2006.

Provision for Income Taxes. We had no income tax expense or benefit in 2005 or 2004, principally due to the incurrence of net operating losses and adjustments to the valuation allowance associated with deferred tax assets. A 100% valuation allowance will be provided until it is likely that any net deferred tax assets will be realized. Realization of the potential net deferred tax asset is dependent upon whether there will be sufficient taxable income available with the carryforward period under the federal and state tax laws. We had state and federal net operating loss carryforwards totaling approximately $3.5 million each at December 31, 2005. These carryforwards are available to offset tax liabilities on future income through 2025 for federal income taxes and 2020 for state income taxes.

Net Interest Income

Like most financial institutions, the primary component of our earnings is net interest income. Net interest income is the difference between interest income, principally from loan and investment securities portfolios, and interest expense, principally on customer deposits and borrowings. Changes in net interest income result from changes in volume, spread and margin. For this purpose, volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities, spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, and margin refers to net interest income divided be average interest-earning assets and is influenced be the level and relative mix of interest-earning assets and interest-bearing liabilities, as well as levels of noninterest-bearing liabilities and capital. Margin is influenced by the level and relative mix on interest-earning assets and interest-bearing liabilities, as well as by levels on noninterest-bearing liabilities and capital.

Average Balances and Average Rates Earned and Paid. The following table sets forth, for the periods indicated, information with regard to average balances of assets and liabilities, as well as the total dollar amounts of interest income from interest-earning assets and interest expense on interest-bearing liabilities, resultant yields or costs, net interest income, net interest spread, net interest margin and ratio of average interest-earning assets to average interest-bearing liabilities. Nonaccrual loans have been included in determining average loans.

	For the Three Months Ended March 31,					
	2006			2005		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 55,680	$ 952	6.93%	$ 39,999	$ 572	5.80%
Investment securities	32,684	348	4.32%	18,619	157	3.42%
Federal funds sold	5,161	57	4.48%	1,387	8	2.34%
Other	791	9	4.61%	471	6	5.17%
Total interest earning assets	$ 94,316	$ 1,366	5.87%	$ 60,476	$ 743	4.98%
Other non-interest earning assets	3,835			3,821		
Total assets	$ 98,151			$ 64,297		
Liabilities and shareholders' equity						
Interest bearing-liabilities						
Deposits						
Interest-bearing demand	$ 4,540	$ 15	1.34%	$ 3,809	$ 8	0.85%
Savings and money market	31,520	261	3.36%	13,310	61	1.87%
Time	37,825	364	3.90%	33,507	231	2.80%
Advances	10,000	102	4.14%	-	-	-
Other	920	8	3.53%	338	1	1.20%
Total interest-bearing liabilities	$ 84,805	$ 750	3.59%	$ 50,964	$ 301	2.39%
Other non-interest bearing liabilities	7,497			7,012		
Shareholders' equity	5,849			6,321		
Total liabilities and shareholders' equity	$ 98,151			$ 64,297		
Excess of interest-bearing assets over interest-bearing liabilities	$ 9,511			$ 9,512		
Net interest income and spread		$ 616	2.28%		$ 442	2.59%
Net interest margin			2.65%			2.96%
Ratio of interest-earning assets to Interest-bearing liabilities	111%			119%		

	For the Years Ended December 31,					
	2005			2004		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 45,951	$ 2,895	6.30%	$ 29,790	$ 1,685	5.66%
Investment securities	25,222	947	3.76%	13,030	427	3.27%
Federal funds sold	1,040	30	2.88%	2,387	27	1.13%
Other	604	28	4.64%	418	17	4.07%
Total interest earning assets	$ 72,817	$ 3,900	5.36%	$ 45,625	$ 2,156	4.73%
Other non-interest earning assets	3,736			3,691		
Total assets	$ 76,553			$ 49,316		
Liabilities and shareholders' equity						
Interest bearing-liabilities						
Deposits						
Interest-bearing demand	$ 4,473	$ 43	0.97%	$ 3,313	$ 21	0.64%
Savings and money market	20,345	556	2.73%	11,209	144	1.28%
Time	33,793	1,077	3.19%	22,011	549	2.49%
Advances	3,370	139	4.12%	-	-	-
Other	1,169	36	3.08%	685	7	1.02%
Total interest-bearing liabilities	$ 63,150	$ 1,851	2.93%	$ 37,218	$ 721	1.94%
Other non-interest bearing liabilities	7,438			5,378		
Shareholders' equity	5,965			6,720		
Total liabilities and shareholders' equity	$ 76,553			$ 49,316		
Excess of interest-bearing assets over interest-bearing liabilities	$ 9,667			$ 8,407		
Net interest income and spread		$ 2,049	2.43%		$ 1,435	2.79%
Net interest margin			2.81%			3.14%
Ratio of interest-earning assets to Interest-bearing liabilities	115%			123%		

Rate/Volume Analysis

The following table analyzes the dollar amount of changes in interest income and interest expense for major components of interest-earning asset and interest-bearing liabilities. The table distinguishes between (i) changes attributable to volume (changes in volume multiplied by the prior period's rate), (ii) changes attributable to rate (changes in rate multiplied by the prior period's volume), and (iii) net change (the sum of the previous columns). The change attributable to both rate and volume (changes in rate multiplied by changes in volume) has been allocated equally to both the changes attributable to volume and the changes attributable to rate:

	Three Months Ended March 31, 2006 vs. 2005 Increase (Decrease) Due to			Year Ended December 31, 2005 vs. 2004 Increase (Decrease) Due to		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
			(Dollars in thousands)			
Interest income:						
Loans	$ 224	$ 156	$ 380	$ 914	$ 296	$ 1,210
Investment securities	118	73	191	399	121	520
Federal funds sold	23	26	49	(15)	18	3
Other	4	(1)	3	8	2	10
Total interest income	369	254	623	1,306	437	1,743
Interest expense:						
Deposits:						
Interest-bearing demand	2	5	7	7	15	22
Savings and money market	84	116	200	117	295	412
Time	30	103	133	294	234	528
FHLB advances	102	-	102	139	-	139
Other	2	5	7	5	24	29
Total interest expense	220	229	449	562	568	1,130
Net interest income increase (decrease)	$ 149	$ 25	$ 174	$ 744	$ (131)	$ 613

Interest Rate Sensitivity

Our results of operations depend substantially on our net interest income. Like most financial institutions, our interest income and cost of funds are affected by general economic conditions and by competition in the marketplace.

The purpose of asset/liability management is to provide stable net interest income growth by protecting our earnings from undue interest rate risk, which arises from volatile interest rates and changes in the balance sheet mix and by managing the risk/return relationships between liquidity, interest rate risk, market risk and capital adequacy. We maintain, and have complied with, a Board-approved asset/liability management policy that provides guidelines for controlling exposure to interest rate risk by utilizing the following ratios and trend analysis: liquidity, equity, volatile liability dependence, portfolio maturities, maturing assets and maturing liabilities. Our policy is to control the exposure of our earnings to changing interest rates by generally endeavoring to maintain a position within a narrow range around an "earnings neutral position," which is defined as the mix of assets and liabilities that generate a net interest margin that is least affected by interest rate changes.

When suitable lending opportunities are not sufficient to utilize available funds, we have generally invested such funds in securities, primarily securities issued by governmental agencies. The securities portfolio contributes to our profits and plays an important part in overall interest rate management. However, management of the securities alone cannot balance overall interest rate risk. The securities portfolio must be used in combination with other asset/liability techniques to actively manage the balance sheet. The primary objectives in the overall management of the securities portfolio are safety, liquidity, yield, asset/liability management (interest rate risk) and investing in securities that can be pledged for public deposits.

In reviewing our needs with regard to proper management of our asset/liability program, we estimate our future needs, taking into consideration estimated loan and deposit increases (due to increased demand through marketing) and forecasted interest rate changes.

The analysis of an institution's interest rate gap (the difference between the repricing of interest-earning assets and interest-bearing liabilities during a given period of time) is a standard tool for the measurement of exposure to interest rate risk. The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at March 31, 2006 which are projected to reprice or mature in each of the future time periods shown. Except as stated below, the amounts of assets and liabilities shown which reprice or mature within a particular period were determined in accordance with the contractual terms of the assets or liabilities. Loans with adjustable rates are shown as being due at the end of the next upcoming adjustment period. In making the gap computations, none of the assumptions sometimes made regarding prepayment rates have been used for any interest-earning assets. Deposit decay rates are used on money market, NOW and savings accounts to better reflect actual repricing. In addition, the table does not reflect scheduled principal payments which will be received throughout the lives of the loans and mortgage backed securities. The interest rate sensitivity of our assets and liabilities illustrated in the following table would vary substantially if different assumptions were used or if actual experience differs from that indicated by such assumptions.

The following table presents our interest sensitivity gap between interest-earning assets and interest-bearing liabilities for the period indicated.

	Within 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Total
Interest earning assets:					
Loans, gross	$ 18,076	$ 4,795	$ 27,920	$ 7,073	$ 57,864
Federal funds sold	4,926	-	-	-	4,926
Equity investments at cost	716	-	-	-	716
Debt securities available-for-sale	-	490	9,863	13,410	23,763
Debt securities held-to-maturity	-	-	-	6,874	6,874
Total interest-earning assets	$ 23,718	$ 5,285	$ 37,783	$ 27,357	$ 94,143
Interest-bearing liabilities:					
Deposits:					
Interest bearing savings, MMA and demand	$ 14,951	$ 8,202	$ 12,200	$ -	$ 35,353
Time deposits	6,259	24,788	6,573	-	37,620
Advances	-	-	10,000	-	10,000
Repurchase agreements	1,107	-	-	-	1,107
Total interest-bearing liabilities	$ 22,317	$ 32,990	$ 28,773	$ -	$ 84,080
Interest sensitivity gap per period	$ 1,401	$ (27,705)	$ 9,010	$ 27,357	$ 10,063
Cumulative interest sensitivity	$ 1,401	$ (26,304)	$ (17,294)	$ 10,063	$ 10,063
Cumulative gap as a percentage of total interest-earning assets	1.5%	(27.9)%	(18.4)%	10.7%	10.7%
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities	106.3%	52.4%	79.4%	112.0%	112.0%

Capital Resources

Our future growth and expansion are dictated by the ability to create capital, which is generated principally by the earnings. Adequacy of our capital is also monitored to ensure compliance with regulatory requirements. One of management's primary objectives is to maintain a strong capital position in order to warrant confidence from customers, investors, bank regulators and stockholders. A measure of capital position is capital adequacy, defined as the amount of capital needed to maintain future asset growth and absorb unforeseen losses. Regulators consider a variety of factors in determining an institution's capital adequacy, including quality and stability of earnings, asset

quality, management's expertise and liquidity. Regulatory guidelines place an emphasis on stockholders' equity in relationship to total assets adjusted for risk. As of December 31, 2005, our tier 1 capital to risk-weighted assets ratio was 12.8%, our total capital to risk-weighted assets ratio was 13.9% and our leverage ratio was 7%. Management considers us to be well-capitalized and expects to be able to meet future needs caused by growth and expansion, as well as capital requirements implemented by the regulatory agencies.

Management is not aware of any current recommendations by the regulatory authorities, which, if implemented, would have a material effect on liquidity, capital resources or operations.

As the following table indicates, at March 31, 2006, all capital ratios place us in excess of the minimum necessary to be considered "well-capitalized" under bank regulatory guidelines. See "Supervision and Regulation—Capital Adequacy" on page 48 and "—Prompt Corrective Action" on page 47.

	At March 31, 2006		
	Actual Ratio	**Minimum Requirement**	**Well-Capitalized Requirement**
Total risk-based capital ratio…………….	11.26%	8.0%	10.0%
Tier 1 risk-based capital ratio……………	10.28%	4.0%	6.0%
Leverage ratio……………………………	6.25%	4.0%	5.0%

Liquidity

Liquidity is a measure of our ability to fund loans, withdrawals and maturities of deposits and other cash outflows in a cost effective manner. Our principal sources of liquidity are deposits, scheduled payments and prepayments of loan principal, maturities of investment securities, access to liquid assets and funds provided by operations. While scheduled loan payments and maturing investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Liquid assets, which consist of cash and due from banks, interest-earning deposits with banks, federal funds sold and investment securities classified as available-for-sale, comprised 30.3% and 31.1% of total assets at March 31, 2006 and December 31, 2005, respectively.

We have been a net seller of federal funds, as our liquidity has exceeded our need to fund new loan demand. Should the need arise; we would have the capability to sell securities classified as available-for-sale or to borrow funds as necessary. We have established credit lines with The Bankers Bank to purchase up to $2.0 million unsecured and $4.0 million secured. There were no borrowings outstanding against these credit lines at March 31, 2006 and December 31, 2005, respectively.

Total deposits were $80.4 million, $75.9 million and $54.6 million at March 31, 2006, December 31, 2005 and 2004, respectively. Time deposits, which are the only deposit accounts that have stated maturity dates, are generally considered to be rate sensitive. Time deposits represented 46.8%, 50.7% and 61.8%, of total deposits at March 31, 2006, December 31, 2005 and 2004, respectively. Time deposits of $100 thousand or more represented 23.1%, 27.5% and 32.7% of our total deposits at March 31, 2006 and December 31, 2005 and 2004, respectively. At March 31, 2006 and December 31, 2005 and 2004, we had brokered time deposits totaling $6.1 million, $9.8 million and $8.6 million respectively. Management does accept time deposits from outside our local market area when such funding sources are necessary to fund growth and the rates paid are comparable to rates offered to retail customers or lower. Management believes most time deposits are relationship-oriented. While we will need to pay competitive rates to retain these deposits at their maturities, there are other subjective factors that will determine their continued retention. Based upon prior experience, we anticipate that a substantial portion of outstanding certificates of deposit will renew upon maturity.

Management believes that our current sources of funds provide adequate liquidity for our current cash flow needs.

Loan Portfolio

Our primary source of revenue is interest and fee income from our lending activities. These lending activities consist principally of originating commercial operating and working capital loans, residential mortgage loans, home equity lines of credit, other consumer loans and loans secured by commercial real estate. Our current lending strategy is to establish greater market share throughout Hamblen, Jefferson and Grainger Counties. We have a diversified loan portfolio with no significant concentrations to any one borrow or industry.

The following table sets forth, at the dates indicated, our loan portfolio composition by type of loan.

	At March 31, 2006		At December 31, 2005		At December 31, 2004	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
			(Dollars in thousands)			
Loans secured by real estate:						
Commercial	$ 14,932	25.9%	$ 13,876	26.0%	$ 11,978	30.8%
Construction	8,282	14.4%	7,791	14.6%	2,745	7.1%
Residential and other	20,072	34.8%	18,619	34.9%	12,811	33.0%
Commercial and industrial	5,569	9.6%	4,434	8.3%	4,778	12.3%
Consumer and other	4,341	7.5%	4,125	7.7%	3,729	9.6%
Government agency guaranteed	4,490	7.8%	4,547	8.5%	2,801	7.2%
Subtotal	57,686	100.0%	53,392	100.0%	38,842	100.0%
Plus: Unamortized premiums on purchased loans	226		231		170	
Less: Allowance for loan loss	(583)		(547)		(434)	
Unearned loan fees	(48)		(54)		(24)	
Loans, Net	$ 57,281		$ 53,022		$ 38,554	

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents at March 31, 2006 (1) the aggregate maturities of loans in the named categories of our loan portfolio and (2) for those categories the aggregate amounts of variable and fixed rate loans that mature after one year:

	Within 1 Year	1 - 5 Years	After 5 Years	Total
Commercial and industrial	$ 2,019	$ 3,241	$ 309	$ 5,569
Real estate – construction	2,152	3,944	2,186	8,282
Total	$ 4,171	$ 7,185	$ 2,495	$ 13,851
Fixed rate loans				$ 7,520
Variable rate loans				6,331
				$ 13,851

Allowance and Provisions for Loan Losses

The allowance for loan losses represents management's estimate of an amount adequate to provide for potential losses inherent in our loan portfolio. Management determines the allowance for loan losses based on a number of factors, including a review and evaluation of our loan portfolio, and current and projected economic conditions locally and nationally. The allowance is monitored and analyzed in conjunction with our loan analysis and grading program, and provisions for loan losses are made to maintain an adequate allowance for loan losses. The allowance for loan losses is created by direct charges to operations. Losses on loans are charged against the allowance for loan losses in the accounting period in which they are determined by management to be necessary to

adjust the allowance for loan losses to the amount that management has determined to be adequate to provide for potential losses inherent in the loan portfolio. We made provisions for loan losses of $131 thousand for the year ended December 31, 2005 and $151 thousand for the year ended December 31, 2004, principally as a result of loan growth in each year. We made provisions for loan losses of $41 thousand for the three-month period ended March 31, 2006, also principally as a result of loan growth. No provision was made for the three-month period ended March 31, 2005 as management adjusted the percentage of loan loss reserve to loans downward to reflect historical experience.

Management realizes that general economic trends greatly affect loan losses, and no assurances can be made that future charges to the loan loss allowance may not be significant in relation to the amount provided during a particular period, or that future evaluations of the loan portfolio based on conditions then prevailing will not require sizable additions to the allowance, thus necessitating similarly sizable charges to income. Based on its best judgment, evaluation and analysis of the loan portfolio, management considers the allowance for loan losses to be adequate for the reporting periods.

Loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed do not (1) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity, or capital resources or (2) represent material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

Interest accruals on loans are discontinued when management believes, after consideration of economic and business conditions and collection efforts, that collection of interest is doubtful. Additionally, all loans contractually past due 90 days or more and not in the process of collection or adequately secured are placed on non-accrual status.

Nonperfoming Assets. The following table sets forth information with respect to our nonaccrual loans, restructured loans, total nonperforming loans (nonaccrual plus restructured loans) and total nonperforming assets.

	At March 31,	At December 31,	
	2006	**2005**	**2004**
	(Dollars in thousands)		
Nonaccrual loans	$ 8	$ 22	$ -
Restructured loans	-	-	-
Total nonperforming loans	8	22	-
Real estate owned	-	-	-
Total nonperforming assets	$ 8	$ 22	$ -
Accruing loans past due 90 days or more	$ -	$ 18	$ -
Allowance for loan loss	583	547	434
Nonperforming loans to period end loans	.01%	.04%	0.0%
Allowance for loan losses to period end loans	1.01%	1.02%	1.12%
Allowance for loan losses to nonperforming loans	7,287.5%	2,486.4%	N/A
Nonperforming assets to total assets	.01%	.02%	N/A

Allowance for Loan Losses. The following table shows the allocation of our allowance for loan losses at the dates indicated. The allocation is based on an evaluation of defined loan problems, historical ratios of loan losses and other factors that may affect future loan losses in the categories of loans shown.

	At March 31.		At December 31,			
	2006		2005		2004	
	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)
			(Dollars in thousands)			
Balance applicable to:						
Commercial real estate	$ 189	25.9%	$ 179	26.0%	$ 160	30.8%
Construction	83	14.4%	78	14.6%	27	7.1%
Residential and other	199	34.8%	184	34.9%	159	33.0%
Commercial and industrial	61	9.6%	51	8.3%	50	12.3%
Consumer	51	7.5%	55	7.7%	38	9.6%
Government agency Guaranteed	-	7.8%	-	8.5%	-	7.2%
Total	583	100.0%	547	100.0%	434	100.0%

(1) Represents total of all outstanding loans in each category as a percent of total loans outstanding.

The following table presents activity in the allowance for loan losses for the periods indicated:

	At or for the Three Months Ended March 31,		At or for the Years Ended December 31,	
	2006	2005	2005	2004
	(Dollars in thousands)			
Balance at beginning of period	$ 547	$ 434	$ 434	$ 295
Charge-offs:				
Consumer and other	(5)	(6)	(23)	(12)
Total charge-offs	(5)	(6)	(23)	(12)
Recoveries:				
Consumer and other	-	1	5	-
Total recoveries:	-	1	5	-
Net (charge-offs) recoveries	(5)	(5)	(18)	(12)
Provision for loan losses charged to operations	41	-	131	151
Balance at end of period	$ 583	$ 429	$ 547	$ 434
Ratio of net loan charge-offs to average loans outstanding	0.01%	0.01%	0.04%	0.04%
Ratio of allowance for loan losses to loans outstanding at period-end	1.01%	1.05%	1.02%	1.11%

Investment Securities

Our portfolio of investment securities is classified either as available-for-sale or held-to-maturity. The portfolio is comprised of U.S. Government agency securities and mortgage-backed securities. Management considers our investment securities to be a source of interest income, and not a trading account to be used to enhance our income through speculative buying and selling of investments. At March 31, 2006 and December 31, 2005, the amortized cost of our available-for-sale securities portfolio exceeded its fair value by approximately $598 thousand and $517 thousand, respectively. The amortized cost of the held-to-maturity portfolio exceeded the fair value by approximately $182 thousand and $143 thousand at March 31, 2006 and December 31, 2005, respectively.

The following table summarizes our security portfolio composition at the periods indicated.

	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
	(Dollars in thousands)			
March 31, 2006				
U.S. government and federal agencies				
U.S. Government Agencies	$ 10,000	$ -	$ (189)	$ 9,811
Mortgage-backed securities	14,361	4	(413)	13,952
Total available-for-sale securities	24,361	4	(602)	23,763
U.S. government and federal agencies				
Mortgage-backed	6,874	-	(182)	6,692
Total held-to-maturity securities	6,874	-	(182)	6,692
Total investment portfolio	$ 31,235	$ 4	$ (784)	$ 30,455
December 31, 2005				
U.S. government and federal agencies				
U.S. Government Agencies	$ 9,005	$ -	$ (155)	$ 8,850
Mortgage-backed securities	14,407	-	(362)	14,045
Total available-for-sale securities	23,412	-	(517)	22,895
U.S. government and federal agencies				
Mortgage-backed	7,136	-	(143)	6,993
Total held-to-maturity securities	7,136	-	(143)	6,993
Total investment portfolio	$ 30,548	$ -	$ (660)	$ 29,888
December 31, 2004				
U.S. government and federal agencies				
U.S. Government Agencies	$ 9,065	$ 4	$ (37)	$ 9,032
Mortgage-backed securities	8,170	-	(85)	8,085
Total available-for-sale securities	$ 17,235	$ 4	$ (122)	$ 17,117
U.S. government and federal agencies				
Mortgage-backed	-	-	-	-
Total held-to-maturity securities	-	-	-	-
Total investment portfolio	$ 17,235	$ 4	$ (122)	$ 17,117

During the three months ended March 31, 2006 we had no security sales. For the years ended December 31, 2005 and 2004 we recognized losses of $42 thousand and $12 thousand respectively for securities sold during the period.

The following table provides the amortized costs, carrying values, intervals of maturities or repricing and weighted average yields of our investment portfolio at March 31, 2006:

	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)		
Securities available-for-sale:			
U.S. government agencies			
Due less than one year	$ 500	$ 490	3.05%
Due after one but within five years	8,482	8,319	3.84%
Due after five but within ten years	1,018	1,002	3.54%
	$ 10,000	$ 9,811	3.78%
Mortgage-backed			
Due after one but within five years	$ 1,616	$ 1,544	3.17%
Due after five but within ten years	5,457	5,267	4.05%
Due after ten years	7,288	7,141	4.88%
	$ 14,361	$ 13,952	4.37%
Securities held to maturity:			
Due after ten years	$ 6,874	$ 6,692	4.83%
	$ 6,874	$ 6,692	4.83%
Total securities portfolio:			
Due less than one year	$ 500	$ 490	3.05%
Due after one but within five years	10,098	9,863	3.73%
Due after five but within ten years	6,475	6,269	3.97%
Due after ten years	14,162	13,833	4.86%
	$ 31,235	$ 30,455	4.28%

Deposits

We rely on deposits generated in our market area to provide the majority of funds needed to support lending activities and for investment in liquid assets. Our balance sheet growth is largely determined by the availability of deposits in its market area, the cost of attracting the deposits and prospects of profitably utilizing the available deposits by increasing the loan or investment portfolios. We continuously monitor market pricing, competition, rates and internal interest rate spreads to work toward growth and profitability. Because deposits are the principal source of funds for continued growth, we attempt to structure rates so as to promote deposit and asset growth, while at the same time increasing our overall profitability.

Included in the totals for time deposits of $100,000 or more are balances for brokered certificate of deposit pools, totaling $6.1 million at March 31, 2006. Our management is continuing to lessen our dependence on these pools. At December 31, 2005 the pool balances totaled $9.8 million. As the pools mature, management intends to replace them with retail deposits raised in our market area.

The daily average amounts of deposits and the average rates paid for each major category of deposits for the periods indicated are summarized below:

	For the Three Months Ended March 31,			
	2006		2005	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Savings, NOW and money market	$ 36,060	3.09%	$ 17,119	1.65%
Time deposits over $100,000	18,875	3.98%	17,573	2.83%
Other time deposits	18,950	3.86%	15,932	2.76%
Total interest-bearing deposits	73,885	3.51%	50,624	2.41%
Non-interest bearing-deposits	7,060	-	6,772	-
Total deposits	$ 80,945	3.21%	$ 57,396	2.12%

	For the Year Ended December 31,			
	2005		2004	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Savings, NOW and money market	$ 24,818	2.41%	$ 14,522	1.13%
Time deposits over $100,000	17,412	3.23%	9,455	2.56%
Other time deposits	16,381	3.14%	12,556	2.45%
Total interest-bearing deposits	58,611	2.86%	36,533	1.95%
Non-interest bearing-deposits	7,120	-	5,200	-
Total deposits	$ 65,731	2.55%	$ 41,733	1.71%

The following table sets forth the amounts and maturities of our certificates of deposit.

	At March 31, 2006				
	3 Months Or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
	(Dollars in thousands)				
Certificates of deposit:					
Less than $100,000	$ 3,793	$ 3,051	$ 8,657	$ 3,532	$ 19,033
$100,000 or more	2,466	6,461	6,619	3,041	18,587
Total	$ 6,259	$ 9,512	$ 15,276	$ 6,573	$ 37,620

Critical Accounting Policy and Estimates

Our accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. Our significant accounting policies are discussed in detail in Note 1 in the "Notes to Financial Statements." Critical accounting policies include the initial adoption of an accounting policy that has a material impact on the financial presentation and accounting estimates reflected in its financial statements that require us to make assumptions about matters that were highly uncertain at the time of estimation. Disclosure about critical estimates is required if different estimates that we reasonably could have used in the current period would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations.

Our calculation related to the allowance for loan losses represents a critical accounting estimate. The allowance for loan losses is established and maintained at levels management deems adequate to cover probable losses inherent in the portfolio as of the balance sheet date. The level is based on past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, underlying estimated values of collateral securing loans, current economic conditions, regulatory requirements and other factors. Should any of these factors change, the estimate of credit losses in the loan portfolio and the related

allowance would also change. For further discussion regarding our methodology for the allowance for loan and lease losses, see "Provision and Allowance for Loan Losses."

Off-Balance Sheet Arrangements

In the normal course of business to meet the financing needs of our customers, we are a party to financial instruments with off-balance-sheet risks. These financial instruments consist of commitments to extend credit and standby letters of credit. 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. Standby letters of credit are written conditional commitments issued by us to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. Most letters of credit extend for one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. Our exposure to credit loss in the event of nonperformance by the other party to the instrument is represented by the contractual notional amount of the instrument.

Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We use the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Collateral held for commitments to extend credit varies but may include unimproved and improved real estate, certificates of deposit or personal property.

The following table summarizes our off-balance-sheet financial instruments whose contract amounts represent credit risk:

	March 31, 2006	December 31, 2005
Commitments to extend credit	$ 11,170,003	$ 9,932,340
Stand-by letters of credit	$ 137,300	$ 423,050

Regulatory Matters

Management is not aware of any known trends, events, uncertainties or current recommendations by regulatory authorities that will have, or that are reasonably likely to have, a material effect on our liquidity, capital resources, or other operations.

Impact of Inflation and Changing Prices

A commercial bank has an asset and liability structure that is distinctly different from that of a company with substantial investments in plant and inventory because the major portion of its assets is monetary in nature. As a result, a bank's performance may be significantly influenced by changes in interest rates. Although the banking industry is more affected by changes in interest rates than by inflation in the prices of goods and services, inflation is a factor that may influence interest rates. However, the frequency and magnitude of interest rate fluctuations do not necessarily coincide with changes in the general inflation rate. Inflation does affect operating expenses in that personnel expenses and the cost of supplies and outside services tend to increase more during periods of high inflation. Therefore, we can best counter inflation over the long term by managing net interest income and controlling net increases in non-interest income and expense.

Impact of New Accounting Pronouncements

The following are recently issued accounting pronouncements:

Accounting for Certain Loans or Debt Securities Acquired in a Transfer. In December 2003, the American Institute of Certified Public Accountants issued Statement of Position 03-3, "*Accounting for Certain Loans and Debt Securities Acquired in a Transfer*" ("SOP 03-3"). SOP 03-3 addresses accounting for differences between contractual cash flows expected to be collected and an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. SOP 03-3 also prohibits "carrying over" or creation of

valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of SOP 03-3. The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans and loans acquired in a purchase business combination. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. The adoption of SOP 03-3 did not have a material impact on our financial statements.

Meaning of Other-Than-Temporary Impairment. In March 2004, the Emerging Issues Task Force reached a consensus on Issue 03-1, "*Meaning of Other Than Temporary Impairment*" ("Issue 03-1"). The Task Force reached a consensus on other-than-temporary impairment model for debt and equity securities accounted for under Statement of Financial Accounting Standards No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*" and cost method investments, and required certain additional financial statement disclosures. The implementation of the "*Other-than-Temporary Impairment*" component of this consensus has been postponed. The adoption of the guidance contained in this EITF consensus did not have a material effect on our financial statements.

Share-Based Payment. In December 2004, the FASB issued SFAS No. 123R, "*Share-Based Payment*," which is a revision of SFAS No 123, "*Accounting for Stock-Based Compensation*." SFAS No. 123(R) supersedes APB Opinion No. 25, "*Accounting for Stock Issued to Employees*," and amends SFAS Statement No. 95, "*Statement of Cash Flows*." Generally, the approach to accounting for share-based payments in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, which means that pro forma disclosure is no longer an alternative to financial statement recognition. SFAS No. 123(R) is effective for us beginning January 1, 2006. If we had included the cost of employee stock option compensation in the 2005 and 2004 financial statements, net loss for these years would have increased by approximately $226 thousand and $154 thousand, respectively. The effect of SFAS No 123(R) on our financial statements in future periods will depend on various factors, such as whether new stock options are issued, the amount (if any) of options exercised in each year and other relevant potential events which are not known at this time.

Concentration of Credit Risk. On December 15, 2005, the FASB issued an FSP "*SOP 94-6-1-Terms of Loan Products That May Give Rise to a Concentration of Credit Risk*" which addresses the disclosure requirements for certain nontraditional mortgage and other loan products, the aggregation of which may constitute a concentration of credit risk under existing accounting literature. The FASB's intentions were to reemphasize the adequacy of such disclosures and noted that the recent popularity of certain loan products such as negative amortization loans, high loan-to-value loans, interest only loans, teaser rate loans, option adjusted rate mortgage loans and other loan product types may aggregate to the point of being a concentration of credit risk to an issuer and thus may require enhanced disclosures under existing guidance. This FSP was effective immediately. We have evaluated the impact of this FSP and have concluded that the disclosures contained in their financial statements are consistent with the objectives of the FSP.

BUSINESS

Who We Are

Community National Bank of the Lakeway Area is a national bank headquartered in Morristown, Tennessee that opened for business on April 9, 2003, with a branch in Jefferson City, fifteen miles south of Morristown. We are one of four independent banks headquartered in the Morristown Metropolitan Statistical Area, which consists of Grainger, Hamblen and Jefferson counties. Our primary market area represents a geographic area that covers approximately 492 square miles and a population in excess of 130,000.

At March 31, 2006, we had total assets of $97.4 million, net loans of $57.3 million, deposits of $80.4 million and shareholders' equity of $5.5 million. Net loss for the first three months of 2006 was $40 thousand, or $0.04 per diluted share, compared with a loss of $112 thousand, or $0.11 per diluted share for the first three months of 2005. As of March 31, 2006, we had a federal net loss carryforward totaling approximately $3.5 million.

Though we are a relatively new bank, the combined commercial banking experience of our four executive officers and some of our directors exceeds 100 years. Our Chairman and Chief Executive Officer, Samuel F. Grigsby, Jr. was formerly a director and Chief Executive Officer of Union Planters Bank of the Lakeway Area in Morristown, Tennessee, and a director and Chief Financial Officer of Bank of East Tennessee, headquartered in Knoxville, Tennessee. Both of these banks had branches in both the Hamblen and Jefferson County markets where our bank is located. Our President, Charles A. Hughes, was Executive Vice President and Chief Lending Officer of Union Planters Bank of the Lakeway Area, Chief Lending Officer of Bank of East Tennessee, and a director and Chief Executive Officer of First National Bank in Jefferson City. Our Chief Financial Officer, Darwin K. Kilday, was a Senior Commercial Lender at Union Planters Bank of the Lakeway Area, and Vice President and Chief Financial Officer of Franklin Federal Bank in Morristown. M. Edward Stiner, Jr., Regional President of our Jefferson County operations, was formerly Area Executive for BB&T Financial Corporation of Jefferson County. Director J. Armistead Smith is Chairman of the Board of Directors of American Trust Bank of East Tennessee, headquartered in Knoxville, Tennessee. He is also the former Vice Chairman of Union Planters Corporation of Memphis, Tennessee and was the Regional President of Union Planters Banks in Tennessee, Alabama, and Kentucky. Jerry C. Cranford and Mary Maude Briggs are experienced bank directors having served on the board of Union Planters Bank of the Lakeway Area.

Our primary purpose is to serve the banking needs of individuals and businesses in Grainger, Hamblen and Jefferson Counties. We emphasize personalized service, access to decision makers and a quick response on lending decisions. We have been, and intend to remain, a community-focused financial institution offering a full range of financial services to small- to medium-sized businesses, professionals and individual consumers in our community. We offer a wide range of banking services including checking and savings accounts; commercial, installment, mortgage and personal loans; safe deposit boxes; and other associated services.

Since we opened in April of 2003, we have accomplished the following:

- Approached our break-even point in the first quarter of 2006, which included our first profitable month;
- Expanded our products and services to serve the needs of businesses and individuals in Grainger, Hamblen and Jefferson Counties, including insurance products and executed the operating plan by emphasizing personal service, access to decision makers and a quick response time on loans; and
- Created and maintained a strong credit culture. As of March 31, 2006, our non-performing assets totaled $8,000 or 0.01% of total assets, and our allowance for loan losses was $583,000 or 1.01% of total loans and 7,288% of non-performing loans.

Community National Bank of the Lakeway Area is a member of the Federal Home Loan Bank of Cincinnati and our deposits are insured up to applicable limits by the Bank Insurance Fund of the Federal Deposit Insurance Corporation. The address of our headquarters is 225 West First North Street, Morristown, Tennessee 37814, and our telephone number is (423) 587-2345. Our website is located at http://www.cnbla.com. Information on the website is not incorporated by reference and is not a part of this Offering Circular.

Our Strategy

We established our bank with the objective of becoming a vital, long-term player in our market area with a reputation for quality customer service provided by a financially sound organization. Our business strategy is to operate as an institution that is:

- Well-capitalized;
- Strong in asset quality;
- Profitable;
- Independent;
- Customer-oriented; and
- Connected to our community.

A commitment to customer service is at the foundation of our approach. Our commitment is to put our customers first and we believe it differentiates us from our competitors. Making good quality, profitable loans, which result in a long-standing relationship with our borrowers will continue to be a cornerstone of our strategy. We intend to leverage the core relationships we build by providing a variety of services to our customers. With that focus, we target:

- Small- and medium-sized business and the owners and managers of these entities;
- Professional and middle managers of locally based companies;
- Residential real estate developers; and
- Individual consumers.

We intend to grow our franchise through new and existing relationships developed by our management team, by taking advantage of the opportunity to acquire new relationships resulting from recent significant consolidation among banks in our markets, and by expanding to contiguous areas through de novo entry and branch acquisitions which make strategic and economic sense.

Key aspects of our strategy and mission include:

- To provide community-oriented banking services by delivering a broad range of financial services to our customers through responsive service and communication;
- To form a partnership with our customers whereby our decision making and product offerings are geared toward their best long-term interests;
- To be recognized in our community as a long-term player with employees, shareholders and board members committed to that effort; and
- To be progressive in our adoption of new technology so that we can provide our customers access to products and services that meet their needs for convenience and efficiency.

Our belief is that this way of doing business will build a profitable corporation and shareholder value. We want to consistently reward our shareholders for their investment and trust in us.

Market Area

We consider our primary market area to be the Morristown Metropolitan Statistical Area (MSA) which consists of Grainger, Hamblen and Jefferson counties. Our extended market area includes Knoxville and the counties of Knox, Sevier, Cocke and Greene. The Morristown Metropolitan Statistical Area is the newest freestanding MSA in Tennessee and has a population base of over 130,000. Morristown is just 35 miles from Knoxville and is within a 50 minute drive to two major regional airports, Knoxville's McGee Tyson Airport and Tri-Cities Regional Airport. Manufacturing, transportation and tourism, are all key drivers of growth.

Morristown is located at a strategic transportation junction where several major interstates intersect in a relatively small area. I-40, I-81 and I-75 are all critical transportation lanes connecting the United States north-south (I-81, I-75) and east-west (I-40). More than 70% of the nation's population can be reached within a days drive.

In 2006, Forbes Magazine ranked Morristown in the top 100 "Best Small Places for Business and Careers." In Forbes' survey for larger cities "Best Places for Business and Careers," Knoxville ranked 5th in the nation. Ten Fortune 500 companies have operations in Morristown as well as numerous international companies. Colgate-Palmolive is scheduled to build a 150,000-square-foot, $50 million plant in the Morristown Airport Industrial District this year.

The region is known for its natural beauty. Its diverse recreational activities attract millions of visitors each year; sportsmen refer to the region as the "Lakeway Area," because of the proximity of two of Tennessee's largest lakes – Cherokee Lake and Douglas Lake. The resort and vacation areas of Pigeon Forge, Gatlinburg and the Great Smoky Mountains National Park are all within an hour's drive.

Competition

Commercial banking in east Tennessee is extremely competitive due to state laws that allow statewide branching. As of June 30, 2005, there were 39 branches in Grainger, Hamblen and Jefferson Counties operated by 14 commercial banks, including us, and one savings association. On that date, approximately $780 million in deposits were located in Hamblen County and our deposits were approximately $51.9 million; while approximately $451 million in deposits were located in Jefferson County and our deposits were approximately $15.6 million. Thus we have significant competition in our market for deposits and loans from other depository institutions. Many of our depository institution competitors have substantially greater resources, broader geographic markets and higher lending limits than ours and are also able to provide more services and make greater use of media advertising.

We compete not only with financial institutions based in Tennessee, but also with out-of-state banks and bank holding companies and other out-of-state financial institutions that have an established market presence in both the state as a whole and in Grainger, Hamblen and Jefferson Counties. Many of the financial institutions operating in Tennessee are engaged in local, regional, national and international operations, and they have more assets and personnel than us. We compete with the major super-regional bank holding companies. Because of their greater resources, those institutions are able to perform certain functions for their customers, including trust and investment banking services, that we are not equipped to offer directly, although we do offer some of those services through our correspondent banks.

We also compete with credit unions, insurance companies, money market mutual funds and other financial institutions, some of which are not subject to the same degree of regulation and restrictions as ours, in attracting deposits and making loans.

Lending Activities

General. We make a variety of types of consumer and commercial loans to individuals and small- and medium-sized businesses for various personal and business purposes, including term and installment loans, equity lines of credit and overdraft checking credit. For financial reporting purposes, our loan portfolio generally is divided into (1) real estate loans, (2) commercial loans, (3) consumer loans and (4) purchased government guarantee loans. Those categories are discussed further below. We also make credit card services available to our customers through a correspondent bank. Statistical information regarding our loan portfolio is contained in this Offering Circular under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18.

Real Estate-Secured Loans. We make commercial real estate loans, residential real estate loans and construction and development loans. Our real estate loans include commercial loans in which we take a security interest in real estate as supplemental, but not principal, collateral for the loan. Home equity loans and lines of credit are classified as consumer loans rather than real estate loans. As of March 31, 2006, real estate loans comprised 75.1% of our total loan portfolio. Of those loans, loans totaling approximately 25.9% of our loan portfolio were classified as commercial real estate loans, 14.4% were classified as construction loans and 34.8% were secured by one to four family residences.

Commercial Real Estate. Commercial real estate loan terms generally are limited to five years or less, although payments may be structured on a longer amortization basis. Interest rates may be fixed or adjustable,

although rates typically are not fixed for a period exceeding 60 months. We generally charge an origination fee of one percent. We attempt to reduce credit risk on our commercial real estate loans by emphasizing loans on owner-occupied office and retail buildings where the ratio of the loan principal to the value of the collateral as established by independent appraisal does not exceed 80% and net projected cash flow available for debt service is greater than or equal to 120% of the debt service requirement. In addition, we generally require personal guarantees from the principal owners of the property supported by a review by our management of the principal owners' personal financial statements. Risks associated with commercial real estate loans include fluctuations in the value of real estate, new job creation trends, tenant vacancy rates and the quality of the borrower's management. We attempt to limit this risk by analyzing borrowers' cash flow and collateral value on an ongoing basis.

Residential Real Estate. Our residential real estate loans consist of first mortgage products and construction loans. We offer fixed and variable rates on our mortgages with the amortization of the loan generally not exceeding 30 years and the rates generally not being fixed or "booked" for a period over 60 months. These loans are made in accordance with our appraisal policy and with the ratio of the loan principal to the value of collateral as established by independent appraisal generally not exceeding 95%. We believe that these loan-to-value ratios are sufficient to compensate for fluctuations in real estate market value and to minimize losses that could result from a downturn in the residential real estate market.

Construction and Development Loans. We offer single-family residential construction loans to borrowers for construction of one to four family residences in our primary service area. Generally, we limit our construction lending to construction loans and construction/permanent loans to individuals building their primary residences and, to a lesser extent, construction loans to select local builders to build single-family dwellings for sale. These loans have fixed or adjustable interest rates and are underwritten in accordance with the same standards as permanent real estate loans, except for the fact that these loans generally provide for disbursement in stages during a construction period of up to twelve months. During the construction period, the borrower is generally required to make monthly payments of accrued interest on the outstanding loan balance. Construction loans generally have a maximum loan to value ratio of 80%. Individual borrowers must satisfy all credit requirements that would apply to permanent real estate loans made by us. While our construction and construction/permanent loans generally are converted to permanent loans following construction, the construction loans made to builders generally require repayment in full upon completion of construction, or may be assumed by the purchaser of the dwelling and converted to a permanent loan.

Construction lending affords us the opportunity to achieve higher interest rates and fees with shorter terms to maturity compared to permanent mortgage lending. Construction lending is generally considered to involve a higher degree of risk than single-family permanent mortgage lending because of the inherent difficulty in estimating both the property value at completion of construction and the estimated cost of construction. The nature of these loans is such that they are generally more difficult to evaluate and monitor. If our estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the project. If our estimate of value upon completion proves inaccurate, we may be confronted at, or prior to, maturity of the loan with a project whose value is insufficient to insure full repayment. Construction projects may also be jeopardized by disagreements between borrowers and builders and the failure of builders to pay subcontractors. Loans to builders to construct homes for which no purchaser has been identified carry more risk because the payoff of the loan is dependent upon the builder's ability to sell the property prior to the time that the construction loan is due. We address these risks by adhering to strict underwriting policies, disbursement procedures and monitoring practices.

Commercial Loans. Loans for commercial clients in various lines of businesses are one of the primary components of our loan portfolio. The terms of these loans vary by purpose and by type of any underlying collateral. As of March 31, 2006, commercial loans comprised 9.6% of our total loan portfolio.

Equipment Loans. We typically make equipment loans for a term of five years or less at fixed or variable rates, with the loan fully amortized over the term. Equipment loans generally are secured by the financed equipment and the ratio of the loan principal to the value of the financed equipment or other collateral is generally 80% or less. We expect these loan-to-value ratios to be sufficient to compensate for fluctuations in the market value of the equipment and to help minimize losses that could result from poor maintenance or the introduction of updated equipment models into the market.

Working Capital Loans. Loans to support working capital typically have terms not exceeding one year and are usually secured by accounts receivable, inventory, or personal guarantees of the principals of the business. For loans secured by accounts receivable or inventory, principal must typically be repaid as the assets securing the loan are converted into cash, and for loans secured with other types of collateral, principal typically is due at maturity. The quality of the commercial borrower's management and its ability both to properly evaluate changes in the supply and demand characteristics affecting its markets for products and services and to effectively respond to such changes are significant factors in a commercial borrower's creditworthiness. General risks affecting a commercial borrower's ability to repay include interest, inflation and the demand for the commercial borrower's products and/or services, as well as other factors affecting a borrower's customers, suppliers and employees.

Consumer Loans. We makes a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans, home equity loans and home equity lines of credit. Consumer loan repayments depend upon the borrower's financial stability and are more likely to be adversely affected by divorce, job loss, illness and personal hardships. Because many consumer loans are secured by depreciable assets such as boats, cars and trailers, the loan should be amortized over the useful life of the asset. To minimize these risks, the loan officer reviews the borrower's past credit history, past income level, debt history and, when applicable, cash flow, and determines the impact of all of these factors on the ability of the borrower to make future payments as agreed. The principal competitors for consumer loans are the established banks in our primary service area. As of March 31, 2006, consumer loans comprised 7.5% of our total loan portfolio.

Purchased Government Guaranteed Loans. During the year ended December 31, 2005 we purchased government guaranteed loans for the loan portfolio. These loans are unconditionally guaranteed as to principal and interest by the full faith and credit of the United States Government. Most of the loans carry a variable rate and are tied to the national prime rate. As of March 31, 2006, purchased government guaranteed loans comprised 7.8% of our total loan portfolio.

Loan Administration and Underwriting. Like most community banks, we make loans based, to a great extent, on our assessment of borrowers' income, cash flow, character and abilities to repay. So, the principal risk associated with each of the categories of our loans is the creditworthiness of our borrowers, and our loans may be viewed as involving a higher degree of credit risk than is the case with some other types of loans, such as long-term residential mortgage loans, where greater emphasis is placed on collateral values. To manage this risk, we have adopted written loans policies and procedures, and our loan portfolio is administered under a defined process. That process includes guidelines for loan underwriting standards and risk assessment, procedures for loan approvals, loan grading, ongoing identification and management of credit deterioration, and portfolio reviews to assess loss exposure and to test our compliance with our credit policies and procedures.

The underwriting standards that we employ for loans include an evaluation of various factors, including of a loan applicant's income, cash flow, payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Though creditworthiness of the applicant is a primary consideration in the loan approval process, in the case of secured loans the underwriting process also includes an analysis of the value of the proposed collateral in relation to the proposed loan amount. We consider the value of collateral, the degree to which that value is ascertainable with any certainty, the marketability of the collateral in the event of foreclosure or repossession and the likelihood of depreciation in the collateral value.

Our policy is to avoid concentrations of loans to a single industry or secured by a single type of collateral. Our loan approval policies provide for various levels of officer lending authority. When the amount of total loans to a single borrower exceeds an individual officer's lending authority, an officer with a higher lending limit or our risk management committee determines whether to approve the loan request.

Our lending activities are subject to a variety of lending limits imposed by federal law. Differing limits apply based upon the type of loan or the nature of the borrower, including the borrower's relationship to us. In general, we are able to loan to any one borrower a maximum amount equal to either 15% of our capital and surplus or 25% of our capital and surplus if the amount that exceeds 15% is fully secured by readily marketable collateral. These legal limits increase or decrease as our capital increases or decreases as a result of our earnings or losses, among other reasons. However, we may sell participations in our loans to other financial institutions in order to meet all of the lending needs of our customers requiring extensions of credits above these limits.

Our board of directors has approved levels of lending authority for lending personnel based on our aggregate credit exposure to a borrower and the secured or unsecured status of a loan proposed to be made. A loan that is within a lending officer's assigned authority may be approved by that officer. These lending authorities vary by officer, but never exceed $100,000 for a secured loan, and $50,000 for an unsecured loan. Our Chief Executive Officer, our President, our Regional President and our Chief Financial Officer have individual lending authorities of $250,000 for both secured and unsecured loans. A Senior Loan Committee, consisting of the four executive officers, has authority to make a loan up to $750,000 for both secured and unsecured loans. The Risk Management Committee of the Board of Directors, consisting of six outside Board members and our four executive officers, can approve a loan up to our legal lending limit.

At the time a loan is proposed to be made or renewed, the loan officer assigns a grade to the loan based on various underwriting and other criteria**.** During the life of each loan, its grade is reviewed and validated or modified to reflect changes in circumstances and risk. Loans generally are placed in a non-accrual status if they become 90 days past due or whenever we believe that collection has become doubtful. Loans are charged off when the collection of principal and interest has become doubtful and the loans no longer can be considered sound collectible assets (or, in the case of unsecured loans, when they become 90 days past due).

Allowance for Loan Losses. Our Board of Directors reviews all impaired loans at least monthly, and our management meets regularly to review asset quality trends and to discuss loan policy issues. Based on these reviews and our current judgments about the credit quality of our loan portfolio and other relevant internal and external factors, we have established an allowance for loan losses. The adequacy of the allowance is assessed by our management and reviewed by our Board of Directors each month. On March 31, 2006, our allowance was $583,000 and amounted to approximately 1.01% of our total loans and approximately 7,288% of our nonperforming loans.

On March 31, 2006, our nonperforming loans amounted to approximately $8,000 and consisted of our nonaccruing loans. On that date, we had no loans that were 90 days or more past due but still accruing interest, and we had no other real estate owned.

Asset and Liability Management

Our risk management committee manages our assets and liabilities and strives to provide a stable, optimized net interest margin, adequate liquidity and a profitable after-tax return on assets and return on equity. The committee conducts these management functions within the framework of written loan and investment policies adopted by the board. The committee attempts to maintain a balanced position between rate sensitive assets and rate sensitive liabilities. Specifically, it charts assets and liabilities on a matrix by maturity, effective duration and interest adjustment period and attempts to manage any gaps in maturity ranges.

Deposit Activities

We seek to establish a broad base of core deposits, including savings, checking, interest-bearing checking, money market and IRA accounts, as well as a variety of certificates of deposit. To attract deposits, we employ an aggressive marketing plan in our primary service area and feature a broad product line and competitive rates and services. The primary sources of deposits are residents of, and businesses and their employees located in, our primary service area. We obtain these deposits through personal solicitation by our officers and directors, direct mail solicitations and advertisements published in the local media. To attract our deposit base, we are offering higher interest rates on various deposit accounts.

On March 31, 2006, 46.8% of our total deposits consisted of time deposit accounts, 2.3% consisted of statement savings accounts, 41.7% consisted of money market and NOW accounts and 9.2% consisted of noninterest-bearing transaction accounts. Our time deposits of $100,000 or more amounted to approximately $18.6 million, or approximately 23.1% of our total deposits at March 31, 2006. Included in the totals for time deposits of $100,000 or more are balances for brokered certificate of deposit pools, totaling $6.1 million at March 31, 2006. Our management is continuing to lessen our Bank's dependence on these pools. At December 31, 2005 the pool balances totaled $9.8 million. As the pools mature, management intends to replace them with retail deposits raised in our market area.

Statistical information regarding our deposit accounts is contained in this Offering Circular under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18.

Investment Portfolio

In addition to loans, we make other investments primarily in obligations of the United States, obligations guaranteed as to principal and interest by the United States and other taxable securities. No investment in any of these instruments exceeds any applicable limitation imposed by law or regulation. Our risk management committee reviews the investment portfolio on an ongoing basis to ensure that the investments conform to our policy as set by the board of directors.

Statistical information regarding our investment portfolio is contained in this Offering Circular under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18.

Other Banking Services

Given customer demand for increased convenience in accessing banking and investment services, we also offer a broad array of convenience-centered products and services, including debit cards, credit cards, direct deposit and cash management services for small- to medium-sized businesses. Additionally, we are associated with several nationwide networks of automated teller machines that our customers may use throughout Tennessee and other regions. We also offer MasterCard-Registered Trademark and VISA-Registered Trademark credit card services through a correspondent bank as our agent. We do not plan to exercise trust powers during our initial years of operation. We may in the future offer a full-service trust department, but cannot do so without the prior approval of the OCC.

Properties

The following table summarizes information about our offices as of March 31, 2006.

Office Location	Year Opened	Approximate Square Footage	Owned Or Leased
Main Office 225 West First North Street Morristown, Tennessee 37814	2003	11,000	Leased
Jefferson City Branch 156 East Broadway Jefferson City, Tennessee 37760	2003	5,000	Owned

Employees

As of March 31, 2006, we had 28 full-time equivalent employees. None of these employees are covered by a collective bargaining agreement. We consider relations with our employees to be good.

Litigation

There are no pending legal proceedings to which we are a party, or of which any of our properties are the subject, other than immaterial litigation incidental to our business.

MANAGEMENT

We have assembled a board of directors and a management team with extensive local experience and long-standing business relationships in our market area. We believe this enhances our ability to attract and retain commercial customers.

Directors

The following table lists our directors, their ages at December 31, 2005, and their principal occupations for the last five years. Except as otherwise indicated, each of the named persons has been engaged in his present principal occupation for more than five years and do not hold directorships in other publicly traded companies. Each such person has served as a director since 2003.

Name and age	Positions and Business Information
Class I Directors *Terms Will Expire in 2007*	
Samuel F. Grigsby, Jr. (52)	Mr. Grigsby is Chairman and Chief Executive Officer of the Bank. From 1994 to February 2002, Mr. Grigsby was a director and Chief Executive Officer of Union Planters Bank of the Lakeway Area.
Charles A. Hughes (60)	Mr. Hughes is President of the Bank. Mr. Hughes was Executive Vice President and Chief Lending Officer for Union Planters Bank of the Lakeway Area from 1996 until February 2002.
Darwin K. Kilday (51)	Mr. Kilday is Secretary, Executive Vice President and Chief Financial Officer of the Bank. From 1997 to March 2002, he was the Executive Vice President of Union Planters Bank of the Lakeway Area and served as a Senior Commercial Lender.
M. Edward Stiner, Jr. (51)	Mr. Stiner is the Regional President of the Bank's Jefferson County operation. From 1994 to February 2002, he served as Area Executive for BB&T in Jefferson County.
Steven J. Adams (58)	Mr. Adams currently is an independent business consultant to the bedding and furniture industry. Until July of 2005, he was the owner and President of the Johnson Easel Company, an easel manufacturing company, in Jefferson City. Prior to that, he was the owner and President of Option Spring Products for four years and was the Branch Manager of the Steadley Company for over 30 years.
Class II Directors *Terms Will Expire in 2008*	
Ronald D. Ailey (49)	Mr. Ailey has been a co-owner of Burke-Ailey Construction, a commercial construction company, since 1986.
Uriel Edde, Jr. (76)	Mr. Edde has been President of Edde Chevrolet, Inc., an automobile dealership, since 1959.
Eric N. Ward (47)	Mr. Ward has been the Agency Manager for the Hamblen County Office of Tennessee Farmers Mutual Ins. Co., an insurance agency, since 1997.

Name and age	Positions and Business Information
Class III Directors *Terms Will Expire in 2009*	
Mary Maude Briggs (60)	Ms. Briggs has served as both President and Chief Executive Officer of Morrison Communication, Inc., a large commercial printing company, since 1965.
Jerry C. Cranford (61)	Mr. Cranford is retired. He served as the President of C&C Woodworking Consultants, Inc. from March, 2001 until the corporation ceased operations in February, 2003 and previously was Director of Manufacturing and Quality for Universal Furniture Company, both furniture industry companies, for twelve years.
Claude Leroy Royston (59)	Mr. Royston has been President of Royston Chrysler, Dodge, Jeep-Morristown, Tennessee, an automobile dealership, since 1991.
J. Armistead Smith (70)	Mr. Smith has served as Chairman of the Board of Directors of American Trust Bank of East Tennessee since February, 2004. From 1985 through 2000, he was associated with Union Planters Corporation and Union Planters Bank, N.A. Mr. Smith was the Vice-Chairman of Union Planters Corporation and President of Union Planters Bank – Knoxville, Senior Credit Officer of Union Planters Corporation, and Regional President of Union Planters Corporation Banks in East Tennessee, Kentucky and Alabama.
Donald K. Watson (62)	Mr. Watson is retired. He served as the President and General Manager of Morristown, Ford, Inc., an automobile dealership, from 1987 to 2004.

Director Relationships

Board relationships. No director or principal officer is related to another director or principal officer.

Other directorships: No director is a director of any company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Compensation of Directors

During 2005, Director fees consisted of $400 for each Board meeting attended and $100 for each committee meeting attended.

Certain Transactions with Directors or Officers

Our directors, executive officers, principal shareholders and their affiliates have been our customers from time to time in the ordinary course of business and additional transactions may be expected to take place in the future. In accordance with applicable federal laws and regulations, all loans by us to these persons are made (1) on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, (2) do not involve more than the normal risk of collectibility or embody other unfavorable features and (3) comply with specified quantitative limits imposed by federal laws and regulations.

As of December 31, 2005, the aggregate amount of loans and extensions of credit outstanding to these persons was approximately $1.2 million which represented approximately 21% of our total equity capital.

None of the our loans outstanding to our directors, executive officers or principal shareholders at any time during or subsequent to 2005 was or has been on past due or non-accrual status, has been restructured, or is considered by us to be a problem loan.

Beneficial Ownership Of Securities

The following table shows, as of March 31, 2006, the number of Shares owned by each director and by all directors and principal officers of the Bank as a group:

Beneficial owner (position)	Shares beneficially owned	Percent of the Shares owned (1)
Steven J. Adams (director)	15,014 [2]	1.5%
Ronald D. Ailey (director)	10,000 [3]	*
Mary Maude Briggs (director)	12,700 [4]	1.3%
Jerry C. Cranford (director)	56,650 [5]	5.6%
Uriel Edde, Jr. (director)	30,100 [6]	3.0%
Samuel F. Grigsby, Jr. (director, Chairman and CEO)	65,100 [7]	6.4%
Charles A. Hughes (director and President)	42,090 [8]	4.1%
Darwin K. Kilday (director and CFO)	22,500 [9]	2.2%
Claude Leroy Royston (director)	27,500 [10]	2.7%
J. Armistead Smith (director)	7,500 [11]	*
M. Edward Stiner, Jr. (director, Regional President)	35,241 [12]	3.4%
Eric N. Ward (director)	13,000 [13]	1.3%
Donald K. Watson (director)	52,050 [14]	5.1%
Directors and principal officers as a group (13 persons)	389,445 [15]	34.2%

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* Represents less than one percent.

1 Includes options that may be exercised within 60 days.

2 Includes 7,514 shares held in Mr. Adams' IRA, 2,500 shares held by Mr. Adams' spouse and 2,500 shares subject to options exercisable within 60 days.

3 Includes 5,000 shares subject to options exercisable within 60 days.

4 Includes 8,700 shares held jointly with Ms. Briggs' spouse and 4,000 shares subject to options exercisable within 60 days.

5 Includes 21,000 shares held by Mr. Cranford's spouse and 10,000 shares subject to options exercisable within 60 days.

6 Includes 17,600 shares held jointly with Mr. Edde's spouse and 10,000 shares subject to options exercisable within 60 days.

7 Includes 11,000 shares held in Mr. Grigsby's IRA, 14,000 shares held jointly with Mr. Grigsby's spouse, 100 shares held by Mr. Grigsby's spouse, 10,000 shares held jointly with Mr. Grigsby's brother and 17,500 shares subject to options exercisable within 60 days.

8 Includes 16,990 shares held in Mr. Hughes' IRA, 100 shares held by Mr. Hughes' spouse and 25,000 shares subject to options exercisable within 60 days.

9 Includes 7,500 shares held in Mr. Kilday's IRA and 15,000 shares subject to options exercisable within 60 days.

10 Includes 15,000 shares held jointly with Mr. Royston's spouse and 10,000 shares subject to options exercisable within 60 days.

11 Includes 2,500 shares subject to options exercisable within 60 days.

12 Includes 12,641 shares held in Mr. Stiner's IRA, 100 shares held by Mr. Stiner's children and 20,000 shares subject to options exercisable within 60 days.

[13] Includes 4,000 shares held in Mr. Ward's SEP, 4,000 shares held jointly with Mr. Ward's spouse and 5,000 shares subject to options exercisable within 60 days.

[14] Includes 27,050 shares held jointly with Mr. Watson's spouse, 3,472 shares held by Mr. Watson's spouse, 4,028 shares held by Mr. Watson's spouse's IRA and 10,000 shares subject to options exercisable within 60 days.

[15] Includes 136,500 shares subject to options exercisable within 60 days.

Principal Officers

Messrs. Grigsby, Hughes, Kilday and Stiner are also executive officers of the Bank. Please see "Management – Directors" above for information about their titles, background and experience.

Executive Compensation

Cash compensation. The cash and cash equivalent compensation paid by us during the three fiscal years ended prior to December 31, 2005 to our chief executive officer and president (the "Named Executive Officers") is as follows:

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation Awards	
Name and Principal Position	**Year**	**Salary($)[1]**	**Bonus($)**	**Other Annual Compensation[2]**	**Securities Underlying Options (# of shares)**	**All Other Compensation**
Samuel F. Grigsby, Jr.	2005	127,803	- 0 -	- 0 -	17,500	- 0 -
Chairman and Chief	2004	125,563	- 0 -	- 0 -	- 0 -	- 0 -
Executive Officer	2003	124,300	- 0 -	- 0 -	12,500	- 0 -
Charles A. Hughes	2005	110,515	- 0 -	- 0 -	15,000	- 0 -
President	2004	107,448	- 0 -	- 0 -	- 0 -	- 0 -
	2003	104,300	- 0 -	- 0 -	10,000	- 0 -

[1] Includes commissions, available to all officers, paid to the Named Executive Officers for business brought to us and director fees, available to all directors, paid to the Named Executive Officers for meetings attended.

[2] We have omitted information on "perks" and other personal benefits with an aggregate value below the minimum amount required for disclosure under the Securities and Exchange Commission regulations.

Options granted. In 2005, we issued incentive and non-qualified stock options under the 2002 Stock Option Plan to various key executive officers and employees. No stock appreciation rights were granted in 2005. The following table sets forth information referencing the award of such incentive stock options to our Named Executive Officers.

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Sh)	Expiration Date
Samuel F. Grigsby, Jr.	17,500	14.2%	$ 13.50	12/30/2010
Charles A. Hughes	15,000	12.2%	$ 13.50	12/30/2010

Options Held. The following table contains information with respect to stock options to purchase shares of the common stock held by the named executive officer during 2005.

Aggregated Option Exercises in 2005 and December 31, 2005 Option Values

Name	Shares Acquired on Exercise (#)	Value Realized[1] ($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End Exercisable (E)/ Unexercisable (U)	Value of Unexercised In-The-Money[1] Options at Fiscal Year-End Exercisable (E)/ Unexercisable (U)
Samuel F. Grigsby, Jr.	12,500	$ 33,750	17,500 (E)/0 (U)	$0(E)/$0 (U)
Charles A. Hughes	--	--	25,000 (E)/0 (U)	$27,000(E)/$0 (U)

[1] Based on an assumed market price of our common stock of $12.70 per share at December 31, 2005.

Employment and Change of Control Agreements

Samuel F. Grigsby, Jr. Effective April 23, 2003, we entered into a five-year employment agreement with Samuel F. Grigsby, Jr. regarding Mr. Grigsby's employment as our Chairman and Chief Executive Officer. Under the terms of the agreement, Mr. Grigsby receives a salary of $120,000 per year, plus benefits and annual bonus compensation as determined by the Board of Directors. Mr. Grigsby is also entitled to be issued options under our 2002 Stock Option Plan. The amount of any stock options issued under our 2002 Stock Option Plan to Mr. Grigsby will be determined by the Board of Directors on an annual basis.

Mr. Grigsby's agreement automatically renews for an additional year at the end of its initial term and will continue to renew for an additional year at the end of each renewal term. The agreement also provides various other benefits and subjects Mr. Grigsby to non-compete restrictions. Additionally, under Mr. Grigsby's agreement, we are obligated to pay Mr. Grigsby upon the following terminating events:

Termination Event	Payment Obligation
Mr. Grigsby becomes permanently disabled.	Base salary for a minimum of four months.
We terminate Mr. Grigsby's employment without cause, as defined.	Two times base salary.
Mr. Grigsby terminates his employment after a change of control, as defined.	Two times base salary.

Charles A. Hughes. Effective April 23, 2003, we entered into a five-year employment agreement with Charles A. Hughes regarding Mr. Hughes' employment as our President. Under the terms of the agreement, Mr. Hughes receives a salary of $100,000 per year, plus benefits and annual bonus compensation as determined by the Board of Directors. Mr. Hughes is also entitled to be issued options under our 2002 Stock Option Plan. The amount of any stock options issued under our 2002 Stock Option Plan to Mr. Hughes will be determined by the Board of Directors on an annual basis.

Mr. Hughes' agreement automatically renews for an additional year at the end of its initial term and will continue to renew for an additional year at the end of each renewal term. The agreement also provides various other benefits and subjects Mr. Hughes to non-compete restrictions. Mr. Hughes' agreement contains the same conditions and terms regarding termination events described above for Mr. Grigsby's employment agreement.

Transactions with Promoters

Transactions with CBLA, Inc. On February 6, 2002, our organizers and founders created CBLA, Inc., a Tennessee corporation, to serve as a funding and organizing vehicle for us. Our organizers and founders contributed a total of $925,000 to CBLA, Inc. These funds were spent by CBLA, Inc. on organizational, pre-operating and offering expenses related to us. Money contributed by organizers and founders of national banks for this purpose is

generally reimbursed to the organizers and founders once a bank has raised its capital and has been given final approval to begin banking operations. Reimbursements to organizers and founders were also subject to approval by the OCC as to the reasonableness of the expenses involved. On April 8, 2003, the OCC approved our reimbursement of CBLA, Inc. and on April 9, 2003, we reimbursed the organizers and founders for the total amount of $925,000. The reimbursement was made partially with shares of our common stock and partially in cash.

The majority of the shareholders of CBLA, Inc., representing 88,750 shares, traded their CBLA, Inc. common stock for a like amount of our stock. The other 3,750 shares were owned by persons who requested that their shares be reimbursed with cash ($37,500), so that their Bank stock could be purchased directly through their retirement plans.

All of our common stock that was distributed to the shareholders of CBLA, Inc. was issued at the same offering price ($10.00 per share) as all other shares sold in our offerings. All of our organizers and founders purchased their common stock at the same offering price ($10.00 per share) as all other subscribers.

Organizers' Options. Our organizers provided a total of $400,000 in pre-operating capital to CBLA, Inc. to be used for our pre-operating expenses. The organizers also guaranteed a line of credit taken by CBLA, Inc. for our pre-operating expenses. In recognition of our organizers' financial risk and efforts in organizing our bank, our organizers were offered options to purchase up to a total of 154,000 additional shares of our common stock, at a purchase price of $10.00 per share. The options issued to our organizers who became our initial directors vest in one-third annual increments over a period of three years beginning on October 23, 2003. The options remain exercisable until October 23, 2007. Additionally, if our capital falls below the minimum level determined by the OCC, we may be directed to require all of our organizers to exercise or forfeit their options.

Founders' Options. Our founders provided a total of $525,000 in pre-operating capital to CBLA, Inc. to be used for our pre-operating expenses. In recognition of our founders' financial risk and efforts in organizing the Bank, our founders, as well as the organizer who is not a director, were offered options to purchase one additional share of our common stock, at $10.00 per share, for each $10.00 of pre-operating capital furnished to CBLA, Inc. We issued an aggregate of 52,500 shares of common stock to CBLA, Inc., for distribution to our founders. The organizer who did not become a director of the Bank contributed $25,000 in pre-operating capital to CBLA, Inc. He received options to purchase 2,500 shares of our common stock. The options issued to our founders, and the organizer who did not become a director, vested immediately upon issuance and will remain exercisable until October 23, 2007. Additionally, if our capital falls below the minimum level determined by the OCC, we may be directed to require all of our founders and the organizer who did not become a director to exercise or forfeit their options.

SUPERVISION AND REGULATION

We are subject to extensive federal banking regulations that impose restrictions on and provide for general regulatory oversight of our operations. These laws generally are intended to protect depositors and not shareholders. The following discussion describes the material elements of the regulatory framework that applies to us.

Bank Regulations

Since we are chartered as a national bank, we are primarily subject to the supervision, examination and reporting requirements of the National Bank Act and the OCC. The OCC regularly examines our operations and has the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. The OCC also has the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Because our deposits are insured by the FDIC to the maximum extent provided by law, we are also subject to certain FDIC regulations. We are also subject to numerous state and federal statutes and regulations that affect our business, activities and operations.

Change in Bank Control. The Change in Bank control Act, with related regulations, requires OCC approval prior to any person or company acquiring "control" of a bank. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank. Control is rebuttably

presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of our voting securities. The regulations provide a procedure for challenging any rebuttable presumption of control.

Branching. National banks are required by the National Bank Act to adhere to branching laws applicable to state banks in the states in which they are located. Under current Tennessee law, we may open branch offices throughout Tennessee with the prior approval of the OCC. In addition, with prior regulatory approval, we may acquire branches of existing banks located in Tennessee. We, and any other national or state-chartered bank, generally may branch across state lines by merging with banks in other states if allowed by the applicable states' laws. Tennessee law, with limited exceptions, currently permits branching across state lines through interstate mergers.

Under the Federal Deposit Insurance Act, states may "opt-in" and allow out-of-state banks to branch into their state by establishing a new start-up branch in the state. Currently, Tennessee has opted-in to this provision on a reciprocal basis, meaning that an out-of-state bank may establish a new start-up branch only if its home state has also elected to opt in.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 established a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) into which all institutions are placed. The federal banking agencies have specified by regulation the relevant capital level for each category. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal regulator. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

FDIC Insurance Assessments. The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The system assigns an institution to one of three capital categories: (1) well capitalized; (2) adequately capitalized; and (3) undercapitalized. These three categories are substantially similar to the prompt corrective action categories described above, with the "undercapitalized" category including institutions that are undercapitalized, significantly undercapitalized and critically undercapitalized for prompt corrective action purposes. The FDIC also assigns an institution to one of three supervisory subgroups based on a supervisory evaluation that the institution's primary federal regulator provides to the FDIC and information that the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. Assessments range from 0 to 27 cents per $100 of deposits, depending on the institution's capital group and supervisory subgroup. In addition, the FDIC imposes assessments to help pay off the $780 million in annual interest payments on the $8 billion Financing Corporation bonds issued in the late 1980s as part of the government rescue of the thrift industry. This assessment rate is adjusted quarterly and is set at 1.28 cents per $100 of deposits for the second quarter of 2006.

The FDIC may terminate its insurance of deposits if it finds that we have engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC.

Community Reinvestment Act. The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Board of Governors of the Federal Reserve, the FDIC, or the OCC, shall evaluate the record of each financial institution in meeting the credit needs of

its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on us. Since our aggregate assets are not more than $250 million, under the Gramm-Leach-Bliley Act, we are generally subject to a Community Reinvestment Act examination only once every 60 months if we receive an "outstanding" rating, once every 48 months if we receive a "satisfactory" rating and as needed if our rating is "less than satisfactory." Additionally, we must publicly disclose the terms of various Community Reinvestment Act-related agreements.

Other Regulations. Interest and other charges collected or contracted for by us are subject to state usury laws and federal laws concerning interest rates. For example, under the Soldiers' and Sailors' Civil Relief Act of 1940, a lender is generally prohibited from charging an annual interest rate in excess of 6% on any obligation of a borrower who is on active duty with the United States military.

Our loan operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, as amended by the Fair and Accurate Credit Transactions Act, governing the use and provision of information to credit reporting agencies, certain identify theft protections and certain credit and other disclosures;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Soldiers' and Sailors' Civil Relief Act of 1940, as amended by the Servicemembers Civil Relief Act, governing the repayment terms of, and property rights underlying, secured obligations of persons in military service; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

Our deposit operations are also subject to federal laws applicable to deposit transactions, such as the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act, governing automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

Capital Adequacy

We are required to comply with the capital adequacy standards established by the OCC. We are also subject to risk-based and leverage capital requirements adopted by the OCC.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

The minimum guideline for the ratio of total capital to risk-weighted assets is 8%. Total capital consists of two components, Tier 1 Capital and Tier 2 Capital. Tier 1 Capital generally consists of common stock, minority

interests in the equity accounts of consolidated subsidiaries, noncumulative perpetual preferred stock and a limited amount of qualifying cumulative perpetual preferred stock, less goodwill and other specified intangible assets. Tier 1 Capital must equal at least 4% of risk-weighted assets and must also equal 4% of average assets. Tier 2 Capital generally consists of subordinated debt, other preferred stock and a limited amount of loan loss reserves. The total amount of Tier 2 Capital is limited to 100% of Tier 1 Capital. At December 31, 2005 our ratio of total capital to risk-weighted assets was 13.9%, our ratio of Tier 1 Capital to risk-weighted assets was 12.8% and Tier 1 Capital to average assets was 7.0%.

We are also subject to capital guidelines which provide for minimum ratios of total capital to total assets.

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits and certain other restrictions on its business. As described above, significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements. See "—Prompt Corrective Action."

Payment of Dividends

We are required by federal law to obtain prior approval of the OCC for payments of dividends if the total of all dividends declared by our board of directors in any year will exceed (1) the total of our net profits for that year, plus (2) our retained net profits of the preceding two years, less any required transfers to surplus.

The payment of dividends by us may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. If, in the opinion of the OCC, we were engaged in or about to engage in an unsafe or unsound practice, the OCC could require, after notice and a hearing, that we stop or refrain engaging in the practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. See "—Prompt Corrective Action" above.

Restrictions on Transactions with Affiliates

We are subject to restrictions on extensions of credit to our executive officers, directors and principal shareholders and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

Privacy

Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers.

Anti-Terrorism and Money Laundering Legislation

We are subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act") as it amended the Bank Secrecy Act and the rules and regulations of the Office of Foreign Assets Control. These statutes and related rules and regulations impose requirements and limitations on specific financial transactions and account relationships, intended to guard against money laundering and terrorism financing. We have established a customer identification program pursuant

to Section 326 of the USA PATRIOT Act and the Bank Secrecy Act and otherwise has implemented policies and procedures to comply with the foregoing rules.

Federal Deposit Insurance Reform

On February 8, 2006, President Bush signed the Federal Deposit Insurance Reform Act of 2005 ("FDIRA"). The FDIC must adopt rules implementing the various provisions of FDIRA by November 5, 2006.

Among other things, FDIRA changes the Federal deposit insurance system by:

- raising the coverage level for retirement accounts to $250,000;
- indexing deposit insurance coverage levels for inflation beginning in 2012;
- prohibiting undercapitalized financial institutions from accepting employee benefit plan deposits;
- merging the Bank Insurance Fund and Savings Association Insurance Fund into a new Deposit Insurance Fund (the DIF); and
- providing credits to financial institutions that capitalized the FDIC prior to 1996 to offset future assessment premiums.

FDIRA also authorizes the FDIC to revise the current risk-based assessment system, subject to notice and comment and caps the amount of the DIF at 1.50% of domestic deposits. The FDIC must issue cash dividends, awarded on a historical basis, for the amount of the DIF over the 1.50% ratio. Additionally, if the DIF exceeds 1.35% of domestic deposits at year-end, the FDIC must issue cash dividends, awarded on a historical basis, for half of the amount of the excess.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Policies

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

DESCRIPTION OF OUR SECURITIES

The following descriptions do not purport to be complete and are subject to, and qualified in their entirety by reference to, the more complete descriptions thereof set forth in our Articles of Association and our Bylaws, as amended to date.

Authorization

Our authorized capital stock consists of 2,400,000 shares of common stock, $1.00 par value, of which 1,002,876 shares were outstanding as of March 31, 2006. There are no shares of preferred stock outstanding, whose rights, privileges and preferences will be established by the board of directors on issuance. Each share of common stock has the same rights, privileges and preferences as every other share. Upon conclusion of the offering, assuming no options are exercised and that we do not exercise our right to increase the total number of shares being offered in the public offering, there will be 1,802,876 shares of common stock outstanding. Up to an additional

300,583 shares of common stock will be issuable upon exercise of outstanding stock options under our stock option plans. Subsequent to March 31, 2006, 10,000 shares were issued pursuant to the exercise of outstanding options.

Common Stock

The holders of shares of our common stock are entitled to one vote per share on all matters presented for action by shareholders. Our articles of association may be amended at any regular or special meeting of the shareholders by the affirmative vote of the holders of a majority of the stock, unless the vote of the holders of a greater amount of stock is required by law. Federal law requires that the holders of two-thirds of our stock approve any increase or reduction in the our common stock and, in general, any merger, consolidation, or dissolution.

All shares of our common stock will be entitled to share equally in dividends from legally available funds, when, as and if declared by our board of directors. Upon our voluntary or involuntary liquidation or dissolution, all shares of common stock will be entitled to share equally in all of the assets available for distribution to the shareholders. We do not anticipate that we will pay any cash dividends on the common stock in the near future.

There is no redemption right, sinking fund provision, or right of conversion with respect to our common stock. Our articles of association provide that no holder of shares of the common stock will have a preemptive right to purchase any shares of any class of stock, other than as the board of directors may from time to time determine. Therefore, if our common stock were increased by the sale of additional shares of voting stock or interests convertible into voting stock, no holder of shares of the common stock would have any preferential right to purchase the additional shares or interests convertible into voting stock.

All shares of the common stock presently outstanding are, and the shares that will be issued in accordance with the terms of this offering as described in this prospectus will be, fully paid. The provisions of 12 U.S.C. Section 55 require us to assess our shareholders pro rata for the amount of common stock held by each to pay any deficiency in our capital stock. However, the OCC has not enforced the provisions of this law in many years.

Preferred Stock

The authorized preferred stock is available for issuance from time to time at the discretion of our board of directors without shareholder approval. The board of directors has the authority to prescribe for each series of preferred stock it establishes the number of shares in that series, the number of votes (if any) to which the shares in that series are entitled, the consideration for the shares in that series, and the designations, powers, preferences and other rights, qualifications, limitations or restrictions of the shares in that series. Depending upon the rights prescribed for a series of preferred stock, the issuance of preferred stock could have an adverse effect on the voting power of the holders of common stock and could adversely affect holders of common stock by delaying or preventing a change in control, making removal of our present management more difficult or imposing restrictions upon the payment of dividends and other distributions to the holders of common stock.

Provisions Having Potential Anti-Takeover Effects

General. The following is a summary of the material provisions of our articles of association and bylaws that address matters of corporate governance and the rights of shareholders. Certain of these provisions may delay or prevent takeover attempts not first approved by our board of directors (including takeovers which certain shareholders may deem to be in their best interests). These provisions also could delay or frustrate the removal of incumbent directors or the assumption of control by shareholders. The primary purpose of these provisions is to encourage negotiations with our management by persons interested in acquiring control of the Bank. All references to the articles of association and bylaws are to our articles of association and bylaws in effect as of the date of this Offering Circular.

Classification of the Board of Directors. The Bylaws provide that our Board of Directors shall be divided into three classes, which shall be as nearly equal in number as possible. Each director shall serve for a term ending on the date of the third annual meeting of shareholders following the annual meeting at which the director was elected. A director elected to fill a vacancy shall serve only until the next meeting of shareholders at which directors

are elected. Currently, approximately one-third of our board of directors is elected each year, and two annual meetings will be required for the shareholders to change a majority of the members constituting our board.

Filling Vacancies. Vacancies occurring in our board of directors may be filled by the shareholders or a majority of the remaining directors.

Amendment of Bylaws. A majority of our Board of Directors or our shareholders may amend or repeal the Bylaws. A Bylaw adopted, amended or repealed by our shareholders may not be readopted, amended or repealed by the Board of Directors.

Special Meetings of Shareholders. Our Bylaws provide that special meetings of shareholders may be called only by the Board of Directors or any 25 or more shareholders owning, in the aggregate, not less than 51 percent of the voting stock of the association.

Authorized But Unissued Shares. Authorized but unissued shares may be used for a variety of corporate purposes, including future public or private offerings to raise additional capital or to facilitate corporate acquisitions. One of the effects of the existence of authorized but unissued shares may be to enable the Board of Directors to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management and possibly deprive the shareholders of opportunities to sell their shares of common stock at prices higher than prevailing market prices.

Preferred Stock. The existence of preferred stock could impede a takeover of our bank without the approval of our board of directors. This is because our board of directors could issue shares of preferred stock to persons friendly to current management, which could render more difficult or discourage any attempt to gain control of our bank through a proxy contest, tender offer, merger or otherwise. In addition, the issuance of shares of preferred stock with voting rights may adversely affect the rights of the holders of our common stock and, in various circumstances, could decrease the market price of our common stock.

Removal of Directors. Our articles of association provide that one or more directors may be removed for cause during their terms by the affirmative vote of two-thirds of the entire board of directors or by the affirmative vote of the holders of at least a majority of the issued and outstanding shares of common stock entitled to vote in an election of directors. Directors may be removed during their terms without cause only by the affirmative vote of the holders of two-thirds of the issued and outstanding shares of common stock entitled to vote in an election of directors. Any amendment of this provision adopted by less than two-thirds of the entire board of directors would require the affirmative vote of the holders of at least two-thirds of the outstanding shares of common stock. If approved by at least two-thirds of the directors, the amendment would require the affirmative vote of only a majority of the outstanding shares of common stock.

Supermajority Voting on Selected Transactions. Our articles of association, with exceptions, require that any merger or similar transaction involving us or any sale or other disposition of all or substantially all of our assets will require the affirmative vote of a majority of our directors then in office and the affirmative vote of the holders of at least two-thirds of the outstanding shares of common stock. However, if our board of directors has approved the particular transaction by the affirmative vote of two-thirds of the entire board, then the applicable provisions of Tennessee law would govern and shareholder approval of the transaction would require only the affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote on the transaction. Any amendment of this provision adopted by less than two-thirds of the entire board of directors would require the affirmative vote of the holders of at least two-thirds of the outstanding shares of common stock. If approved by at least two-thirds of the directors, the amendment would require the affirmative vote of only a majority of the outstanding shares of common stock.

Evaluation of an Acquisition Proposal. Our articles of association provide the factors that our board of directors must consider in evaluating whether an acquisition proposal made by another party is in the best interests of our bank and its shareholders. The term "acquisition proposal" refers to any offer of another party to:

- make a tender offer or exchange offer for the common stock or any other equity security of our bank;
- merge or combine our bank with another corporation; or
- purchase or otherwise acquire all or substantially all of the properties and assets owned by our bank.

The board, in evaluating an acquisition proposal, is required to consider all relevant factors, including:

- the expected social and economic effects of the transaction on our employees, our clients and other constituents, such as our suppliers of goods and services;
- the payment being offered by the other corporation in relation to (1) our current value at the time of the proposal as determined in a freely negotiated transaction and (2) the board of directors' estimate of our future value as an independent company at the time of the proposal; and
- the expected social and economic effects on the communities within which we operate.

We have included this provision in our charter because serving our community was one of the reasons we organized the bank. As a result, our board believes its obligation in evaluating an acquisition n proposal extends beyond evaluating merely the payment being offered in relation to the market or book value of the common stock at the time of the proposal.

While the value of what is being offered to shareholders in exchange for their stock is the main factor when weighing the benefits of an acquisition proposal, our board believes it is appropriate to also consider all other relevant factors. For example, our board will evaluate what is being offered in relation to the current value of our bank at the time of the proposal as determined in a freely negotiated transaction and in relation to the board's estimate of the future value of our bank as an independent concern at the time of the proposal. A takeover bid often places the target corporation virtually in the position of making a forced sale, sometimes when the market price of its stock may be depressed. The board believes that frequently the payment offered in such a situation, even though it may exceed the value at which shares are then trading, is less than that which could be obtained in a freely negotiated transaction. In a freely negotiated transaction, management would have the opportunity to seek a suitable partner at a time of its choosing and to negotiate for the most favorable price and terms that would reflect not only our bank's current value, but also its future value.

One effect of the provision requiring our board to take into account specific factors when considering an acquisition proposal may be to discourage a tender offer in advance. Often an offeror consults the board of a target corporation before or after beginning a tender offer in an attempt to prevent a contest from developing. In our board's opinion, this provision will strengthen its position in dealing with any potential offeror that might attempt to acquire us through a hostile tender offer. Another effect of this provision may be to dissuade shareholders who might be displeased with the board's response to an acquisition proposal from engaging us in costly litigation.

Our articles of association would not make an acquisition proposal regarded by the board as being in our bank's best interests more difficult to accomplish. It would, however, permit the board to determine that an acquisition proposal was not in our best interests, and thus to oppose it, on the basis of the various factors that our board deems relevant. In some cases, opposition by our board might have the effect of maintaining incumbent management.

Any amendment of this provision adopted by less than two-thirds of the entire board of directors would require the affirmative vote of the holders of at least two-thirds of the outstanding shares of common stock. If approved by at least two-thirds of the directors, the amendment would require the affirmative vote of only a majority of the outstanding shares of common stock.

Indemnification of Directors and Officers

Our articles of association provide that we will, to the fullest extent permitted by applicable law, make or agree to make indemnification for payments to an "institution-affiliated party, as that term is defined in 12 U.S.C. §

1813(u) for an administrative proceeding or civil action initiated by any federal banking agency, provided such payments are reasonable and consistent with the requirements of 12 U.S.C. § 1828(k) and the regulations thereunder. An “institution-affiliated party” generally means any of our directors, officers, employees or controlling stockholders or any of our agents. It also includes any shareholder who participates in the conduct of the affairs of our bank and any of our independent contractors (including attorney's, appraisers or accountants) in certain situations. In cases brought by any federal banking agency against such persons, we are not allowed to indemnify them unless the federal agency is unsuccessful on the merits of the administrative or enforcement action.

Our articles of association provide that we will indemnify an “institution-affiliated party” for damages and expenses, including the advancement of expenses and legal fees in cases involving an administrative proceeding or civil action initiated by anyone other than a federal banking agency in accordance with Tennessee law, provided such payments are consistent with safe and sound banking practices.

Generally, Tennessee law provides that our directors and officers will be indemnified against expenses that they actually and reasonably incur if they are successful on the merits of a claim or proceeding. In addition, we may advance to our directors and officers reasonable expenses of any claim or proceeding so long as the director or officer furnishes us with (1) a written affirmation of his or her good faith belief that he or she has met the applicable standard of conduct and (2) a written statement that he or she will repay any advances if it is ultimately determined that he or she is not entitled to indemnification.

When a case or dispute is settled or otherwise not ultimately determined on its merits, Tennessee law provides that we may indemnify our directors and officers when they meet the applicable standard of conduct. The applicable standard of conduct is met if the director or officer acted n a manner he or she in good faith believed to be in or not opposed to our bank's best interests and, in the case of a criminal action or proceeding, if the director or officer had no reasonable cause to believe his or her conduct was unlawful. Our board of directors, shareholders or independent legal counsel determines whether the director or officer has met the applicable standard of conduct in each specific case.

Under Tennessee law, a corporation also may purchase insurance on behalf of any person who is or was a director or officer against any liability arising out of their status as such. We currently maintain a directors’ and officers’ liability insurance policy.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons under the provisions discussed above or otherwise, we have been advised that, in the opinion of the Securities and Exchange Commission and the OCC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Registrar and Transfer Agent

The registrar and transfer agent for our common stock is Registrar and Transfer Company in Cranford, New Jersey.

Our Securities Are Not Insured by the FDIC

An investment in any of our securities, including our common stock, will not be a deposit or a savings account and will not be insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency and is subject to investment risk, including the possible loss of principal.

UNDERWRITING

The underwriter, McKinnon & Company, Inc., has agreed, subject to the terms and conditions contained in an underwriting agreement with us, to sell, as selling agent for us on a best efforts basis, the shares being offered in the rights offering that are not purchased by our shareholders, together with 400,000 additional shares in the public offering. We have reserved the right to increase the number of shares by no more than 120,000 shares. Because the public offering is on a best efforts basis, the underwriter is not obligated to purchase any shares if they are not sold to the public, and the underwriter is not required to sell any specific number or dollar amount of shares.

The underwriter has informed us that it proposes to offer the public offering shares as selling agent for us, subject to prior sale, when, as and if issued by us, in part to the public at the public offering price, and in part through certain selected dealers to customers of such selected dealers at the public offering price. Each selected dealer will receive a commission of 5% of the public offering price for each share that it sells. The underwriter reserves the right to reject any order or part of an order for the purchase of shares through it.

The underwriter has not previously provided us with investment banking services, although it may do so from time to time in the future in the ordinary course of business. The underwriter has advised us on the structure of the rights offering, including the pricing of the rights offering. We will pay the underwriter a financial advisory/standby fee equal to 1% of the aggregate sales price of the shares sold in the rights offering and a commission equal to 6% of the aggregate sales price of the shares sold in the public offering. We have agreed to indemnify the underwriter against certain civil liabilities, including liability under the Securities Act of 1933. In addition, we have agreed to pay the underwriter's legal fees and to reimburse the underwriter for certain costs of informational and/or due diligence meetings.

We will also pay the expenses of both the rights offering and the public offering, which we expect to be approximately $100,000.

Neither the rights offering nor the public offering is contingent upon the occurrence of any event or the sale of a minimum number of shares. Funds received by the underwriter from investors in the public offering will be deposited with an escrow agent in a non-interest bearing escrow account until the closing of the both the rights offering and public offering. The closing of both offerings is expected to occur on or about August 7, 2006.

The price of the shares offered in the rights offering was determined by us after consultation with the underwriter and is based on a variety of factors, including:

- the per share book value of the common shares as of March 31, 2006,
- the trading history of our common stock,
- our operating history and our prospects for future earnings,
- our current performance,
- the prospects of the banking industry in which we compete,
- the general condition of the securities markets at the time of the offerings, and
- the prices of equity securities of other community banks.

The price of the shares offered in the public offering will be determined by negotiations between us and the underwriter, however we expect that the public offering price will be between $12.50 and $13.50. The factors mentioned above will be considered in determining the price of the shares offered in the public offering.

McKinnon & Company, Inc. has informed us that it intends to make a market in our common stock following completion of the offerings, but is has no obligation to do so for any particular length of time or at all. It may discontinue any market making at any time without notice.

Other than as described above, McKinnon & Company, Inc. has not provided and will not provide us with any financing and/or advisory services within the 180-day period preceding filing of the offerings with the National Association of Securities Dealers or the 90-day period following effectiveness of the offerings.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock, and we cannot predict the effect, if any, that the sale of shares or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices and our ability to raise equity capital in the future.

Upon completion of this offering, we will have up to 1,812,876 shares of common stock outstanding. These shares of common stock will be freely tradable without restriction, except that "affiliates" of our bank must comply with the resale limitations of Rule 144 under the Securities Act of 1937. Rule 144 defines an "affiliate" of a company as a person who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the company. Affiliates of a bank generally include its directors, officers and principal shareholders.

In general, under Rule 144, affiliates will be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1 % of the outstanding shares of common stock; or
- the average weekly trading volume during the four calendar weeks preceding his or her sale.

Sales under Rule 144 are also subject to manner of sale provisions, notice requirements and the availability of current public information about our bank. Affiliates will not be subject to the volume restrictions and other limitations under Rule 144 beginning 90 days after their status as an affiliate terminates.

LEGAL MATTERS

Powell Goldstein LLP, Atlanta, Georgia, will pass upon the legality of the securities offered by this Offering Circular for us. Certain legal matters will be passed upon for McKinnon & Company, Inc. by Powell Goldstein LLP.

EXPERTS

Our balance sheets as of December 31, 2005 and 2004, and our related statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2005 and 2004, have been included in this Offering Circular in reliance upon the report of Pugh & Company, P.C. independent certified public accountants, which also is included herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN OBTAIN MORE INFORMATION

We are subject to the informational requirements of the Exchange Act, and we file reports, proxy statements and other information with the OCC. You may inspect and copy any document we file with the OCC under the Exchange Act at the offices of the OCC's Communications Division located at 250 E Street, SW, Washington, DC 20219. You may also obtain copies of those reports and other documents by contacting the OCC by telephone at (202) 874-5000.

You may obtain, without charge, copies of these documents by sending your request in writing to:

Darwin K. Kilday
Chief Financial Officer and Corporate Secretary of the Bank
Community National Bank of the Lakeway Area
225 West First North Street
Morristown, Tennessee 37814

FINANCIAL STATEMENTS OF COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

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COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

BALANCE SHEETS

	March 31, 2006 (Unaudited)	December 31, 2005
	(in thousands)	
ASSETS		
Cash and due from banks	$ 847	$ 2,144
Federal funds sold	4,926	3,801
Total cash and cash equivalents	5,773	5,945
Securities:		
Available for sale, at fair value	23,763	22,896
Held to maturity, at amortized cost	6,874	7,136
Equity Investments, at Cost	716	712
Net loans	57,281	53,022
Premises and equipment, net	2,495	2,513
Accrued interest receivable	419	397
Prepaid expenses and other assets	123	93
Total assets	$ 97,444	$ 92,714
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits	$ 80,367	$ 75,877
Federal Home Loan Bank Advances	10,000	10,000
Securities sold under agreements to repurchase	1,107	740
Accrued interest payable	391	389
Other liabilities	41	49
Total liabilities	91,906	87,055
SHAREHOLDERS' EQUITY		
Common stock, $1 par value, 2,400,000 shares authorized; 1,002,876 shares issued and outstanding (1,002,876 shares at December 31, 2005)	1,003	1,003
Capital in Excess of Par Value	8,873	8,873
Retained deficit	(3,740)	(3,700)
Accumulated other comprehensive loss	(598)	(517)
Total shareholders' equity	5,538	5,659
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 97,444	$ 92,714

The accompanying notes are an integral part of these financial statements.

COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

STATEMENTS OF OPERATIONS

Three Months Ended March 31,	2006	2005
	(Unaudited - in thousands)	
Interest income:		
Loans, including amortized fees	$ 952	$ 572
Investment securities	348	157
Federal funds sold and other	66	14
Total interest income	1,366	743
Interest Expense:		
Deposits	640	300
Advances From Federal Home Loan Bank	102	0
Securities sold under agreements to repurchase and other	8	1
Total interest expense	750	301
Net interest income	616	442
Provision for loan losses	41	0
Net interest income after provision for loan losses	575	442
Noninterest income:		
Loan fees and service charges	27	19
Service charges on demand deposits	27	21
Other	29	29
Total noninterest income	83	69
Noninterest expense:		
Salaries and employee benefits	335	290
Net occupancy	136	126
Advertising	52	37
Printing and supplies	12	13
Data processing	45	37
Professional	56	60
Other	62	60
Total noninterest expense	698	623
Net loss before income taxes	(40)	(112)
Income taxes	0	0
Net loss	$ (40)	$ (112)
Loss per common share:		
Basic	$ (0.04)	$ (0.11)
Diluted	$ (0.04)	$ (0.11)

The accompanying notes are an integral part of these financial statements.

COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

Three Months Ended March 31,	2006	2005
	(Unaudited - in thousands)	
Net loss	$ (40)	$ (112)
Other comprehensive income (loss), net of tax:		
Net unrealized holding losses on securities available for sale	(81)	(232)
Reclassification adjustment for net realized losses included in net loss	0	0
Deferred income tax benefit related to net unrealized holding losses on securities available for sale, net of valuation allowance	0	0
Other comprehensive income (loss), net of tax	(81)	(232)
Comprehensive income (loss)	$ (121)	$ (344)

The accompanying notes are an integral part of these financial statements.

COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock	Capital in Excess of Par Value	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	(Unaudited - in thousands)				
Balance, January 1, 2006	$ 1,003	$ 8,873	$ (3,700)	$ (517)	$ 5,659
Net loss	0	0	(40)	0	(40)
Other comprehensive loss	0	0	0	(81)	(81)
Balance, March 31, 2006	$ 1,003	$ 8,873	$ (3,740)	$ (598)	$ 5,538

The accompanying notes are an integral part of these financial statements.

COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

STATEMENTS OF CASH FLOWS

Three Months Ended March 31,	2006	2005
	(Unaudited - in thousands)	
Operating Activities:		
Net loss	$ (40)	(112)
Reconciliation of net loss to net cash provided by (used in) operating activities:		
Provision for loan losses	41	0
Depreciation of premises and equipment	69	63
Net loss on sales of investment securities	0	0
(Increase) Decrease in:		
Accrued interest receivable	(22)	(12)
Prepaid expenses and other assets	(33)	(28)
Increase (Decrease) in:		
Accrued interest payable	2	4
Other liabilities	(8)	(7)
Total adjustments	49	20
Net cash provided by (used in) operating activities	9	(92)
Investing Activities:		
Purchases of investment securities	(6,627)	(5,531)
Net proceeds from sales, calls, maturities, and principal repayments of investment securities	5,940	416
Net increase in loans	(4,300)	(1,747)
Purchases of premises and equipment, net	(51)	(3)
Net cash used in investing activities	(5,038)	(6,865)
Financing Activities:		
Net increase in deposits	4,490	7,902
Net increase in securities sold under agreements to repurchase	367	13
Proceeds from issuance of common stock	0	25
Net cash provided by financing activities	4,857	7,940
Net increase (decrease) in cash and cash equivalents	(172)	983
Cash and cash equivalents, beginning of period	5,945	2,244
Cash and cash equivalents, end of period	$ 5,773	$ 3,227
Supplementary disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 748	$ 297
Income taxes	$ 0	$ 0
Supplementary disclosures of noncash investing activities:		
Change in unrealized gain/(loss) on investment securities available for sale	$ (81)	$ (232)
Change in deferred income taxes associated with unrealized gain/loss on investment securities available for sale	$ 0	$ 0
Change in net unrealized gain/(loss) on investment securities available for sale	$ (81)	$ (232)

The accompanying notes are an integral part of these financial statements.

COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2006 and 2005

Note 1. Basis of Presentation, Nature of Operations, Entity Formation, and Other

Basis of Presentation - The unaudited interim financial statements for the three months ended March 31, 2006 and 2005 have been prepared on the same basis as the Bank's audited financial statements for the year ended December 31, 2005. In the opinion of management, the accompanying financial statements have been prepared in accordance with the requirements of Regulation S-X, Article 10. Accordingly, they do not include all the disclosures, information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, all adjustments, consisting of normal recurring accruals that, in the opinion of management, are necessary to present fairly the financial position of the Bank as of March 31, 2006, and the results of operations and cash flows for the three months ended March 31, 2006 and 2005 have been included. The results of operations for such interim periods are not necessarily indicative of the results expected for the full year. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005 (the "2005 Form 10-KSB").

Nature of Operations - Community National Bank of the Lakeway Area commenced banking operations on April 9, 2003. The Bank provides a variety of banking services to individuals and businesses primarily in the counties of Hamblen and Jefferson through its main office in Morristown and branch office in Jefferson City, Tennessee. Its primary deposit products are demand deposits and certificates of deposit, and its primary lending products are commercial business, real estate mortgage, and consumer installment loans.

Formation of Entity - The founders and organizers of the Bank created CBLA, Inc., a Tennessee Corporation, on February 6, 2002. CBLA, Inc. was set up to serve as a funding and organizing vehicle for the Bank. The organizers contributed $925,000 in cash to CBLA, Inc. for the purpose of paying for pre-organizational costs of the Bank and in turn received 92,500 shares of $10 par common stock in CBLA, Inc. On June 10, 2002, the Bank's organizers filed an application with the Office of Comptroller of the Currency (OCC) to charter the Bank. The organizers received permission to begin the organization of the Bank on October 3, 2002. On April 8, 2003, the Bank received final approval from the OCC to commence banking operations and on April 9, 2003, the Bank began operations as a national bank.

Stock Options - The Bank has two stock option plans which are described more fully in Note 7. Prior to 2006, the Bank accounted for these plans under the recognition and measurement principles of APB Opinion No. 25. When the options were granted no stock-based employee compensation cost was reflected in net income, as all options granted under this plan have had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. The Bank adopted FASB Statement No. 123(R) as of January 1, 2006 using the modified prospective application as permitted under SFAS 123(R). Accordingly, prior period amounts have not been restated. Under this application, the Bank is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. No stock based compensation is included in net loss for the three months ended March 31, 2006 as all options outstanding were fully vested as of December 31, 2005 and no new options were granted during this quarter.

The following table illustrates the effect on net loss and loss per share if the Bank had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation for the period ended March 31, 2005.

	(In thousands, except per share data) Three Months Ended March 31, 2005
Net loss	$ (112)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(13)
Pro forma net loss	$ (125)
Loss per share:	
Basic - as reported	$ (.11)
Basic - pro forma	$ (.13)
Diluted - as reported	$ (.11)
Diluted - pro forma	$ (.13)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and deferred tax assets.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes net unrealized gains and losses on securities available for sale, net of any related tax effects, which is also recognized as a separate component of equity.

Note 2. Loss Per Share

Basic loss per share represents loss attributable to shareholders divided by the weighted average number of shares outstanding during the period. In accordance with FASB Statement No. 128 *Earnings Per Share*, no potential additional shares should be included in the computation of any diluted per share amount when a loss is reported; therefore basic and diluted loss per share amounts shown above are the same. Potential shares that may be issued by the Bank relate solely to outstanding stock options, and are determined using the treasury stock method.

Loss per share has been computed based on the following:

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Weighted average number of shares outstanding used to calculate loss per share	1,002,876	987,876

Note 3. Securities

The following is a summary of Community National Bank of the Lakeway Area's securities:

(Dollars in thousands)

March 31, 2006	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government and Federal Agencies				
U.S. Government Agencies	$ 10,000	$ 0	$ (189)	$ 9,811
Mortgage-backed	14,361	4	(413)	13,952
Total available for sale securities	$ 24,361	$ 4	$ (602)	$ 23,763
U.S. Government and Federal Agencies				
Mortgage-backed	$ 6,874	$ 0	$ (182)	$ 6,692
Total held-to-maturity securities	$ 6,874	$ 0	$ (182)	$ 6,692
Total investment portfolio	$ 31,235	$ 4	$ (784)	$ 30,455

December 31, 2005	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government and Federal Agencies				
U.S. Government Agencies	$ 9,005	$ 0	$ (155)	$ 8,850
Mortgage-backed	14,407	0	(362)	14,045
Total available for sale securities	$ 23,412	$ 0	$ (517)	$ 22,895
U.S. Government and Federal Agencies				
Mortgage-backed	$ 7,136	$ 0	$ (143)	$ 6,993
Total held-to-maturity securities	$ 7,136	$ 0	$ (143)	$ 6,993
Total investment portfolio	$ 30,548	$ 0	$ (660)	$ 29,888

Debt securities having a fair value of approximately $15.2 million dollars at March 31, 2006 were pledged to secure securities sold under agreements to repurchase, public deposits, federal funds lines of credit and Federal Home Loan Bank advances.

Note 4. Allowance for Losses on Loans and Nonperforming Loans

The changes in the allowance for losses on loans for the three months ended March 31, 2006 and 2005 are as follows:

(Dollars in Thousands)

	March 31, 2006	March 31, 2005
Beginning balance	**$** 547	$ 434
Provision for losses on loans	41	0
Recoveries of loans previously charged off	0	1
Loans charged off	(5)	(6)
Ending balance	**$** 583	$ 429

Nonperforming loans are summarized as follows:

(Dollars in Thousands)

	March 31, 2006	December 31, 2005
Nonaccrual loans	$ 8	$ 22
Restructured loans	0	0
Total nonperforming loans	$ 8	$ 22

Note 5. Loan Breakdown

A summary of loans as of March 31, 2006 and December 31, 2005 is as follows:

	(Dollars in thousands)	
	March 31, 2006	December 31, 2005
Loans Secured by Real Estate:		
Commercial Properties	$ 14,932	$ 13,876
Construction and Land Development	8,282	7,791
Residential and Other Properties	20,072	18,619
Total Loans Secured by Real Estate	43,286	40,286
Commercial and Industrial	5,569	4,434
Consumer and Other	4,341	4,125
Government Agency Guaranteed	4,490	4,547
	57,686	53,392
Plus: Unamortized Premiums on Purchased Loans	226	231
Less: Allowance for Loan Losses	(583)	(547)
Unearned Loan Fees	(48)	(54)
Loans, Net	$ 57,281	$ 53,022

Note 6. Deposit Breakdown

A summary of deposits as of March 31, 2006 and December 31, 2005 is as follows:

	(Dollars in thousands)	
	March 31, 2006	December 31, 2005
Noninterest-Bearing Demand Accounts	$ 7,394	$ 6,684
Interest-Bearing Accounts		
Checking Accounts	4,355	4,945
Money Market Accounts	29,165	23,931
Savings Accounts	1,833	1,869
Certificates of Deposit:		
Less Than $100,000	19,033	17,564
$100,000 or More	18,587	20,884
Total Interest-Bearing Deposits	72,973	69,193
Total Deposits	$ 80,367	$ 75,877

Included in the certificates of deposit $100,000 or more total above is $6.1 million and $9.8 million respectively for March 31, 2006 and December 31, 2005 of brokered certificates of deposit pools.

Note 7. Stock Option Plans

Effective with the organization of the Bank, the Bank's board of directors approved an incentive stock option plan, which was ratified by the Bank's shareholders on April 4, 2003. The plan reserved 141,000 shares of the Bank's common stock for issuance pursuant to the options to be granted. As of March 31, 2006, 123,250 options have been granted and have vested under this plan. The Bank intends to issue new shares when options are exercised under this plan.

In addition, the Bank's board of directors has approved the issuance of stock options by individual agreements to certain members of the board of directors, organizers and founders of the Bank. The board of directors granted options for a total of 209,000 shares under the individual agreements. As of March 31, 2006, all of these options have vested. The Bank intends to issue new shares when options are

exercised under this plan. Subsequent to March 31, 2006, 10,000 shares were issued pursuant to the exercise of options.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. No options were awarded during the periods ended March 31, 2006 and 2005.

A summary of the status of the Bank's stock option plans is presented below:

	Three Months Ended March 31, 2006		Three Months Ended March 31, 2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at Beginning of Period	300,583	$11.44	192,333	$10.00
Granted	0		0	
Exercised	0		2,500	
Surrendered	0		0	
Forfeited	0		0	
Outstanding at End of Period	300,583	$11.44	189,833	$10.00
Options Exercisable at Period-End	300,583		149,329	
Weighted-Average Fair Value of Options Granted During the Period	N/A		N/A	

Information pertaining to options outstanding at March 31, 2006 is as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$10.00-$13.50	300,583	2.83 years	$11.44	300,583	$11.44

Note 8. Federal Home Loan Bank Advances

The Bank has obtained two advances from the Federal Home Loan Bank of Cincinnati (FHLB). These advances are each $5 million and mature in 2015. The average interest rate on these advances is 4.15%. The FHLB has a one time option to convert the advances to variable rates. If the FHLB exercises its option and increases the interest rates on these advances, the Bank has the option to pay the advances in full without penalty. Pursuant to a collateral agreement with the FHLB, advances are secured by the Bank's FHLB stock, qualifying first mortgage loans and certain investment securities.

Note 9. Employment Agreements

The Bank has entered into employment agreements with four of its officers for a minimum annual salary and other related benefits. The agreements also contain certain non-compete restrictions.

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TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Registered Public Accounting Firm

Audit Committee of the Board of Directors
Community National Bank of the Lakeway Area
Morristown, Tennessee

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

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 financial statements referred to above present fairly, in all material respects, the financial position of Community National Bank of the Lakeway Area as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Pugh & Company, P.C.
Certified Public Accountants
Knoxville, Tennessee
January 13, 2006

COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

BALANCE SHEETS

As of December 31,	2005	2004
ASSETS		
Cash and Due From Banks	$ 2,143,816	$ 563,189
Federal Funds Sold	3,801,000	1,681,000
Total Cash and Cash Equivalents	5,944,816	2,244,189
Securities:		
Available for Sale, at Fair Value	22,895,499	17,116,921
Held to Maturity, at Amortized Cost (Fair Value $6,992,330)	7,135,796	0
Total Securities	30,031,295	17,116,921
Equity Investments, at Cost	712,328	464,365
Loans, Net of Allowance for Loan Losses of $547,256 in 2005 and $433,878 in 2004	53,022,112	38,553,776
Premises and Equipment, Net	2,513,072	2,730,483
Accrued Interest Receivable	396,836	249,940
Other Assets	93,094	73,031
TOTAL ASSETS	$ 92,713,553	$ 61,432,705
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 6,683,702	$ 5,726,213
Interest-bearing	69,193,136	48,869,725
Total Deposits	75,876,838	54,595,938
Securities Sold Under Agreements to Repurchase	739,852	275,704
Advances From Federal Home Loan Bank	10,000,000	0
Accrued Interest Payable	389,146	204,255
Other Liabilities	48,753	36,323
Total Liabilities	87,054,589	55,112,220
SHAREHOLDERS' EQUITY		
Common Stock, Par Value $1, Authorized 2,400,000 Shares; Issued and Outstanding 1,002,876 Shares in 2005 (987,876 Shares in 2004)	1,002,876	987,876
Capital in Excess of Par Value	8,872,592	8,737,592
Retained Deficit	(3,699,526)	(3,287,446)
	6,175,942	6,438,022
Accumulated Other Comprehensive Income (Loss)	(516,978)	(117,537)
Total Shareholders' Equity	5,658,964	6,320,485
TOTAL LIABILITIES AND EQUITY	$ 92,713,553	$ 61,432,705

The accompanying notes are an integral part of these financial statements.

COMMUNITY NATIONAL BANK OF THE LAKEYWAY AREA

STATEMENTS OF OPERATIONS

For the Years Ended December 31,	2005	2004
INTEREST INCOME		
Loans, Including Amortized Fees	$ 2,894,742	$ 1,684,876
Investment Securities	973,399	443,510
Federal Funds Sold	30,443	27,453
Other	1,213	0
Total Interest Income	3,899,797	2,155,839
INTEREST EXPENSE		
Deposits	1,676,592	713,714
Advances From Federal Home Loan Bank	138,712	0
Other	35,707	7,480
Total Interest Expense	1,851,011	721,194
NET INTEREST INCOME	2,048,786	1,434,645
PROVISION FOR LOAN LOSSES	130,956	151,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,917,830	1,283,645
NONINTEREST INCOME		
Service Charges and Fees on Loans	93,003	76,416
Service Charges on Deposit Accounts	161,326	105,003
Commissions on Loans Originated for Others	40,779	28,696
Other	23,851	20,360
Total Noninterest Income	318,959	230,475
NONINTEREST EXPENSE		
Salaries and Employee Benefits	1,259,489	1,148,704
Occupancy Costs	551,094	533,298
Data Processing	143,071	137,048
Office Supplies and Postage	92,932	82,511
Advertising and Promotion	177,616	152,056
Legal and Other Professional	146,409	130,155
Net Loss on Sales of Securities Available for Sale	42,253	12,419
Other	236,005	221,883
Total Noninterest Expense	2,648,869	2,418,074
NET LOSS BEFORE INCOME TAXES	(412,080)	(903,954)
INCOME TAXES	0	0
NET LOSS	$ (412,080)	$ (903,954)
LOSS PER SHARE:		
Basic	$ (0.42)	$ (0.92)
Assuming Dilution	$ (0.42)	$ (0.92)

The accompanying notes are an integral part of these financial statements.

COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31,	2005	2004
NET LOSS	$ (412,080)	$ (903,954)
OTHER COMPREHENSIVE LOSS, NET OF TAX		
Net Unrealized Holding Losses on Securities Available for Sale	(441,694)	(45,977)
Reclassification Adjustment for Net Realized Losses Included in Net Loss	42,253	12,419
Deferred Income Tax Benefit Related to Net Unrealized Holding Losses on Securities Available for Sale, Net of Valuation Allowance	0	0
Other Comprehensive Loss, Net of Tax	(399,441)	(33,558)
COMPREHENSIVE LOSS	$ (811,521)	$ (937,512)

The accompanying notes are an integral part of these financial statements.

COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCES, JANUARY 1, 2004	$ 987,876	$ 8,737,592	$ (2,383,492)	$ (83,979)	$ 7,257,997
Net Loss	0	0	(903,954)	0	(903,954)
Other Comprehensive Loss	0	0	0	(33,558)	(33,558)
BALANCES, DECEMBER 31, 2004	987,876	8,737,592	(3,287,446)	(117,537)	6,320,485
Common Stock Options Exercised (15,000 Shares at $10 Per Share)	15,000	135,000	0	0	150,000
Net Loss	0	0	(412,080)	0	(412,080)
Other Comprehensive Loss	0	0	0	(399,441)	(399,441)
BALANCES, DECEMBER 31, 2005	$ 1,002,876	$ 8,872,592	$ (3,699,526)	$ (516,978)	$ 5,658,964

The accompanying notes are an integral part of these financial statements.

COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

STATEMENTS OF CASH FLOW

For the Years Ended December 31,	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (412,080)	$ (903,954)
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities:		
Provision for Loan Losses	130,956	151,000
Depreciation	252,437	240,162
Federal Home Loan Bank Stock Dividends	(7,900)	0
Increase in Unearned Loan Fees	29,050	18,821
Net Amortization of Premiums and Discounts on Securities	93,120	81,970
Net Amortization of Premiums on Purchased Loans	38,352	6,454
Net Loss on Sales of Securities Available for Sale	42,253	12,419
Increase in Accrued Interest Receivable	(146,896)	(162,729)
Increase in Other Assets	(20,063)	(20,748)
Increase in Accrued Interest Payable	184,891	155,225
Increase (Decrease) in Other Liabilities	12,430	(18,566)
Total Adjustments	608,630	464,008
Net Cash Provided by (Used in) Operating Activities	196,550	(439,946)
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Available for Sale:		
Sales	5,085,848	4,432,788
Purchases	(18,071,065)	(16,328,987)
Maturities	4,000,000	0
Principal Repayments Received	2,676,433	1,384,660
Securities Held to Maturity:		
Purchases	(7,645,743)	0
Principal Repayments Received	505,339	0
Purchases of Equity Investments	(240,063)	(63,000)
Net Increase in Loans	(14,666,694)	(19,375,225)
Purchases of Premises and Equipment	(35,026)	(460,599)
Net Cash Used in Investing Activities	(28,390,971)	(30,410,363)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Deposits	21,280,900	29,923,047
Proceeds from Advances from Federal Home Loan Bank	10,000,000	0
Net Increase (Decrease) in Repurchase Agreements	464,148	(11,334)
Proceeds from Issuance of Common Stock	150,000	0
Net Cash Provided by Financing Activities	31,895,048	29,911,713
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,700,627	(938,596)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,244,189	3,182,785
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 5,944,816	$ 2,244,189
Supplementary Disclosures of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	$ 1,666,120	$ 565,969
Income Taxes	$ 0	$ 0
Supplementary Disclosures of Noncash Investing Activities:		
Change in Unrealized Loss on Securities Available for Sale	$ (399,441)	$ (33,558)
Change in Deferred Taxes Associated With Unrealized Loss on Securities Available for Sale, Net of Valuation Allowance	$ 0	$ 0
Change in Net Unrealized Loss on Securities Available for Sale	$ (399,441)	$ (33,558)

The accompanying notes are an integral part of these financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Community National Bank of the Lakeway Area commenced banking operations on April 9, 2003. The Bank provides a variety of banking services to individuals and businesses primarily in the counties of Hamblen and Jefferson through its main office in Morristown and branch office in Jefferson City, Tennessee. Its primary deposit products are demand deposits and certificates of deposit, and its primary lending products are commercial business, real estate mortgage, and consumer installment loans.

Formation of Entity - The founders and organizers of the Bank created CBLA, Inc., a Tennessee Corporation, on February 6, 2002 to serve as a funding and organizing vehicle for the Bank. The organizers received permission to begin the organization of the Bank in October 2002. On April 8, 2003, the Bank received final approval from the OCC to commence banking operations and on April 9, 2003, the Bank began operations as a national bank.

Reclassifications - Certain items in the 2004 financial statements were reclassified to conform to the 2005 financial statements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and valuation allowance related to deferred tax assets.

Comprehensive Income - Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes net unrealized gains and losses on securities available for sale, net of any related tax effects, which is also recognized as a separate component of equity.

Cash and Due From Banks - Cash and due from banks includes balances on deposit with one correspondent commercial bank located in the Southeastern United States. The Bank also maintains cash deposits with the Federal Home Loan Bank of Cincinnati and the Federal Reserve Bank of Atlanta. The balances in the accounts at the correspondent commercial bank were not in excess of FDIC insurance limits as of December 31, 2005 and 2004.

Federal Funds Sold - Federal funds sold consists of an unsecured loan to a correspondent commercial bank located in the Southeastern United States. This loan, plus interest, was repaid on the next business day.

Securities - In accordance with Financial Accounting Standards Board Statement No. 115, "*Accounting for Certain Investments in Debt and Equity Securities,*" the Bank has segregated its securities into the following categories:

(a) **Held to Maturity** - These securities are carried at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using the level yield method. In placing securities in this category, management has expressed a positive intent and ability to hold such securities until they mature.

(b) **Available for Sale** - These securities are carried at fair value based on quoted market prices. Securities placed in the available for sale category may be sold in response to changes in interest rates, liquidity needs, and for other purposes. Any unrealized gain or loss is reported in the statements of comprehensive income, net of any deferred income tax effect. Realized gains and losses on the sales of securities available for sale are based on the net proceeds and amortized cost of the securities sold, using the specific identification method.

Equity Investments - The Bank maintains certain investments with regulatory and other entities in which it has an ongoing business relationship. The Bank is required to maintain minimum cash account balances with certain of these entities. The Bank's equity investments in the Federal Home Loan Bank ("FHLB") of Cincinnati, the Federal Reserve Bank of Atlanta and the Bankers' Bank of Atlanta are carried at cost which approximates fair value based on the stock redemption provisions of each of the entities. The investment in FHLB stock is in part based on the Bank's amount of borrowings from the FHLB.

Loans - The Bank provides mortgage, commercial and consumer loans to individuals and businesses primarily in the Hamblen and Jefferson County areas. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance.

Recognition of Interest on Loans - Interest on loans is calculated using the simple interest method on the principal outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Repurchase Agreements - Repurchase agreements are treated as financing transactions and are carried at the amounts at which the securities will be subsequently reacquired, as specified in the respective agreements.

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 future cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of credit losses inherent in the loan portfolio and the related allowance may change materially in the near term. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Loan Fees, Discounts, and Premiums - Loan fees on long-term real estate loans, net of initial direct costs related to initiating and closing the loans, have been deferred and are being amortized into interest income over the remaining lives of the loans as an adjustment of yield using the interest method. Any discounts and premiums originated in conjunction with the purchase of loans is accreted or amortized into income, principally by the level yield method, over the remaining lives of the loans purchased.

Premises and Equipment - Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method using estimated useful lives of three to forty years.

Advertising and Promotion - Advertising and promotion costs are expensed as incurred.

Income Taxes - Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the book and tax basis of the allowance for loan losses, accumulated depreciation, net operating loss carryforwards, organizational start-up costs and the conversion from the accrual basis of accounting for financial reporting purposes to the cash basis of accounting for tax reporting. The deferred tax assets and liabilities, which are recorded net of a valuation allowance, represent the future tax return consequences of those differences which will either be taxable or deductible when the assets and liabilities are recovered or settled. The Bank has recorded a 100% valuation allowance at this time to offset the net deferred tax asset resulting from the above timing differences. See Note 9 for additional information.

Stock Options - The Bank has issued stock options to certain organizers, founders, and employees, which are described more fully in Note 13. The Bank accounts for these options under the recognition and measurement principles of APB Opinion No. 25, "*Accounting for Stock Issued to Employees*," and related interpretations. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Options Granted In Years Ended December 31,	
	2005	2004
Dividend Yield	0%	N/A
Expected Life	4 years	N/A
Expected Volatility	10%	N/A
Risk-Free Interest Rate	4.12%	N/A

The following table illustrates the effect on net income and earnings per share if the Bank had applied the fair value recognition provisions of FASB Statement No. 123(R), "*Accounting for Stock-Based Compensation*."

	Years Ended December 31,	
	2005	2004
Net Loss, As Reported	$ (412,080)	$ (903,954)
Less: Total Stock-Based Compensation Expense Determined Under Fair Value Based Method for All Awards, Net of Related Tax Effects	(226,334)	(154,460)
Pro Forma Net Loss	$ (638,414)	$ (1,058,414)
Loss Per Share:		
Basic, as Reported	$ (0.42)	$ (0.92)
Basic, Pro Forma	$ (0.64)	$ (1.07)
Diluted, as Reported	$ (0.42)	$ (0.92)
Diluted, Pro Forma	$ (0.64)	$ (1.07)

Loss Per Share - Basic loss per share represents loss attributable to shareholders divided by the weighted average number of shares outstanding during the period. In accordance with FASB Statement No. 128, "*Earnings Per Share,*" no potential additional shares should be included in the computation of any diluted per share amount when a loss is reported; therefore, the weighted average number of shares outstanding used for basic and diluted loss per share are the same and the resulting basic and diluted loss per share amounts are the same. The Bank utilizes the treasury stock method for determining the effect of dilutive stock options.

Loss per share is based on the following for the years ended December 31:

	2005	2004
Weighted Average Number of Shares Outstanding Used for Basic and Diluted Calculation	990,694	987,876

NOTE 2 - SECURITIES

The amortized cost and estimated fair value of securities classified as available for sale are as follows:

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2005:				
Debt Securities:				
Obligations of U.S. Government Corporations and Agencies	$ 9,004,815	$ 0	$ (155,181)	$ 8,849,634
Mortgage-Backed and Related Securities	14,407,662	0	(361,797)	14,045,865
Total Securities Available for Sale	$ 23,412,477	$ 0	$ (516,978)	$ 22,895,499

NOTE 2 - SECURITIES (Continued)

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2004:				
Debt Securities:				
Obligations of U.S. Government Corporations and Agencies	$ 9,064,788	$ 3,898	$ (36,555)	$ 9,032,131
Mortgage-Backed and Related Securities	8,169,670	0	(84,880)	8,084,790
Total Securities Available for Sale	$ 17,234,458	$ 3,898	$ (121,435)	$ 17,116,921

The amortized cost and estimated fair value of securities classified as held to maturity are as follows:

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2005:				
Debt Securities:				
Mortgage-Backed and Related Securities	$ 7,135,796	$ 0	$ (143,466)	$ 6,992,330
Total Securities Held to Maturity	$ 7,135,796	$ 0	$ (143,466)	$ 6,992,330
As of December 31, 2004:				
Total Securities Held to Maturity	$ 0	$ 0	$ 0	$ 0

The amortized cost and estimated fair value of debt securities as of December 31, 2005, by contractual maturity, are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in One Year or Less	$ 0	$ 0	$ 0	$ 0
Due After One Year Through Five Years	7,981,138	7,841,509	0	0
Due After Five Years Through Ten Years	1,023,677	1,008,125	0	0
	9,004,815	8,849,634	0	0
Mortgage-Backed and Related Securities	14,407,662	14,045,865	7,135,796	6,992,330
Total Investments	$ 23,412,477	$ 22,895,499	$ 7,135,796	$ 6,992,330

For purposes of the maturity table, mortgage-backed and related securities, which are not due at a single maturity date, have been allocated over maturity groupings based on their contractual maturities. The mortgage-backed and related securities may mature earlier than their contractual maturities because of principal prepayments.

Proceeds from sales of securities classified as available for sale totaled $5,085,848 during the year ended December 31, 2005 ($4,432,788 in 2004). Gross gains of $1,482 ($333 in 2004) and gross losses of $43,735 ($12,752 in 2004) were realized by the Bank during the year ended December 31, 2005. Additionally, the Bank did not transfer any securities between categories during the years ended December 31, 2005 and 2004.

The following table shows the Bank's securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position.

NOTE 2 - SECURITIES (Continued)

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2005						
Obligations of U.S. Government Corporations and Agencies	$ 5,919,687	$ (85,216)	$ 2,929,947	$ (69,965)	$ 8,849,634	$ (155,181)
Mortgage-Backed Securities	15,731,464	(275,627)	5,306,731	(229,636)	21,038,195	(505,263)
Total	$ 21,651,151	$ (360,843)	$ 8,236,678	$ (299,601)	$ 29,887,829	$ (660,444)
December 31, 2004						
Obligations of U.S. Government Corporations and Agencies	$ 6,980,612	$ (36,555)	$ 0	$ 0	$ 6,980,612	$ (36,555)
Mortgage-Backed Securities	5,160,165	(26,035)	2,924,625	(58,845)	8,084,790	(84,880)
Total	$ 12,140,777	$ (62,590)	$ 2,924,625	$ (58,845)	$ 15,065,402	$ (121,435)

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 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 Bank 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 forty-six debt securities with unrealized losses (which represent all of the bank's debt securities) have depreciated approximately 2% in total from the Bank's amortized cost basis. These securities are guaranteed by either U.S. Government corporations or 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. Since management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines in fair value are deemed to be other-than-temporary in nature. Accordingly, management has not recorded any permanent write-downs in the carrying values of its securities.

Debt securities with a total estimated fair value (which approximates book value) of approximately $16,683,000 as of December 31, 2005 ($6,964,000 in 2004) were pledged primarily to secure deposits of public funds, repurchase agreements, federal funds line of credit and borrowings advanced from the Federal Home Loan Bank.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans as of December 31, 2005 and 2004 is as follows:

	2005	2004
Loans Secured by Real Estate:		
Commercial Properties	$ 13,875,838	$ 11,977,898
Construction and Land Development	7,791,584	2,745,441
Residential and Other Properties	18,618,566	12,811,009
Total Loans Secured by Real Estate	40,285,988	27,534,348
Commercial and Industrial	4,434,038	4,777,961
Consumer and Other	4,124,515	3,729,004
Government Agency Guaranteed	4,547,017	2,801,120
	53,391,558	38,842,433
Plus: Unamortized Premiums on Purchased Loans	231,359	169,720
Less: Allowance for Loan Losses	(547,256)	(433,878)
Unearned Loan Fees	(53,549)	(24,499)
Loans, Net	$ 53,022,112	$ 38,553,776

Included in Consumer and Other Loans shown above are deposit account balances totaling approximately $13,000 which were in overdraft status as of December 31, 2005 ($3,000 in 2004).

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. These financial instruments are recorded in the financial statements when they are funded. Outstanding letters of credit were approximately $423,000 as of December 31, 2005 ($169,000 in 2004). Unadvanced lines of credit and commitments to extend credit were approximately $9,932,000 as of December 31, 2005 ($5,370,000 in 2004). Of the total outstanding letters of credit and unadvanced lines and commitments as of December 31, 2005 approximately $8,880,000 ($4,624,000 in 2004) was secured, primarily by real estate.

From time to time, the Bank provides credit to its executive officers, directors, and their affiliates. Such transactions are made on the same terms as those prevailing for comparable transactions with other borrowers and do not represent more than a normal risk of collection. The balance in this category changes based upon disbursements and repayments of loans and changes in directors or executive officers. Loans to executive officers, directors, and their affiliates are as follows:

	2005	2004
Balance at Beginning of Year	$ 2,101,741	$ 2,283,124
Net Disbursements and Other Additions	629,810	1,186,627
Net Repayments and Other Reductions	(1,522,192)	(1,368,010)
Balance at End of Year	$ 1,209,359	$ 2,101,741

Activity in the allowance for loan losses is as follows:

	2005	2004
Balance at Beginning of Year	$ 433,878	$ 294,744
Charge-offs	(23,019)	(11,866)
Recoveries	5,441	0
Provision-Charged to Expense	130,956	151,000
Balance at End of Year	$ 547,256	$ 433,878

The Bank had loans of approximately $18,400 that were 90 days or more past due as of December 31, 2005 ($0 in 2004). In addition, the Bank had loans of approximately $22,400 on which the accrual of interest had been discontinued ($0 in 2004).

As of December 31, 2005, the Bank had loans of approximately $18,600 (which approximates the average balance for the year) that were specifically classified as impaired ($0 in 2004). The allowance for loan losses related to impaired loans amounted to approximately $6,500 as of December 31, 2005 ($0 in 2004). The Bank recognized approximately $1,300 in interest income on impaired loans for the year ended December 31, 2005 ($0 in 2004).

NOTE 4 - PREMISES AND EQUIPMENT

A summary of premises and equipment is as follows:

	2005	2004
Land	$ 448,929	$ 448,929
Building	742,341	742,341
Leasehold Improvements	657,080	646,789
Furniture, Fixtures, and Equipment	1,319,967	1,295,232
	3,168,317	3,133,291
Less Accumulated Depreciation	655,245	402,808
	$ 2,513,072	$ 2,730,483

NOTE 5 - ACCRUED INTEREST RECEIVABLE

A summary of accrued interest receivable is as follows:

	2005	2004
Securities	$ 151,134	$ 98,801
Loans	245,702	151,139
	$ 396,836	$ 249,940

NOTE 6 - DEPOSITS

A summary of deposits is as follows:

	2005	2004
Noninterest-Bearing Demand Accounts	$ 6,683,702	$ 5,726,213
Interest-Bearing Accounts		
Checking Accounts	4,945,081	3,639,989
Money Market Accounts	23,931,146	9,957,650
Savings Accounts	1,868,630	1,515,355
Certificates of Deposit:		
Less Than $100,000	17,563,752	15,903,992
$100,000 or More	20,884,527	17,852,739
Total Interest-Bearing Accounts	69,193,136	48,869,725
Total Deposits	$ 75,876,838	$ 54,595,938

Included in certificates of deposit greater than $100,000 above is approximately $9,830,000 of brokered certificate of deposit pools as of December 31, 2005 ($8,613,000 in 2004).

As of December 31, 2005, the scheduled maturities of certificates of deposit above are as follows:

2006	$ 26,765,734
2007	7,991,123
2008	990,757
2009	1,769,555
2010 and Thereafter	931,110
	$ 38,448,279

NOTE 7 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Bank has sold certain securities with agreements to repurchase, primarily on an overnight basis, to certain commercial depositors. The total of these securities was $739,852 and $275,704 as of December 31, 2005 and 2004, respectively.

Securities sold under agreements to repurchase averaged approximately $603,000 during 2005 ($555,000 during 2004). The maximum amount outstanding at any month-end during 2005 was approximately $902,000 ($788,000 during 2004).

NOTE 8 - INTEREST EXPENSE

A summary of interest expense is as follows:

	2005	2004
Demand and Savings Deposits	$ 599,349	$ 164,690
Certificates of Deposit	1,077,243	549,024
FHLB Advances and Other	174,419	7,480
Total Interest Expense	$ 1,851,011	$ 721,194

NOTE 9 - INCOME TAXES

Income taxes as shown in the statements of operations differs from the amounts computed using the statutory federal income tax rate for the following reasons:

	2005		2004	
	Amount	Percent of Pretax Loss	Amount	Percent of Pretax Loss
Federal income tax (benefit) at statutory rate	$ (140,107)	(34.0) %	$ (308,136)	(34.0) %
Change in deferred tax valuation allowance	159,553	38.7	366,948	40.6
Non-deductible items	1,232	0.3	3,413	0.3
State income tax (benefit) and other, net	(20,678)	(5.0)	(62,225)	(6.9)
Total Tax Expense	$ 0	0.0 %	$ 0	0.0 %

The tax effect of each type of temporary difference and carryforward that results in deferred tax assets and liabilities is as follows:

	2005	2004
Deferred Tax Assets:		
Net Operating Loss Carryforward	$ 1,380,730	$ 1,267,888
Deferred Loan Fees	20,503	9,381
Allowance for Loan Losses	134,441	61,462
Organizational and Start-up Costs	148,057	211,077
Contribution Carryover	8,970	0
Total Deferred Tax Assets	1,692,701	1,549,808
Deferred Tax Liabilities:		
Depreciation	233,132	233,237
Conversion from Accrual to Cash Basis of Accounting	17,139	36,719
FHLB Stock Dividends	3,025	0
Total Deferred Tax Liabilities	253,296	269,956
Net Deferred Tax Asset Before Valuation Allowance	1,439,405	1,279,852
Valuation Allowance	(1,439,405)	(1,279,852)
Net Deferred Tax Asset	$ 0	$ 0

A 100% valuation allowance will be provided until it is likely that any net deferred tax assets will be realized. Realization of the potential net deferred tax asset is dependent upon whether there will be sufficient taxable income available within the carryforward period under the federal and state tax laws.

The Bank has state and federal net operating loss carryforwards totaling approximately $3,520,000 and $3,494,000 respectively at December 31, 2005. These carryforwards are available to offset tax liabilities on future income through 2025 for federal income taxes and 2020 for state.

NOTE 10 - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

The Bank has two advances from the Federal Home Loan Bank of Cincinnati (FHLB) at December 31, 2005. These advances are $5 million each and mature in 2015. The average interest rate on these advances is 4.15%. The FHLB has a one time option to convert the advances to variable rates. If the FHLB exercises its option and increases the interest rates on these advances, the Bank has the option to pay the advances in full without penalty. Pursuant to a collateral agreement with the FHLB, advances are secured by the Bank's FHLB stock, qualifying first mortgage loans and certain securities.

The Bank also maintains a federal funds accommodation line of credit through one of its correspondent commercial banks. The accommodation line allows borrowings up to a maximum amount of $2,000,000. Advances must be repaid on the next business day with interest. No borrowings were outstanding on this line at December 31, 2005 or 2004.

NOTE 11 - REGULATORY MATTERS

As a national bank, the Bank is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in any one year in excess of the sum of the Bank's current year earnings plus undistributed Bank earnings from the prior two years. The Bank has not paid any dividends to its stockholders to date.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I capital (as defined in the regulations) to Risk-Weighted Assets (as defined), and of Tier I capital (as defined) to Average Assets (as defined). Management believes, as of December 31, 2005, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2005, the Bank is categorized 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 I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that date that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table. All amounts are in thousands of dollars.

	Actual		To Comply With Minimum Capital Requirements		Minimum 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)	$ 6,723	13.9%	$ 3,856	8.0%	$ 4,820	10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 6,176	12.8%	$ 1,928	4.0%	$ 2,892	6.0%
Tier I Capital (to Average Assets)	$ 6,176	7.0%	$ 3,520	4.0%	$ 4,400	5.0%
As of December 31, 2004						
Total Capital (to Risk-Weighted Assets)	$ 6,872	17.3%	$ 3,170	8.0%	$ 3,962	10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 6,438	16.3%	$ 1,585	4.0%	$ 2,377	6.0%
Tier I Capital (to Average Assets)	$ 6,438	11.2%	$ 2,302	4.0%	$ 2,877	5.0%

NOTE 12 - RETIREMENT PLAN

The Bank has established a 401(k) retirement plan which allows eligible officers and employees to contribute up to the maximum allowable amount under the IRS Code. The Bank has the option, at the discretion of the board of directors, to make contributions to the plan. There have been no contributions to the plan by the Bank since the plan's inception.

NOTE 13 - STOCK OPTIONS

Effective with the organization of the Bank, the Bank's board of directors approved a stock option plan, which was ratified by the Bank's shareholders on April 4, 2003. The plan reserved 141,000 shares of the Bank's common stock for issuance pursuant to the options to be granted. In December 2005, the board of directors awarded a total of 123,250 options related to these shares, by individual agreements to employees of the Bank. These options have an exercise price of $13.50 per share, which was estimated to be greater than the fair value of the stock on the date the options were granted. The options became fully vested on the grant date and expire in five years. The Bank intends to issue new shares when options are exercised.

In addition, the Bank's board of directors approved the issuance of stock options by individual agreements to the organizers and founders of the Bank. The board of directors granted options for a total of 209,000 shares in 2003 under these individual agreements. These options vested at a rate of one third per year beginning one year after the effective date of the Bank's registration with the Office of the Comptroller of the Currency. These options became fully vested in October of 2005. The options

expire October 23, 2007. They provide for the purchase of stock at an exercise price of $10.00 per share, which was determined to be equal to the fair value of the stock on the date the options were granted. In 2005, options for 15,000 shares were exercised (none exercised in other years). In 2004, options for 16,667 shares were forfeited (none in 2005).

A summary of the status of the Bank's stock options outstanding is presented below:

	2005		2004	
	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
Outstanding at Beginning of Year	192,333	$ 10.00	209,000	$ 10.00
Granted by Individual Agreements	123,250	13.50	0	-
Exercised	(15,000)	10.00	0	-
Forfeited	0	-	(16,667)	10.00
Outstanding at End of Year	300,583	11.44	192,333	10.00
Options Exercisable at Year-End	300,583		157,662	
Weighted-Average Fair Value of Options Granted During the Year	$ 1.57		N/A	

Information pertaining to options outstanding at December 31, 2005 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 10.00-13.50	300,583	3.08	$ 11.44	300,583	$ 11.44

NOTE 14 - LEASE COMMITMENTS

The Bank has entered into a lease agreement and a sublease agreement to rent space that serves as the Bank's main office. The initial term of the lease and sublease is for five years commencing in November and October 2002 respectively. The lease and sublease contain renewal options for three additional five-year terms. The total monthly rental payment under the lease and sublease is $9,094, including a $375 per month common area fee.

The Bank also entered into lease agreements to provide a temporary branch location during the construction period of the permanent branch site. A parcel of land was leased for a twelve month period commencing October 15, 2002, with an annual payment of $5,000. This lease had a renewal option for twelve successive terms of one month with monthly rental payments of $417. Additionally, the Bank leased a modular bank building beginning in October of 2002 for a term of one year with month to month renewals thereafter. The total monthly rental payment for the modular bank building was $2,346. Both of these leases were terminated in 2004 upon completion of the permanent branch location. The Bank also leased certain office equipment for $2,571 in 2005 ($1,224 in 2004).

Rent expense for these leases for the year ended December 31, 2005 was $111,703 ($124,096 during 2004).

Future minimum rental payments under all noncancellable operating leases as of December 31, 2005 are as follows:

2006	$ 109,128
2007	86,541
2008	0
2009	0
2010 and thereafter	0
	$ 195,669

NOTE 15 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

The Bank's primary business activity is with customers located within East Tennessee. As of December 31, 2005 and 2004, the Bank had a concentration in loans which are secured by real estate, as shown in Note 3. The usual risk associated with such a concentration is generally mitigated by being spread over several hundred unrelated borrowers and by adequate loan-to-collateral value ratios. Note 2 describes the types and amounts of securities the Bank has invested in as of December 31, 2005 and 2004. The Bank does not have any significant concentrations to any one industry or customer.

NOTE 16 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments* (SFAS No. 107), which requires the Bank to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practicable to estimate fair value.

According to SFAS No. 107, a financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that both: (1) imposes on one entity a contractual obligation to deliver cash or another financial instrument to a second entity, or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (2) conveys to that second entity a contractual right to receive cash or another financial instrument from the first entity, or to exchange other financial instruments on potentially favorable terms with the first entity.

SFAS No. 107 also states that the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices in an active market, if available, are the best evidence of the fair value of financial instruments. For financial instruments that do not trade regularly, management's best estimate of fair value is based on either the quoted market price of a financial instrument with similar characteristics or on valuation techniques such as the present value of estimated future cash flows using a discount rate commensurate with the risks involved.

For the Bank, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments as defined above. However, a large majority of those assets and liabilities do not have an active trading market nor are their characteristics similar to other financial instruments for which an active trading market exists. In addition, it is the Bank's practice and intent to hold the majority of its financial instruments to maturity and not to engage in trading or sales activities. Therefore, much of the information as well as the amounts disclosed below are highly subjective and judgmental in nature. The subjective factors include estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are subject to change. Because the fair value is estimated as of December 31, 2005 and 2004, the amounts which will actually be realized or paid upon settlement or maturity of the various financial instruments could be significantly different.

The estimates of fair value are based on existing financial instruments without attempting to estimate the value of anticipated future business or activity nor the value of assets and liabilities that are not considered financial instruments. For example, the value of mortgage loan servicing rights and the value of the Bank's long-term relationships with depositors, commonly known as core deposit intangibles, have not been considered in the estimates of fair values presented below. In addition, the tax implications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been included in the estimated fair values below.

The following methods and assumptions were used to estimate the fair value of the following classes of financial instruments:

Cash and Cash Equivalents - Cash and cash equivalents include cash and due from banks, cash on hand, and federal funds sold. For these short-term instruments, the recorded book value is a reasonable estimate of fair value.

Securities - Quoted market prices are used to determine the estimated fair value of securities.

Equity Investments - The carrying value of these equity investments with regulatory and other entities in which the Bank has an ongoing business relationship approximates fair value, based on the stock redemption provisions of the entities.

Net Loans - 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 for fixed rate 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.

The estimated fair value of the allowance for loan losses is considered to be recorded book value. Additionally, the credit exposure known to exist in the loan portfolio is embodied in the allowance for loan losses.

Deposits - The estimated fair value of demand, savings, NOW and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar maturities.

Securities Sold Under Agreements to Repurchase - For these short-term instruments, the recorded book value is a reasonable estimate of fair value.

Advances From Federal Home Loan Bank - The fair value of the Bank's two fixed rate advances is estimated using rates currently available for debt with similar terms and remaining maturities.

Off-Balance-Sheet Loan Commitments - The fair value of loan commitments is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. The fair value of these items is not material to the Bank as of December 31, 2005 and 2004.

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

	2005		2004	
	Recorded Book Value	Estimated Fair Value	Recorded Book Value	Estimated Fair Value
FINANCIAL ASSETS:				
Cash and Cash Equivalents	$ 5,944,816	$ 5,944,816	$ 2,244,189	$ 2,244,189
Securities	$ 30,031,295	$ 29,887,829	$ 17,116,921	$ 17,116,921
Equity Investments	$ 712,328	$ 712,328	$ 464,365	$ 464,365
Net Loans	$ 53,022,112	$ 52,786,910	$ 38,553,776	$ 38,262,732
FINANCIAL LIABILITIES:				
Deposits	$ 75,876,838	$ 75,912,584	$ 54,595,938	$ 54,646,305
Securities Sold Under Agreements to Repurchase	$ 739,852	$ 739,852	$ 275,704	$ 275,704
Advances From Federal Home Loan Bank	$ 10,000,000	$ 9,892,702	$ 0	$ 0

NOTE 17 - EMPLOYMENT AGREEMENTS

The Bank has entered into employment agreements with four of its officers for a minimum annual salary and other related benefits. The agreements also contain certain non-compete restrictions.

Community National Bank of the Lakeway Area
Rights Offering Subscription Form

Community National Bank of the Lakeway Area
225 West First North Street
P.O. Box 1919
Morristown, Tennessee 37816-1919
Attention: Darwin K. Kilday, Executive Vice President and Chief Financial Officer

Ladies and Gentlemen:

Subject to the terms of the rights offering described in the Community National Bank of the Lakeway offering circular dated June 30, 2006, I hereby subscribe to purchase the number of shares of common stock of Community National Bank of the Lakeway Area, a national banking association (the "Bank"), set forth below for a purchase price of $12.50 per share. Enclosed with this Subscription Agreement is my check or money order made payable to "Community National Bank of the Lakeway Area" evidencing $12.50 for each share subscribed for, which funds are to be held in escrow as described in the Bank's offering circular.

I understand that my subscription is conditioned upon acceptance by the Bank and subject to the additional conditions described in "The Rights Offering" in the offering circular. I further understand that the Bank, in its sole discretion and without notice, may reject my subscription in whole or in part, for any reason or no reason, and may allot to me fewer shares than I have subscribed for. In the event the subscription offering is terminated, funds paid under this Subscription Agreement will be returned to me without interest.

I certify that I have read and understand the offering circular and that I am relying on no representations other than those set forth in the offering circular. I understand that when this Subscription Agreement is executed and delivered, it is irrevocable and binding upon me. I further understand and agree that my right to purchase shares hereunder may not be assigned or transferred to any third party without the express written consent of the Bank.

I HAVE READ AND UNDERSTAND THIS SUBSCRIPTION AGREEMENT.

Under the penalty of perjury, I certify that: (1) the Social Security number or Taxpayer Identification Number given below is correct; and (2) I am not subject to backup withholding. INSTRUCTION: YOU MUST CROSS OUT (2) ABOVE IF YOU HAVE BEEN NOTIFIED BY THE INTERNAL REVENUE SERVICE THAT YOU ARE SUBJECT TO BACKUP WITHHOLDING BECAUSE OF UNDERREPORTING INTEREST OR DIVIDENDS ON YOUR TAX RETURN.

______________________________	______________________________
Signature*	Additional Signature (if required)

Date: ____________________

* When signing as attorney, trustee, administrator, or guardian, please give your full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. In case of joint tenants, each joint owner must sign.

IMPORTANT – Please complete the reverse side.

Community National Bank of the Lakeway Area
Rights Offering Subscription Form

Number of Shares Subscribed: ___________________

Aggregate Price Included ($12.50 per share): ____________________

Name(s) in which Common Stock is to be Registered

Address (Street or P.O. Box)

City, State and Zip

( )	( )
Daytime Phone	Evening Phone
Taxpayer ID (Social Security No.)	E-mail Address

Legal Form of Ownership:

__ Individual	__ Joint Tenants with Right of Survivorship
__ Tenants in Common	__ Uniform Transfers to Minors
__ Other	

Complete all blanks on this Subscription Agreement, make checks or money orders payable to "Community National Bank of the Lakeway Area" and mail or deliver this Subscription Agreement and your check or money order to:

Community National Bank of the Lakeway Area
225 West First North Street
P.O. Box 1919
Morristown, Tennessee 37816-1919
Attention: Darwin K. Kilday, Executive Vice President and Chief Financial Officer
Telephone: (423) 317-3229

Any questions concerning subscriptions or the rights offering may be directed to the above address.

TO BE COMPLETED BY THE BANK

Accepted as of ___/___/2006, as to ______________ shares.

COMMUNITY NATIONAL BANK OF THE LAKEWAY AREA

By: ____________________________________
Signature

____
Print Name

We have not authorized any dealer, salesperson or other person to give you written information other than this Offering Circular or to make representations as to matters not stated in this Offering Circular. You must not rely on unauthorized information. This Offering Circular is not an offer to sell these securities or our solicitation of your offer to buy these securities in any jurisdiction where that would not be permitted or legal. Neither the delivery of this Offering Circular nor any sales made hereunder after the date of this Offering Circular shall create an implication that the information contained herein or the affairs of Community National Bank of the Lakeway Area have not changed since the date hereof.

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400,000 Shares of Common Stock

OFFERING CIRCULAR

June 30, 2006

McKinnon & Company, Inc.