SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1993

COMMISSION FILE NUMBER 0-11595

MERCHANTS BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Incorporated in the State of Delaware Employer Identification No. 03-0287342

123 Church St, Burlington, Vermont 05401
(Address of principal executive office) (Zip Code)

Registrants telephone number:(802) 658-3400

Securities registered pursuant to Section 12(b) of the Act:
(Not Applicable)
Securities registered pursuant to Section 12(g) of the Act:

Title of Class: Common Stock (Par Value $.01 a share)

Name of Exchange on which listed: NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Contained herein X Not contained herein

The aggregate market value of the voting stock held by non-affiliates is $32,146,829 as computed using the average bid and asked prices of stock, as of March 8, 1994.

The number of shares outstanding for each of the registrant's classes of common stock, as of March 31, 1994 is:

Class: Common stock, par value $.01 per share
Outstanding: 4,242,927 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended December 31, 1993 are incorporated herein by reference to Part II.

Portions of the Proxy Statement to Shareholders for the year ended December 31, 1993 are incorporated herein by reference to Part III.

FORM 10-K

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PART I

ITEM 1 - BUSINESS

MERCHANTS BANCSHARES, INC., (the Company) was organized on July 1, 1983 as a Vermont corporation, for the purpose of acquiring, investing in or holding stock in any subsidiary enterprise permitted under the Bank Holding Company Act of 1956. On January 24, 1984 the Company acquired The Merchants Bank; and on October 4, 1988 the Company organized Merchants Properties, Inc. On June 2, 1987 shareholders approved a resolution to change the state of incorporation of the Company from Vermont to Delaware.

THE MERCHANTS BANK, (the Bank) was organized in 1849, and assumed a national bank charter in 1865, becoming The Merchants National Bank of Burlington, Vermont. On September 6, 1974 the Bank converted its national charter to a state-bank charter, becoming known as The Merchants Bank. As of December 31, 1993 the Bank was the third largest commercial banking operation in Vermont, with deposits totalling $619.3 million, net loans of $553.4 million, and total assets of $735.4 million, on a consolidated basis.

Since September 30, 1988, The Merchants Bank has participated as an equity partner in the development of several AFFORDABLE HOUSING PARTNERSHIPS which were formed to provide residential housing units within the State of Vermont. During the past four years these partnerships have developed 695 units of residential housing, 446 (64%) of which qualify as "affordable housing units for eligible low income owners or renters", and 249 (36%) of which are "market rate units". These partnerships have invested in 14 affordable and elderly housing projects within 11 Vermont communities: St. Albans, Middlebury, Williston, Winooski, Brattleboro, Montpelier, Burlington, Springfield, St. Johnsbury, Colchester and Swanton.

MERCHANTS PROPERTIES, INC., a wholly owned subsidiary of the Company, was organized for the purpose of developing and owning affordable rental housing units throughout the state of Vermont. As of December 31, 1993 the corporation owned one development located in Enosburg, Vermont, consisting of a 24-unit low income family rental housing project, which was completed and rented during 1989. Total assets of this corporation at December 31, 1993 were $1,328,295.

The Bank owns controlling interest in MERCHANTS TRUST COMPANY, a corporation chartered in 1870 for the purpose of offering fiduciary services such as estate settlement, testamentary trusts, guardianships, agencies, intervivos trusts, employee benefit plans and corporate trust services. The Merchants Trust Company also operates a discount brokerage office, through Olde Discount Corporation, enabling investors to purchase or sell stocks and bonds on a discounted commission schedule. As of

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December 31, 1993, the Merchants Trust Company had fiduciary responsibilities for assets valued at market in excess of $311 million. Total income for 1993 was $1,756,523, total expense was $1,016,153 resulting in net profit for the year of $740,370. This income is included in the consolidated tax return of its parent company, The Merchants Bank.

QUENESKA CAPITAL CORPORATION, a wholly-owned subsidiary of The Merchants Bank was established on April 4, 1988 as a Federal licensee under the Small Business Act of 1958 to provide small business enterprises with loans and/or capital. As of December 31, 1993, the corporation had assets of $1,536,668, a liability of $5,524 due to the parent company for accrued management fees, and equity capital of $1,531,144.

QUENESKA Capital Corporation has no employees, relying on the personnel resources of its parent company to operate. As compensation for its services QUENESKA pays the Bank a management fee in the amount of 1.5% on annual average assets ($21,673) in 1993. This fee is eliminated in the financial statement consolidation of the parent company.

The corporation's taxable income or loss is included in the consolidated tax return of its parent company, The Merchants Bank. QUENESKA computes its income tax provision or benefit on an individual basis and reimburses, or is reimbursed, by the parent company an amount equal to the annual provision or benefit.

RETAIL SERVICES

A variety of deposit, credit and other miscellaneous financial services are offered by the Bank, encompassing the following:

> Checking accounts are offered in the form of regular, N.O.W., Super N.O.W. and senior citizen accounts. The Bank also offers a basic account called the Thrift account.
>
> Statement savings accounts are offered with a related account feature to a number of personal checking account products which may satisfy the checking account minimum balance requirements.
>
> ATF (automatic transfer of funds) provides overdraft protection benefits for personal checking accounts through electronic funds transfer.
>
> Certificates of deposit provide investment opportunities with varying maturities and yields.
>
> Money Market and Preferred Investment accounts offer competitive annual percentage yields and the ability to engage in third party transactions.
>
> A flexible I.R.A. program offers several deposit options for retirement investment using both fixed and adjustable rate offerings with varying maturities.
>
> A Christmas Club account is also available for the accumulation of savings with an annual disbursement.

The Consumer Credit program consists of installment loans, Mastercard, University of Vermont Affinity Mastercard, VISA, a home equity line of credit, and fixed and adjustable rate residential real estate mortgages. Four unique mortgage programs are: an accelerated amortization mortgage which allows mortgagors to make biweekly payments resulting in interest savings and an earlier payoff compared to monthly payment mortgages; a Two Step program with an affordable low fixed rate for the first five or seven years which then adjusts once based upon a specific index; a loan under the Farmers' Home Administration Rural Guaranteed Housing Program which provides for up to 100% financing, flexible qualifying ratios, and a government guarantee for loans on properties in the rural portions of the state; and a "jumbo" loan program providing salable loans for customers with requirements for larger mortgage balances. The Bank also participates in the state's housing finance agency program which assists the low to moderate income home buyer.

The Bank provides strong customer support with thirty Automated Teller machines statewide and including one drive-up machine and 106 on-line electronic teller stations. The bank's expanded personal computer networks now connect each of our thirty nine banking offices to the main frame computer with CRT capability as well as with electronic mail and other PC software. Miscellaneous retail services include safe deposit boxes, travelers and gift checks, bank drafts, personal money orders, and several methods of automated money transfer, including Federal Reserve wire services.

COMMERCIAL SERVICES

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The Bank provides commercial banking services to individuals, partnerships and corporations, as well as to public and governmental organizations. Corporate Cash Management services provide several vehicles for managing and investing idle funds on a daily and weekly basis. Business Credit Card services offer full participation in Mastercard and VISA programs and feature various types of electronic deposit options. Regular and Small Business checking accounts address the need for essential deposit and disbursement services for commercial customers. Commercial loans are offered for a wide range of private and public funding needs. Included in this area is the Bank's Small Business Preferred Lender Program. Also offered are commercial real estate loans, lines of credit, business credit cards, and irrevocable letters of credit.

Other miscellaneous commercial banking services include night depository, coin and currency handling, and employee benefits management and fiduciary services available through the Merchants Trust Company.

EXPANSION EFFORTS

The Merchants Bank operates thirty-eight full-service banking facilities within Vermont; and a remote ATM unit located at the Burlington International Airport. Since 1963 the Bank has established eleven de novo offices, and since 1969 has acquired seven Vermont banks by merger. The Merchants Bank's most recent acquisition occurred in June of 1993 with the acquisition of the assets and deposits of New First National Bank of Vermont from the FDIC. Through this acquisition the Merchants Bank extended its presence on the east side of the State gaining offices in Springfield, Windsor, E. Thetford, Fairlee, Bradford, Newbury and Groton and on the west side of the State an office in Fair Haven. This acquisition also resulted in The Merchants Bank increasing market share in Hardwick, St. Johnsbury and Northfield.

Each decision to expand the branch network has been based upon strategic planning and analysis indicating that the new or acquired facility would provide enhanced banking resources within the community, insure the competitive viability of the Bank through potential growth of deposits and lending activities.

On March 14, 1994 The Merchants Bank opened a limited service office on the Wake Robin Retirement Community Campus in Shelburne, Vermont.

COMPETITION

Competition for financial services remains very strong in Vermont. As of December 31, 1993, there were twelve state chartered commercial banks, nine national banks, five savings banks and three savings and loan associations operating in Vermont. In addition, other financial intermediaries such as brokerage firms, credit unions, and out-of-state banks also compete for deposit and loan activities.

At year-end 1993 The Merchants Bank was the third largest bank in Vermont, enjoying a strong competitive franchise within the state, with thirty-nine banking offices. Whereas Vermont does have a nationwide interstate banking law there was no merger or acquisition activity during 1993.

No material part of the Bank's business is dependent upon one, or a few customers, or upon a particular market segment, the loss of which would have a materially adverse impact on the operations of the Bank.

NUMBER OF EMPLOYEES

As of December 31, 1993 Merchants Bancshares, Inc. had four officers: Dudley H. Davis, President and Chief Executive Officer; Susan D. Struble, Secretary; Edward W. Haase, Treasurer; and Susan M. Verro, Assistant Secretary. No officers of the Company are on a salary basis.

As of December 31, 1993, The Merchants Bank employed 388 full-time and 80 regular part-time employees, representing a full-time equivalent complement of 432 employees. The Bank maintains a comprehensive employee benefits program which provides major medical insurance, hospitalization, dental insurance, long-term and short-term disability insurance, life insurance, a pension plan and a 401(k) Employee Stock Ownership Plan. In addition, the Bank offers a Performance Progress Sharing Plan, which is available to all eligible employees. Employee benefits offered by the Bank are very competitive with comparable plans provided by other Vermont banks.

REGIONAL ECONOMY

In New England the long and deep recession which eliminated about one out of every nine jobs, appears to be abating. The year-end 1993 forecast from the New England Economic Project (NEEP) predicts that payroll surveyed jobs will be growing in 1994 in all six New England states. However, by gradual economic improvement within the region, business activity and labor markets have not yet returned to "normal". It may take another decade for this region to regain the jobs lost since the recession which started in

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1989.

Some segments of the economy are recovering better than others. For example, 1993 building permits for new home construction had risen more that 25% above their 1991 lows. By the end of 1997, NEEP predicts that permits will be up an additional 15%. Even so, the level of home building activity will still be less than half what it was in 1986, when New Englanders took out 112,000 permits at the peak of the speculative housing period.

The economy of the New England states is expected to underperform the national economy, with the economy of the southern three N.E. states expected to be weaker than the three northern states. Connecticut has been especially hard hit by defense restructuring and by restructuring in the insurance industry. Continued tough economic times for the region's richest state is not favorable news for New England.

New Hampshire is currently the bright spot in New England, because of its position as the low cost producer in the region. Non farm employment is forecast to add 9,000 jobs in 1994 (up 1.9%) and an additional 15,000 jobs in 1995 (up 2.9%).

Overall, however, it appears unlikely that any significant economic expansion is on the horizon for the New England region. Growth will need to come from the expansion of existing businesses operating within the region, and from the region's natural environmental appeal for tourism.

VERMONT ECONOMY

A conclusion of the Vermont Business Roundtable is that "not since the Great Depression has there been a period of such extended and steep decline in employment in Vermont". Many of the reasons for this decline are attributable to regional and national factors; specifically the following:

> The end of the national defense build-up. The direct and indirect economic impact of defense spending in Vermont could account for as much as 10 percent of the state's total annual economic activity.
>
> Maturation of high-technology and computer industries. There has been a decline in the high-tech, computer business in Vermont as foreign competition has been intense, and changes within the computer industry have hurt job growth since its mid-1980's employment peak.
>
> Problems in agriculture. The dramatic decline in milk prices over the past two years has placed many Vermont dairy farmers at considerable financial risk. Over the past ten years the number of dairy farms has declined 31 percent, from 3,170 in 1984 to 2,187 this year.
>
> Loss of Vermont's and New England's cost competitiveness to domestic competition. Vermont's businesses find themselves facing increasingly sharp cost competition from national and foreign concerns. This loss of competitiveness has resulted in numerous work-force reductions and cost-cutting initiatives among key employers across the state.
>
> Restructuring in financial services. Ongoing employment restructuring in the banking and financial services sector in Vermont has had a negative impact on the economy as firms seek to reduce payroll and overhead costs in order to restore profitability.
>
> Problems associated with the national recession and subsequent weak recovery. Vermont is not immune to the inevitable ups and downs associated with the national business cycle. The manufacturing sector has been negatively impacted by the slow recovery in markets for durable goods products.

In spite of the problems discussed above, Vermont's labor market has recently expanded. The Vermont unemployment rate was 4.5% in November 1993, versus 6.4% nationally. Jobs within the service sector have increased 3% over the past year, and now account for approximately 29% of all jobs in Vermont. The total state labor force expanded by 2,300 jobs between December 31, 1992 and November 30, 1993.

Many have recommended that it's time to take inventory of Vermont's advantages and disadvantages and to capitalize on the state's many attributes, while at the same time assessing and finding reasonable solutions to the problems facing Vermont's current economy.

ITEM 2 - PROPERTIES

The Merchants Bank operates thirty-nine banking facilities as

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indicated in Schedule A below. Corporate administrative offices are located at 123 Church Street, Burlington, Vermont, and the operations data processing center is located at 275 Kennedy Drive, South Burlington, Vermont.

Schedule B (below) indicates properties owned by the Bank as possible future expansion sites.

A. SCHEDULE OF BANKING OFFICES BY LOCATION

Burlington	123 Church Street	Corporate offices
	164 College Street	Merchants Trust Co.
	172 College Street	Branch office
	1014 North Avenue	Branch office
	112 Colchester Avenue *2	Branch office
Essex Junction	54 Pearl Street	Branch office
South Burlington	50 White Street	Branch office
	947 Shelburne Road *1	Branch office
	275 Kennedy Drive	Operations Center Branch office
	Burlington Airport *1	ATM
Bristol	15 West Street	Branch office
Barre	105 North Main Street	Branch office
Northfield	Depot Street	Branch office
South Hero	Route 2	Branch office
Hardwick	Wolcott Street	Branch office
Hinesburg	Route 116/Shelburne Falls Rd	Branch office
Vergennes	Monkton Road	Branch office
Winooski	364 Main Street	Branch office
Johnson	Main Street	Branch office
Colchester	8 Porters Point Road *2	Branch office
Jericho	Route 15	Branch office
Enosburg Falls	155 Main Street	Branch office
No. Bennington	Bank Street	Branch office
Manchester	515 Main Street	Branch office
Brattleboro	205 Main Street *3	Branch office
Wilmington	West Main Street	Branch office
Bennington	Putnam Square *2	Branch office
Wallingford	Route 7 *2	Branch office
St. Johnsbury	90 Portland Street	Branch office
Bradford	1 Main Street	Branch office
Danville	Main Street	Branch office
Fairlee	U.S. Route #5	Branch office
Groton	U.S. Route #302	Branch office
East Thetford	U.S. Route #5 & Vt 113	Branch office
Newbury	U.S. Route #5	Branch office
Fair Haven	97 Main Street	Branch office
Springfield	56 Main Street	Branch office
Springfield Plaza	Springfield Shopping Plaza	Branch office
Windsor	160 Main Street	Branch office

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Notes:

- *1: Facilities owned by the bank are located on leased land.
- *2: Facilities located on leased land with improvements also leased.
- *3: As of December 31, 1993 a mortgage with an unpaid principal balance of $209,909 is outstanding on the Brattleboro office. This mortgage is being amortized at $1,736 per month, at a rate of 9% through the year 2020.

B. SCHEDULE OF PROPERTIES OWNED FOR FUTURE EXPANSION *1

Description	Year Acquired	Location	Purpose
Land & Building	1973	Corner of Church & College Sts. Burlington, VT	Future Expansion
Land	1977	30 Main Street Burlington, VT	Future Expansion
Land & Building	1979	Plainfield, VT	Future Expansion
Land & Building	1981	8 White Street So. Burlington, VT	Future Expansion
Land & Building	1985	U.S. Route 7 Shelburne, VT	Future Expansion
Land & Building	1986	Pearl Street Essex Jct., VT	Future Expansion
Land & Building	1986	So. Summit St. Essex Jct., VT	Future Expansion
Land	1990	45 College Street Burlington, VT	Future Expansion
Land & Building	1990	60 Main Street Burlington, VT	Future Expansion

Note:

*1: Buildings identified in Schedule B are all rented or leased to tenants. Leases are generally for short-term periods and are at varying rental amounts depending upon the location and the amount of space leased.

ITEM 3 - LEGAL PROCEEDINGS

The Company is involved in various legal proceedings arising in the normal course of business. Based on consultation with legal counsel, management believes that the resolution of these matters will not have a material effect on the consolidated financial statements of the Company.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of calendar year 1993 no matters were submitted to a vote of security holders through a solicitation of proxies or otherwise.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of the Company is traded on the over-the-counter NASDAQ exchange under the trading symbol MBVT. Quarterly stock prices during the last eight quarters are as indicated below based upon quotations as provided by the National Association of Securities Dealers, Inc. Prices of transactions between private parties may vary from the ranges quoted below.

QUARTER ENDING	HIGH	LOW	CASH DIVIDEND PAID PER SHARE
March 31, 1992	$14.75	$11.50	.20

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June 30, 1992	15.50	11.75	.20
September 30, 1992	16.50	14.00	.20
December 31, 1992	17.00	14.50	.20
March 31, 1993	17.00	14.75	.20
June 30, 1993	16.50	10.25	*
September 30, 1993	16.00	11.25	*
December 31, 1993	15.00	11.00	*

On December 11, 1992 a three percent stock dividend was issued to shareholders of record on November 30, 1992.

*Cash dividends were suspended for the second, third and fourth quarters of 1993.

As of December 31, 1993 Merchants Bancshares, Inc. had 1,630 shareholders.

ITEM 6 - SELECTED FINANCIAL DATA

The supplementary financial data presented in the following tables and narrative contains information highlighting certain significant trends in the Company's financial condition and results of operations over an extended period of time.

The following information should be analyzed in conjunction with the year-end audited consolidated financial statements as contained in the 1993 Annual Report to Shareholders, a copy of which is attached as an addendum to this Form 10K.

The five-year summary of operations, interest management analysis, and management's discussion and analysis, all as contained on pages 27 through 33 in the 1993 Annual Report to Shareholders are herein incorporated by reference.

Tables included on the following pages concern the following:

Deposits; return on equity and assets; distribution of assets, liabilities, and stockholders' equity; analysis of changes in net interest income; investment securities and U.S. Treasury and Agency obligations; and the estimated maturity / repricing structure of the Company's interest earning assets and interest bearing liabilities.

DEPOSITS

The following schedule shows the average balances of various classifications of deposits. Dollar amounts are expressed in thousands.

	1993	1992	1991
Demand Deposits	$ 81,761	$ 68,494	$ 63,986
Savings, Money Market and NOW Accounts	315,254	272,729	233,873
Time Deposits Over $100,000	17,752	18,170	9,534
Other Time Deposits	155,227	132,971	183,331
Total Average Deposits	$569,994	$492,364	$490,724

Time Deposits over $100,000 at December 31, 1993 had the following schedule of maturities (In Thousands):

Three Months or Less	$ 6,725
Three to Six Months	1,717
Six to Twelve Months	6,517
Over Twelve Months	6,255
Total	$ 21,214

RETURN ON EQUITY AND ASSETS

The return on averageassets, return on average equity,dividend payout ratio and average equity to average assets ratio for the three years ended December 31, 1993 were as follows:

	1993	1992	1991
Return on Average Total Assets	-0.82%	0.94%	0.86%
Return on Average Stockholders' Equity	-11.92%	11.01%	10.53%
Dividend Payout Ratio	N/A	58.48%	62.69%
Average Stockholders' Equity to Average Total Assets	6.88%	8.56%	8.22%

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SHORT-TERM BORROWINGS

Refer to Notes 9 and 10 to the consolidated financial statements for this information.

<TABLE>

Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential

The following table presents the condensed annual average balance sheets for 1993, 1992 and 1991. The total dollar amount of interest income from assets and the subsequent yields calculated on a taxable equivalent basis as well as the interest paid on interest bearing liablilities, expressed in dollars and rates are also shown in the table.

<CAPTION>

(All Dollars are in Thousands)	1993			1992			1991		
ASSETS:	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Investment Securities:									
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Treasury and Agencies	$98,971	$3,655	3.69%	$92,184	$4,306	4.67%	$60,455	$3,881	6.42%
States & Political Subdivisions	143	12	8.39%	10	1	10.00%	10	1	10.60%
Other	8,900	667	7.49%	3,733	242	6.48%	4,897	357	7.29%
Total Investment Securities	$108,014	$4,334	4.01%	$95,927	$4,549	4.74%	$65,362	$4,239	6.49%
Loans, Net of Unearned Discount:									
Commercial (a) (b)	111,353	9,236	8.29%	105,489	10,174	9.64%	132,453	13,854	10.46%
Real Estate	380,810	35,639	9.36%	317,865	32,685	10.28%	316,253	37,003	11.70%
Consumer	23,642	2,728	11.54%	18,692	2,239	11.98%	22,435	2,944	13.12%
Total Loans	$515,805	$47,603	9.23%	$442,046	$45,098	10.20%	$471,141	$53,802	11.42%
Federal Funds Sold	$3,230	$97	3.00%	$4,939	$168	3.40%	$1,303	$68	5.22%
Total Earning Assets	$627,049	$52,034	8.30%	$542,912	$49,815	9.18%	$537,806	$58,109	10.80%
Reserve for Possible Loan Losses	(11,488)			(7,480)			(6,039)		
Cash and Due From Banks	29,177			27,312			25,958		
Premises and Equipment	15,166			15,279			15,952		
Other Assets	45,611			24,293			18,665		
Total Assets	$705,515			$602,317			$592,343		
LIABILITIES AND STOCKHOLDERS' EQUITY:									
Time Deposits:									
Savings, Money Market & NOW Accounts	$315,254	$8,546	2.71%	$277,330	$11,011	3.97%	$233,873	$12,987	5.55%
Certificates of Deposit over $100,000	963	32	3.32%	1,630	56	3.44%	9,534	583	6.11%
Other Time	172,979	8,471	4.90%	143,624	8,622	6.00%	183,331	14,223	7.76%
Total Time Deposits	$489,196	$17,049	3.49%	$422,584	$19,689	4.66%	$426,738	$27,793	6.51%
Federal Funds Purchased	2,197	88	4.01%	1,791	94	5.25%	3,993	269	6.74%
Securities Sold Under Agreement to Repurchase	7,688	229	2.98%	5,117	187	3.65%	4,112	223	5.41%
Demand Notes Due U.S. Treasury	3,540	97	2.74%	3,498	119	3.40%	3,729	192	5.15%
Other Interest Bearing Liabilities	5,471	290	5.30%	3,672	264	7.19%	2,967	254	8.56%
Debt	58,337	4,272	7.32%	42,171	3,698	8.77%	34,946	3,373	9.65%
Total Interest Bearing Liabilities	$566,429	$22,025	3.89%	$478,833	$24,051	5.02%	$476,485	$32,104	6.74%
Demand Deposits	81,761			68,324			63,986		
Other Liabilities	8,814			3,612			3,204		
Stockholders' Equity	48,511			51,548			48,668		
Total Liabilities & Stockholders' Equity	$705,515			$602,317			$592,343		
Net Interest Income (a)		$30,009			$25,764			$26,005	
Yield Spread			4.41%			4.15%			4.07%
NET INTEREST INCOME TO EARNING ASSETS			4.79%			4.75%			4.84%

<FN>

(a) Tax exempt interest has been converted to a tax equivalent basis by tax effecting such interest at the Federal tax rate of 34%.

(b) Includes non-accruing loans.

</TABLE>

<TABLE>

Analysis of Changes in Net Interest Income

The following table sets forth, for each major category of interest earning assets and interest bearing liabilities, the dollar amounts (in thousands) of interest income (calculated on a taxable equivalent basis) and interest expense and change

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therein for 1993 as compared with 1992 and 1992 as compared with 1991.

<CAPTION>

	1993 vs 1992					1992 vs 1991				
	1993	1992	Increase (Decrease)	--Due to (a)-- Volume	Rate	1992	1991	Increase (Decrease)	--Due to (a)-- Volume	Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest Income:										
Loans	$47,603	$45,098	$2,505	$6,808	($4,303)	$45,098	$53,802	($8,704)	($3,051)	($5,654)
Investment Income:										
Taxable	4,322	4,548	(226)	637	(863)	4,548	4,238	310	1,407	(1,098)
Non-Taxable	12	1	11	11	(0)	1	1	(0)	0	0
Federal Funds Sold	97	168	(71)	(51)	(20)	168	68	100	124	(24)
Total	$52,034	$49,815	$2,219	$7,404	($5,186)	$49,815	$58,109	($8,294)	($1,521)	($6,776)
Less Interest Expense:										
Savings, Money Market & Now Accounts	$8,546	$11,011	($2,465)	$1,028	($3,493)	$11,011	$12,987	($1,976)	$1,722	($3,698)
Certificates of Deposit Over $100,000	32	56	(24)	(22)	(2)	56	583	(527)	(272)	(255)
Other Time	8,471	8,622	(151)	1,438	(1,589)	8,622	14,223	(5,601)	(2,378)	(3,223)
Federal Funds Purchased	88	94	(6)	16	(22)	94	269	(175)	(116)	(59)
Securities Sold Under Agreement to Repurchase	229	187	42	77	(35)	187	223	(36)	37	(72)
Demand Note - U.S. Treasury	97	119	(22)	1	(23)	119	192	(73)	(8)	(65)
Debt and Other Borrowings	4,562	3,962	600	1,282	(682)	3,962	3,627	335	683	(348)
Total	$22,025	$24,051	($2,026)	$3,820	($5,847)	$24,051	$32,104	($8,053)	($332)	($7,721)
Net Interest Income	$30,009	$25,764	$4,245	$3,584	$660	$25,764	$26,005	($241)	($1,190)	$945

<FN>

(a) The dollar amount of changes in interest income and interest expense attributable to changes in rate and volume has been allocated between rate and volume based upon the changes in rates times the first year's volume and the changes in volume times the current year's rate.

Note: Included in Interest Income are fees on loans totaling $4,598, $4,326 and $3,506 for the years ended December 31, 1993, 1992 and 1991, respectively.

</TABLE>

INVESTMENT SECURITIES

The Company invests in securities with short maturities, consisting primarily of U.S. government securities. The Company's investment portfolio is used primarily to fund the seasonality of loan growth and deposit run-off as well as for asset/liability management purposes.

The table below showsthe classification of the investmentportfolio by type of investment security based on lower of cost or market value at December 31, 1993, 1992, and 1991, respectively. In addition, the subsequent table shows the maturity distribution and weighted average yield of the investment portfolio by security type as of December 31, 1993. All dollar amounts are expressed in thousands.

	December 31, 1993	1992	1991
U.S. Treasury and Agency Obligations	$85,945	$103,187	$ 63,262
Other Securities	1,451	4,333	4,371
Total Investment Securities	$87,396	$107,530	$ 67,643
Net Unrealized Depreciation	(439)	0	0
Total	$86,957	$107,530	$ 67,643

The following table shows the maturity distribution and the weighted average yields of such investment portfolio and the securities as of December 31, 1993:

	Book Value	Average Yield
U.S. Treasury and Agency Obligations(thousands)		
Due Within 1 Year	$ 0	---
Due After 1 but Within 5 Years	85,714	3.71%
Due After 5 but Within 10 Years	0	---
Due After 10 Years	231	7.67%
Total	$85,945	3.72%
Other Securities		
Due Within 1 Year	$ 0	---
Due After 1 but Within 5 Years	0	---
Due After 5 but Within 10 Years	0	---
Due After 10 Years	0	

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Equity Securities*	1,451	3.64%
Total	$ 1,451	3.64%
Total	$ 87,396	3.71%
Total Securities		
Due Within 1 Year	$ 0	---
Due After 1 but Within 5 Years	85,714	3.71%
Due After 5 but Within 10 Years	0	---
Due After 10 Years	231	7.67%
Equity Securities*	1,451	3.64%
Total	$87,396	3.71%

* Yields are adjusted to fully taxable equivalent basis, assuming a 34% Federal tax rate.

LOAN PORTFOLIO

The following tables display the composition of the Bank's loan portfolio for the consecutive five year period 1989 through 1993, along with a schedule profiling the loan maturity distribution over the next five years.

COMPOSITION OF LOAN PORTFOLIO

The table belowpresents the composition ofthe Bank's loan portfolioby type of loan as of December 31 for each of the past five years. All dollar amounts are expressed in thousands. Amounts are shown gross of net deferred loan fees of $1,310,416 in 1993, $1,183,400 in 1992, $1,098,100 in 1991, $955,000 in 1990 and $950,000 in 1989, which principally relate to real estate mortgages.

	As of December 31,				
Type of Loan	1993	1992	1991	1990	1989
Commercial, Financial & Agricultural	$ 98,936	$ 76,141	$120,033	$129,830	$113,169
Industrial Revenue Bonds	6,695	8,721	11,968	16,296	19,741
Real Estate - Construction	30,526	18,776	16,392	23,763	69,282
Real Estate - Mortgage	413,112	305,513	294,769	288,845	262,723
Installment	22,836	18,332	20,930	25,070	29,124
Lease Financing	42	630	1,769	4,144	6,005
All Other Loans	1,324	1,422	4,287	7,452	2,071
Total Loans	$573,471	$429,535	$470,148	$495,400	$502,115

PROFILE OF LOAN MATURITY DISTRIBUTION

The table below presents the distribution of the varying contractual maturities or repricing opportunities of the loan portfolio at December, 1993. All dollar amounts are expressed in thousands.

	One Year Or Less	Over One Through 5 Years	Over Five Years	Total
Commercial Loans, Industrial Revenue Bonds, Lease Financing and All Other Loans	$ 95,694	$ 8,313	$ 3,136	$107,143
Real Estate Loans	398,319	26,971	18,130	$443,420
Installment Loans	15,007	7,869	32	$22,908
	$509,020	$ 43,153	$ 21,298	$573,471

Residential mortgage lending during 1993 was very active due to prevailing low interest rates for various mortgage products. Approximately 75% of the Bank's 1993 mortgage activity was for refinancing of existing debt. In 1993 a total of 1,098 one-to-four family residential mortgage loans were closed by the bank totaling $103.2 million. Approximately 95% of these originations were sold on the secondary market. The remaining 5%, or $4.9 million was placed in the Bank's portfolio. The Bank currently services $347.9 million in residential mortgage loans, $257.1 of which it services for other investors such as federal government agencies (FNMA and FHLMC) and for financial investors such as insurance companies and pension funds located outside Vermont. At the end of 1993, the Bank had 181 residential mortgage loans in various stages of processing. Approximately 68% of these loans were refinancings of existing debt.

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During 1993 the Bank continued to be very active in the U.S. Small Business Administration guaranteed loan program. Forty new loans totaling $7.1 million were originated during 1993 with SBA guarantees ranging from 70% to 90%. This represents an approximate decrease of 13% in originations over 1992. The reason for the decline in volume is believed to be the sluggish Vermont economy.

In most instances the Bank sells the guaranteed portion of its SBA guaranteed loans to secondary investors outside Vermont. This selling activity has the positive effect on Vermont of importing capital into the State from other parts of the country. SBA guarantees are advantageous to the Bank because they reduce risk in the Bank's loan portfolio and allow the Bank to increase its commercial loan base and market share with minimal impact on capital.

In June 1993, the Bank purchased certain assets of the New First National Bank of Vermont (NFNBV) from the Federal Deposit Insurance Corporation, Division of Liquidation. The bulk of the assets purchased were loans. Therefore, the majority of the net increase in assets, by loan category, occurred as a result of this acquisition.

The Bank booked approximately $107,000,000 in new commercial loan business in 1993. This business was written primarily out of the Bank's Western Division.

LOAN REVIEW

The Bank's Board of Directors grants each loan officer the authority to originate loans on behalf of the Bank. The Board also establishes restrictions regarding the types of loans that may be granted and sets limits for each lender. These authorized lending limits are established at least annually and are based upon the lender's job assignment, training, and experience. Loan requests that exceed a lender's authority are referred to senior loan officers having higher lending authorities. All extensions of credit of $2.5 million to any one borrower, or related party interest, are reviewed and approved by the Bank's Board of Directors.

By using a variety of management reports (new loans, largest exposures, delinquencies, watched assets), the Bank's loan portfolio is continuously monitored by the Board of Directors, senior loan officers, and the loan review department. The loan portfolio as a whole, as well as individual loans, are reviewed for loan performance, credit worthiness, and strength of documentation. Credit ratings are assigned to commercial loans and routinely are reviewed.

All loan officers are required to service their own loan portfolios and account relationships. As necessary, loan officers take remedial actions to assure full and timely payment of loan balances.

LOAN QUALITY AND RESERVES FOR
POSSIBLE LOAN LOSSES (RPLL)

Merchants Bancshares, Inc. reviews the adequacy of the RPLL at least quarterly. The method used in determining the amount of the RPLL is not based upon maintaining a specific percentage of RPLL to total loans or total non-performing assets, but rather a comprehensive analytical process of assessing the credit risk inherent in the loan portfolio. This assessment incorporates a broad range of factors which are indicative of both general and specific credit risk, as well as a consistent methodology for quantifying probable credit losses. As part of the Merchants Bancshares, Inc.'s analysis of specific credit risk, a detailed and extensive review is done on larger credits and problematic credits identified on the watched asset list, non-performing asset listings, and credit rating reports.

The more significant factors considered in the evaluation of the adequacy of the RPLL based on the analysis of general and specific credit risk include:

Status of non-performing loans
Status of adversely-classified credits
Historic charge-off experience by major loan category
Size and composition of the loan portfolio
Concentrations of credit risk
Renewals and extensions
Current local and general economic conditions and trends
Loan growth trends in the portfolio
Off balance sheet credit risk relative to
 commitments to lend

Overall, management maintains the RPLL at a level deemed to be adequate,

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in light of historical, current and prospective factors, to reflect the level of risk in the loan portfolio.

An analysis of the allocation of the RPLL follows. Both the specific and general components of the RPLL are grouped by loan categories. The allocation of the RPLL is based upon loan loss experience, loan portfolio composition, and an assessment of possible loan losses in the categories shown.

Allocation of the Reserve for Possible Loan Losses
December 31, 1993
(000's omitted)

Balance at End of Period Applicable to:	Amount	Percent Allocation	Percent of loans in each category to total Loans
Domestic:			
Commercial, Financial, and Agricultural & IRB's	$6,500	32%	19%
Real Estate - Construction	2,000	10%	5%
Real Estate - Mortgage	11,000	55%	72%
Installment Loans to Individuals	350	2%	4%
Lease Financing	25		
All Other Loans	185	1%	
Total:	$20,060	100%	100%

Key data that are used in the assessment of the loan portfolio and the analysis of the adequacy of the RPLL are presented in the tables and schedules that follow in this discussion. Loan loss experience and nonperforming asset data are presented and discussed in relation to their impact on the adequacy of the RPLL.

The table below reflects the Bank's loan loss experience and activity in the RPLL for the past five years. All dollar amounts are expressed in thousands.

LOAN LOSSES AND RPLL RECONCILIATION

	Year Ended December 31,				
	1993	1992	1991	1990	1989
Average Loans Outstanding	$578,187	$447,652	$471,141	$482,756	$482,582
Reserve for Possible Loan Losses at Beginning of Year	7,412	6,650	5,075	5,151	4,358
Loans Charged Off (NOTE 1):					
Commercial, Lease Financing and all Other Loans	(5,567)	(2,938)	(3,367)	(2,318)	(1,162)
Real Estate - Construction	(275)	(253)	(1,802)	0	0
Real Estate - Mortgage	(7,651)	(4,096)	(718)	(2,236)	(175)
Installment & Credit Cards	(459)	(452)	(617)	(575)	(463)
Total Loans Charged Off	($13,952)	($7,739)	($6,504)	($5,129)	($1,800)
Recoveries on Loans:					
Commercial, Lease Financing and all Other Loans	392	232	366	471	22
Real Estate - Construction	0	0	379	0	0
Real Estate - Mortgage	301	108	0	3	5
Installment & Credit Cards	85	111	91	87	86
Total Recoveries on Loans	$ 778	$ 451	$ 836	$ 561	$ 113
Net Loans Charged Off	(13,174)	(7,288)	(5,668)	(4,568)	(1,687)
Provision for Loan Losses Charged to Operations (NOTE 2)	23,822	8,050	7,243	4,492	2,480
Loan Loss Reserve-Acquired Loans (NOTE 3)	2,000	---	---	---	---
Reserve for Possible Loan Losses at End of Year	$20,060	$7,412	$6,650	$5,075	$5,151
Loan Loss Reserve to Total Loans at Year End	3.50%	1.73%	1.41%	1.03%	1.03%
Ratio of Net Charge-Offs During the Year to Average Loans Outstanding					

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During the Year	2.28%	1.63%	1.20%	0.95%	0.35%

NOTE 1: Prior to 1991, loans secured by real estate were not broken out between construction and permanent financing for purposes of loan charge-off and recovery analysis.

NOTE 2: The loan loss provision is charged to operations. When actual losses differ from these estimates, and if considered necessary, they are reported in operations in the periods in which they become known.

NOTE 3: See Note 2 to the consolidated financial statements regarding the acquisition of New First National Bank of Vermont.

The increase in the reserve for possible loan losses from $7,412,000 at December 31, 1992 to $20,060,000 at December 31, 1993, reflects management's efforts to maintain the reserve at an appropriate level to provide for potential loan losses based on an evaluation of known and inherent risks in the loan portfolio. Given the continued slow pace in the economy which affected many of the Company's borrowers in 1993, and the increase in nonperforming assets, management determined that a significant increase in the reserve was appropriate. The provision for possible loan losses increased from $8,050,000 for 1992 to $23,822,000 in 1993.

NON-PERFORMING ASSETS

The following tables summarize the Bank's non-performing assets. The first table shows a breakout of nonperforming assets covered by a loss sharing arrangement related to the acquisition of the NFNBV on June 4, 1993. The terms of the Purchase and Assumption Agreement related to the purchase of NFNBV require that the FDIC pay the Bank 80% of net charge-offs up to $41,100,000 on any loans that qualify as loss sharing loans for a period of three years from the date of the acquisition. If net charge offs on qualifying loss sharing loans exceed $41,100,000 during the three year period, the FDIC is required to pay 95% of such qualifying charge offs. This arrangement significantly reduces the exposure that the Bank faces on Nonperforming assets (NPAs) that are covered by loss sharing. As of December 31, 1993 NPAs covered by loss sharing totaled approximately $17,469,000. The aggregate amount of loans covered by the loss sharing arrangement at December 31, 1993 was $132,879,000.

	Loans	Loss Sharing Assets	Total
Nonaccrual loans	$29,712,089	$17,356,607	$47,068,696
Restructured loans	2,772,783	68,389	2,841,172
Loans Past due 90 days or more and still accruing	712,391	2,978	715,369
Other Real Estate Owned	13,633,383	40,876	13,674,259
Total	$46,830,646	$17,468,850	$64,299,496

The second table shows nonperforming assets as of year end 1989 through 1993 (in thousands):

	1993	1992	1991	1990	1989
Nonaccrual Loans	$47,069	$12,148	$ 8,333	$ 2,914	$ 2,893
Loans Past Due 90 Days or More and Still Accruing	715	7,251	8,613	5,908	5,964
Renegotiated Loans	2,841	1,838	5,679	0	0
Total Non-Performing Loans	$50,625	$21,237	$22,625	$ 8,822	$8,857
Other Real Estate Owned	13,674	12,661	6,110	4,652	318
Total Non-Performing Assets	$64,299	$33,898	$28,735	$13,474	$9,175
Percentage of Non-Performing Assets to Total Loans plus Other Real Estate Owned	8.83%	4.94%	4.81%	1.78%	1.76%
Percentage of Non-Performing Loans to Total Loans	10.95%	7.67%	6.03%	2.70%	1.83%

The nonperforming assets table above shows an increasing trend in nonperforming assets in general. Historically, the Company has worked closely with borrowers and also pursued vigorous collection efforts. As the local recession continued and property values declined further, the

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Company redoubled its efforts to collect troubled assets. Policies and procedures related to collection of nonaccruing assets in particular were examined. Additionally, the Company enhanced its Loan Review and Loan Workout functions to provide additional resources to address nonperforming assets. Based partly on the continued increases in nonperforming assets in 1993, management significantly increased provisions for possible loan losses during 1993, resulting in a reserve level of $20,060,000 at year end 1993. During the fourth quarter of 1993, as a result of significant increases in nonperforming assets and continuing weakness in the regional economy, the Company provided reserves for possible loan losses of $5 million in addition to the planned provision of $1.75 million for the quarter.

Based upon the result of the Company's assessment of the factors affecting the RPLL, as noted in this discussion, management determined that the balance of the RPLL at December 31, 1993, is adequate.

DISCUSSION OF 1993 EVENTS AFFECTING THE RESERVE FOR POSSIBLE LOAN LOSSES (RPLL)

Non-performing assets at year end 1993 increased from $33,899,000 at December 31, 1992 to $64,299,000 at December 31, 1993. $19,637,000 of the increase was the direct result of the acquisition of NFNBV. As discussed, $17,469,000 of the NPAs at December 31, 1993 are covered under a loss sharing arrangement with the FDIC and represent significantly reduced credit exposure to the Bank. The individual categories of NPA's are shown below:

	12-31-93	9-30-93	6-30-93	3-31-93	12-31-92
Non-Accrual Loans	$47,069	$34,280	$27,190	$6,719	$12,148
Loans Past Due 90 days or more and Still Accruing	715	3,144	8,566	6,827	7,251
Restructured Loans	2,841	3,106	763	7,992	1,838
Other Real Estate Owned	6,235	6,249	3,712	5,245	3,874
Insubstance Foreclosure	7,439	8,125	10,863	8,705	8,787
Total:	$64,299	$54,904	$51,094	$35,488	$33,898

All categories of NPAs had significant changes during 1993. The events affecting each category of NPAs are discussed below:

NON-ACCRUAL LOANS:

The migration of loans 90 days or more overdue and still accruing, and the acquisition of NFNBV principally accounted for the increase in nonaccrual loans of $34,921,000 from December 31, 1992 to December 31, 1993. $19,525,000 is directly attributable to the acquisition of NFNBV. Of the $19,525,000 amount $17,357,000 is covered by the loss sharing arrangement with the FDIC. The remainder of the increase results from the migration of loans 90 days or more overdue.

LOANS PAST DUE 90 DAYS OR MORE AND STILL ACCRUING:

The net decline in this category of $6,536,000 results primarily from the migration of these loans to non-accruing.

Loans Past Due 90 Days or More and Still Accruing were briefly inflated during the quarter ended June 30, 1993. This resulted from a provision in the Purchase and Assumption Agreement with the FDIC that allowed the Bank to accrue 90 days of additional interest from the June 4, 1993 acquisition date. The accrued interest associated with these loans was covered by the loss sharing arrangement previously described.

RESTRUCTURED LOANS:

The significant events affecting this category include the migration to Other Real Estate Owned (OREO) of a commercial office and retail shopping center for $2,000,000 and a commercial office building for $640,000. One loan of $955,000 was paid off. Significant charge downs in two loans were taken in the amounts of $990,000 and $798,000. The remaining balance of these two loans are included in the nonaccruing TDR amount previously mentioned.

OTHER REAL ESTATE OWNED AND INSUBSTANCE FORECLOSURE:

The increase in OREO resulted primarily from three properties being acquired - a retail shopping and commercial office space center for $2,000,000, a residential building development for $560,000, and a

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commercial office building for $640,000. The Bank had notable success in the first half of 1993 in disposing of OREO and continues to aggressively market such properties.

OREO includes specific assets to which legal title has been taken as the result of transactions related to real estate loans.

The criteria for designation of loans as in-substance foreclosure are that the debtor has little or no equity in the collateral, proceeds for repayment of the loan will come only from the operation or sale of the collateral, and the debtor has formally or effectively abandoned control of the assets or is not expected to rebuild equity in the collateral. The collateral underlying these loans is recorded at the lower of cost or market value less estimated selling costs.

The total amount of Other Real Estate Owned and In-Substance Foreclosure at December 31 in each of the last five years is as follows:

	1993	1992	1991	1990	1989
Other Real Estate Owned	$6,235	$3,874	$2,650	$1,968	$318
In-Substance	$7,439	$8,787	$3,460	$2,684	
Total:	$13,674	$12,661	$6,110	$4,652	$318

POLICIES AND PROCEDURES RELATING TO THE ACCRUAL OF INTEREST INCOME

The Bank normally recognizes income on earning assets on the accrual basis, which calls for the recognition of income as earned, as opposed to when it is collected.

The Bank's policy is to discontinue the accrual of interest on loans when scheduled payments become contractually past due in excess of 90 days and, in the judgement of management, the ultimate collectability of principal or interest becomes doubtful. The amount of interest which was not earned but which would have been earned had the nonaccrual and re-structured loans performed in accordance with their original terms and conditions was approximately $2,688,000 and $1,268,000 in 1993 and 1992, respectively.

In addition to the above policy, interest previously accrued is reversed if management deems the past due conditions to be an indication of uncollectability. Also, loans may be placed on a nonaccrual basis at any time prior to the period specified above if management deems such action to be appropriate.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of the Financial Condition and Results of Operations as contained on pages 25 through 29 of the Company's 1993 Annual Report to Shareholders is incorporated herein by reference.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated balance sheets of Merchants Bancshares, Inc. of December 31, 1993 and 1992, and the related consolidated statements of income, changes in stockholders' equity and cash flows, for each of the three years in the period ended December 31, 1993 together with the related notes and the opinion of Arthur Andersen & Co., independent public accountants, all as contained on pages 7 through 24 of the Company's 1993 Annual Report to Shareholders are incorporated herein by reference.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Part III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and ten percent shareholders to file initial reports of ownership and reports of changes of ownership of the Company's common stock with the Securities and Exchange Commission. Based upon a review of these filings, there were no late filings of SEC Form 4's during 1993.

ITEM 11 - EXECUTIVE COMPENSATION

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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Reference is hereby made to pages 3 through 13 of the Company's Proxy Statement to Shareholders dated April 21, 1994, wherein pursuant to Regulation 14 A information concerning the above subjects (Items 10 through 13) is incorporated by reference.

Pursuant to Rule 12 b-23, definitive copies of the Proxy Statement will be filed within 120 days subsequent to the end of the Company's fiscal year covered by Form 10-K.

PART IV

ITEM 14 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(1) The following consolidated financial statements as included in the 1993 Annual Report to Shareholders, are incorporated herein by reference:

Consolidated Balance Sheets, December 31, 1993 and December 31, 1992.

Consolidated Statements of Income for years ended December 31, 1993, 1992, 1991.

Consolidated Statements of Changes in Stockholder's Equity for years ended December 31, 1993, 1992, 1991.

Consolidated Statements of Cash Flows for the years ended December 31, 1993, 1992, 1991.

Notes to Consolidated Financial Statements, December 31, 1993.

(2) The following exhibits are either filed or attached as part of this report, or are incorporated herein by reference.

Exhibit	Description
(3a)	Restated Certificate of Incorporation of the Company, filed on April 25, 1987 as Exhibit B to the Proxy Statement filed as part of the pre-effective amendment No. 1 to the Company's Registration Statement on Form S-14 (Registration No. 2-86103) is incorporated herein by reference.
(3b)	Amended By-Laws of the Company, filed on April 25, 1987 as Exhibit C to the Company's Proxy Statement is incorporated herein by reference.
(4)	Investments, defining the rights of security holders including indentures; incorporated by reference from the Registrant's Form S-14 Registration Statement (Registration No. 2-86103), as filed on September 14, 1983.
(10)	Material Contracts: The following are major contracts preceded by applicable number to Registrant's Form S-14 (Registration No. 2-86103) and are incorporated herein by reference.
15	(10a) Service Agreement as amended between First Data Resources, Inc., and Registrant dated June 1993 (effective through May 1998) for Mastercard Services.
17	(10c) 401(k) Employee Stock Ownership Plan of Registrant, dated January 1, 1990, for the employees of the Bank.
19	(10d) Merchants Bank Pension Plan, as amended and restated on January 1, 1989, for employees of the Bank.
20	(10e) Agreement between Specialty Underwriters, Inc., and Registrant dated January 12, 1993 for equipment maintenance services.
(11)	Statement re: computation of per share earnings.
(13)	1993 Annual Report to Shareholders is furnished for the information of the Commission only and is not to be deemed filed as part of this report, except as expressly provided herein.
(23)	The Registrant's Proxy Statement to Shareholders for the calendar year ended December 31, 1993 will be filed within 120 days after the end of the Company's fiscal year.

Other schedules are omitted because of the absence of conditions under which they are required, or because the required information is provided in the financial statements or notes thereto.

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(23a) Reports on Form 8-K
The Company filed a Form 8-K with the Securities and Exchange Commission on June 4, 1993.

This report detailed the terms and conditions of a Purchase and Assumption Agreement among the Federal Deposit Insurance Corporation, Receiver of the New First National Bank of Vermont, National Association, the Federal Deposit Insurance Corporation and The Merchants Bank, dated June 4, 1993.

INDEMNIFICATION UNDERTAKING BY REGISTRANT

In connection with Registrant's Form S-8 Registration Statement under the Securities Act of 1933 with respect to the Registrant's 401(k) Employee Stock Ownership Plan, the Registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into such Registration Statement on Form S-8:

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel, the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirement of Section 13 or 15 (d) of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on it's behalf by the undersigned, thereunto duly authorized.

Merchants Bancshares, Inc.

Date March 25, 1994

By s/Dudley H. Davis
Dudley H. Davis, President & CEO

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of MERCHANTS BANCSHARES, INC., and in the capacities and on the date as indicated.

by Charles A. Davis, Director	by s/ Dudley H. Davis Dudley H. Davis, Director, President & CEO of the Company and the Bank
by s/ Jeffrey L. Davis Jeffrey L. Davis, Director	by s/ Jack DuBrul II Jack DuBrul, II, Director
by s/ Michael G. Furlong Michael G. Furlong, Director	by Thomas F. Murphy, Director
by s/ Edward W. Haase Edward W. Haase, Treasurer of the Company and the Bank, Senior Vice President and Controller of the Bank	by s/ Leo O'Brien, Jr. Leo O'Brien, Jr, Director
by Raymond C. Pecor, Jr., Director	by Patrick S. Robins, Director

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by

Benjamin F. Schweyer, Director

by s/ Robert A. Skiff

Robert A. Skiff, Director

by s/ Susan D. Struble

Susan D. Struble, Director

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Report of Independent Public Accountants

To the Stockholders and Board of Directors of Merchants Bancshares, Inc.:

We have audited the accompanying consolidated balance sheets of Merchants Bancshares, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of operations, changes in stockholders'equity and cash flows for the years ended December 31, 1993, 1992 and 1991. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Merchants Bancshares, Inc. and subsidiaries as of December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for the years ended December 31, 1993, 1992 and 1991, in conformity with generally accepted accounting principles.

As explained in Note 3 to the consolidated financial statements, the Company adopted prospectively, effective December 31, 1993, Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities".

ARTHUR ANDERSEN & CO.

Boston, Massachusetts
March 31, 1994

<TABLE>

Merchants Bancshares, Inc.
Consolidated Balance Sheets

<CAPTION>

At December 31,	1993	1992
<S>	<C>	<C>
ASSETS:		
Cash and Due from Banks (Note 3)	$ 30,587,986	$ 36,744,477
Federal Funds Sold	0	10,500,000
Investment Securities Available for Sale: (Notes 3 and 4)		
Debt Securities	85,505,677	103,197,500
Marketable Equity Securities (Market Value $1,612,726 in 1992)	1,451,793	1,411,393
Total Investment Securities	86,957,470	104,608,893
Loans (Notes 3 and 5)	440,827,786	429,535,257
Segregated Assets (Notes 2 and 5)	132,643,814	0
Reserve for Possible Loan Losses	(20,060,059)	(7,411,635)
Net Loans	553,411,541	422,123,622
Federal Home Loan Bank Stock	5,573,700	2,921,300
Premises and Equipment, net (Notes 3 and 6)	16,148,102	14,635,796
Investments in Real Estate Limited Partnerships	4,609,901	5,695,218
Other Real Estate Owned	13,674,259	12,661,294
Other Assets (Note 8)	24,084,495	12,949,176

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Total Assets	$ 735,047,454	$ 622,839,776
LIABILITIES:		
Deposits:		
Demand	$ 96,413,399	$ 82,271,624
Savings, NOW and Money Market Accounts	321,821,034	289,670,209
Time Deposits Over $100,000	21,214,667	6,646,857
Other Time	179,860,784	125,464,160
Total Deposits	619,309,884	504,052,850
Other Borrowed Funds (Note 9)	14,924,081	8,464,812
Other Liabilities (Notes 7 and 8)	8,460,061	9,082,066
Debt (Note 10)	46,633,422	49,037,135
Total Liabilities	$ 689,327,448	570,636,863
Commitments and Contingencies (Note 13)		
STOCKHOLDERS' EQUITY (Notes 11 and 12):		
Preferred Stock		
Class A:		
$.01 par value, non-voting		
Shares Authorized: 200,000		
Shares Outstanding: None	0	0
Class B:		
$.01 par value, voting		
Shares Authorized: 1,500,000		
Shares Outstanding: None	0	0
Common Stock, $.01 par value		
Shares Authorized: 4,700,000		
Shares Issued: 4,242,927	42,429	42,429
Capital in Excess of Par Value	30,647,120	30,635,559
Retained Earnings	15,352,844	21,949,050
Treasury Stock (at Cost) 12,733 Shares at December 31, 1993 and 28,611 Shares at December 31, 1992	(178,730)	(424,125)
Net Unrealized Depreciation of Investment Securities Available for Sale, Net of Applicable Income Taxes of $74,005	(143,657)	0
Total Stockholders' Equity	45,720,006	52,202,913
Total Liabilities and Stockholders' Equity	$ 735,047,454	$ 622,839,776

<FN>
The accompanying notes are an integral part of these consolidated financial statements.
</TABLE>

<TABLE>

Merchants Bancshares, Inc.
Consolidated Statements of Operations

<CAPTION>

For the years ended December 31,	1993	1992	1991
<S>	<C>	<C>	<C>
INTEREST AND DIVIDEND INCOME:			
Interest and Fees on Loans	$ 47,268,729	$ 44,521,757	$ 52,931,821
Interest and Dividends on Investments:			
U.S. Treasury and Agency Obligations	3,655,198	4,305,553	3,881,480
Obligations of State and Political Subdivisions	12,839	700	700
Other	537,054	410,565	435,167
Total Interest and Dividend Income	51,473,820	49,238,575	57,249,168
INTEREST EXPENSE:			
Savings, NOW and Money Market Accounts	8,476,489	11,014,319	12,987,269
Time Deposits Over $100,000	151,735	56,485	582,522
Other Time	8,351,062	8,619,026	14,222,708
Other Borrowed Funds	733,817	663,434	938,903
Debt	4,242,423	3,697,715	3,372,608
Total Interest Expense	21,955,526	24,050,979	32,104,010
Net Interest Income	29,518,294	25,187,596	25,145,158
Provision for Possible Loan Losses (Note 5)	23,822,000	8,050,000	7,243,443
Net Interest Income after Provision for Possible Loan Losses	5,696,294	17,137,596	17,901,715
NON-INTEREST INCOME:			
Trust Department Income	1,686,561	1,399,451	1,282,511
Service Charges on Deposits	3,571,376	2,536,267	2,421,389
Other	3,296,930	2,810,840	2,899,405
Gains on Investment Securities, net (Note 4)	1,898,945	3,448,531	2,773,627
FDIC Assistance Received-Loss Sharing (Note 2)	1,674,615	0	0
Total Non-Interest Income	12,128,427	10,195,089	9,376,932
NON-INTEREST EXPENSES:			

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	1993	1992	1991
Salaries and Wages	9,590,775	7,827,449	8,201,044
Employee Benefits (Note 7)	2,713,988	2,367,865	2,478,971
Occupancy Expense	1,949,256	1,489,827	1,465,409
Equipment Expense	1,879,764	1,783,293	2,044,949
Losses on and Writedowns of Other Real Estate Owned	1,970,428	833,329	282,366
Equity in Losses of Real Estate Limited Partnerships	967,138	1,059,973	974,279
Other	7,270,812	5,718,930	5,791,253
Losses and Write-downs of Segregated Assets (Note 2)	1,674,615	0	0
Total Non-Interest Expenses	28,016,776	21,080,666	21,238,271
Income (Loss) Before Provision (Benefit) for Income Taxes	(10,192,055)	6,252,019	6,040,376
Provision (Benefit) for Income Taxes (Notes 3 and 8)	(4,410,486)	575,508	909,029
NET INCOME (LOSS)	$ (5,781,569)	$ 5,676,511	$ 5,131,347
EARNINGS (LOSS) PER SHARE, based upon weighted average common shares outstanding of 4,216,355 in 1993, 4,213,941 in 1992 and 4,223,726 in 1991 (Note 12):	$ (1.37)	$ 1.39	$ 1.21

<FN>
The accompanying notes are an integral part of these consolidated financial statements.
</TABLE>

<TABLE>

Merchants Bancshares, Inc.
Consolidated Statements of Changes in Stockholders' Equity
For Each of the Three Years in the Period Ended December 31, 1993

<CAPTION>

	Common Stock (Note 10)	Capital in Excess of Par Value	Retained Earnings	Net Unrealized Depreciation of Investment Securities (Note 3)	Treasury Stock	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1990 (Restated)(Note 17)	$ 40,386	$ 27,414,998	$ 20,783,372	$ (317,268)	$ (282,012)	$ 47,639,476
Net Income	---	---	5,131,347	---	---	5,131,347
Treasury Stock Transactions	---	64,434	18,163	---	(348,857)	(266,260)
Cash Dividends ($.76 per share)	---	---	(3,230,861)	---	---	(3,230,861)
Stock Dividends (80,771 shares issued) (Note 12)	807	1,170,373	(1,171,180)	---	---	0
Decrease in Net Unrealized Depreciation of Investment Securities (Note 4)		---	---	317,268	---	317,268
Balance, December 31, 1991	$ 41,193	$ 28,649,805	$ 21,530,841	$ 0	$ (630,869)	$ 49,590,970
Net Income	---	---	5,676,511	---	---	5,676,511
Treasury Stock Transactions	---	22,061	26,821	---	206,744	255,626
Cash Dividends ($.78 per share)	---	---	(3,320,194)	---	---	(3,320,194)
Stock Dividends (80,771 shares issued) (Note 12)	1,236	1,963,693	(1,964,929)	---	---	0
Balance, December 31, 1992	$ 42,429	$ 30,635,559	$ 21,949,050	$ 0	$ (424,125)	$ 52,202,913
Net Loss	---	---	(5,781,569)	---	---	(5,781,569)
Treasury Stock Transactions	---	11,561	33,948	---	245,395	290,904
Cash Dividends ($.20 per share)	---	---	(848,585)	---	---	(848,585)
Effect of a change in accounting principle (Note 3)		---	---	(143,657)	---	(143,657)
Balance, December 31, 1993	$ 42,429	$ 30,647,120	$ 15,352,844	$ (143,657)	$ (178,730)	$ 45,720,006

<FN>
Per share amounts have been restated to reflect all stock dividends.
The accompanying notes are an integral part of these consolidated financial statements.
</TABLE>

<TABLE>
Merchants Bancshares, Inc.
Consolidated Statements of Cash Flows
<CAPTION>

For the Years Ended December 31,	1993	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Net Income (Loss)	$ (5,781,569)	$ 5,676,511	$ 5,131,347
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:			
Provision for Possible Loan Losses	23,822,000	8,050,000	7,243,443
Provision for Depreciation and Amortization	4,762,037	1,646,560	1,890,153
Prepaid Income Taxes	(25,360)	(2,133,353)	(1,994,973)

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Net Gains on Sales of Investment Securities	(1,898,945)	(3,448,531)	(2,773,627)
Net Gains on Sales of Loans and Leases	(818,376)	(584,669)	(123,390)
Net (Gains) Losses on Sales of Premises and Equipment	0	52,607	(83,884)
Equity in Losses of Real Estate Limited Partnerships	967,138	1,059,973	974,279
Changes in Assets and Liabilities net of Effects From Acquisition of NFNBV (Note 2):			
(Increase) Decrease in Interest Receivable	(28,313)	1,333,450	(680,471)
Increase (Decrease) in Interest Payable	587,598	(803,013)	(1,082,389)
(Increase) Decrease in Other Assets	(5,032,001)	(5,429,789)	2,055,272
Increase (Decrease) in Other Liabilities	(272,603)	2,939,600	(1,818,875)
Net Cash Provided by Operating Activities	16,281,606	8,359,347	8,736,885
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from Sales of Investment Securities	403,140,859	386,442,780	296,003,262
Proceeds from Maturities of Investment Securities	1,000,000	0	0
Proceeds from Sales of Loans and Leases	98,332,905	118,395,253	56,467,359
Proceeds from Sales of Premises and Equipment	0	16,839	514,684
Purchases of Investment Securities	(385,195,506)	(422,915,625)	(303,227,623)
Cash and Cash Equivalents Received - Acquisition (Note 2)	17,102,000	0	0
Loans Originated, net of Principal Repayments	(82,277,333)	(90,067,635)	(35,949,381)
Investments in Real Estate Limited Partnerships	281,821	(73,939)	(2,043,922)
Purchases of Premises and Equipment	(1,599,220)	(424,952)	(4,145,305)
Decrease in Net Investment in Leveraged Leases	587,438	1,116,644	68,623
Net Cash Provided by (Used in) Investing Activities	51,372,964	(7,510,635)	7,687,697
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net Increase (Decrease) in Deposits	(87,773,966)	13,436,584	(8,082,913)
Net Increase (Decrease) in Other Borrowed Funds	6,459,269	(6,891,487)	(8,523,289)
Proceeds from Debt	12,000,000	13,000,000	5,030,000
Principal Payments on Debt	(14,403,713)	(2,644,110)	(3,109)
Acquisition of Treasury Stock	(132,058)	(964,717)	(1,133,584)
Cash Dividends Paid	(838,050)	(3,293,450)	(3,212,698)
Sale of Treasury Stock	377,457	1,193,522	867,325
Net Cash Provided by (Used in) Financing Activities	(84,311,061)	13,836,342	(15,058,268)
Increase (Decrease) in Cash and Cash Equivalents	(16,656,491)	14,685,054	1,366,314
Cash and Cash Equivalents at Beginning of Year	47,244,477	32,559,423	31,193,109
Cash and Cash Equivalents at End of Year	$ 30,587,986	$ 47,244,477	$ 32,559,423
Total Interest Payments	$ 21,367,928	$ 24,853,992	$ 33,186,399
Total Income Tax Payments	$ 1,190,000	$ 2,860,000	$ 3,415,000
Transfer of loans to Other Real Estate Owned	$ 5,151,867	$ 13,856,598	$ 5,783,298

<FN>
The accompanying notes are an integral part of these consolidated financial statements.
</TABLE>

Merchants Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 1993

(1) CURRENT OPERATING ENVIRONMENT AND REGULATORY MATTERS

Merchants Bancshares, Inc. (the Company), and its wholly owned subsidiaries, including the Merchants Bank and subsidiaries (the Bank), operate primarily in Vermont. Beginning in the late 1980's, this region was severely affected by a deterioration in the real estate market and an economic recession. As a result, the Company has experienced increased levels of nonperforming assets and loan charge-offs, increased the provision for possible loan losses and incurred high costs associated with troubled assets and foregone income on nonaccrual loans. Although these adverse trends appear to be abating, prospects as to the extent and timing of future improvement in the economy remain uncertain.

The reserve for possible loan losses as of December 31, 1993 is deemed adequate based on management's estimate of the amount required to absorb future losses in the loan portfolio based on known current circumstances and real estate market conditions. However, given the uncertainty that exists as to future trends in the regional real estate market, which, if there is further deterioration, could result in the Company experiencing increases in nonperforming assets and resultant operating losses attributable to a need for further significant provisions for loan losses and increased foregone interest income on nonaccrual loans.

As of March 31, 1993, the Federal Deposit Insurance Corporation (the FDIC) and the State of Vermont Department of Banking, Insurance and Securities (the Commissioner) conducted a joint field examination of the Bank. As a result of this examination,

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the Bank entered into a Memorandum of Understanding (MOU) with the FDIC and the Commissioner on October 29, 1993. Under the terms of the MOU, the Bank is required to, among other things, maintain a leverage capital ratio of at least 5.5%, revise certain operating policies, enhance certain loan review procedures, refrain from declaring dividends and correct certain technical exceptions and violations of applicable regulations. The dividend limitation includes dividends paid by the Bank to the Company. The Company services senior subordinated debt (see Note 10) which requires semi-annual interest payments and an annual principal payment of $2.4 million through 1996. The MOU permits the repayment of certain advances totaling approximately $3.3 million which were outstanding at December 31, 1993. The repayment of such advances, together with the Company's cash on hand at December 31, 1993 is sufficient to service the senior subordinated debt until May, 1995. Management believes the Bank is in substantial compliance with the provisions of the MOU as of December 31, 1993. The Bank was also directed by the FDIC to increase the reserve for possible loan losses by approximately $12 million and to charge- off loans totaling approximately $8 million at the conclusion of the examination in June 1993. The Bank recorded this increase in the reserve for possible loan losses and charged off the loans in 1993.

As of February 18, 1994 the Company and the Federal Reserve Bank of Boston (the Federal Reserve) entered into an agreement requiring the Company to submit to the Federal Reserve, among other things, a capital plan, a dividend policy, a debt service plan and a management assessment. In addition, the Company may not declare or pay a dividend or incur any debt without the approval of the Federal Reserve.

On March 31, 1994, the FDIC and the Commissioner completed the field work related to their most recent examination of the Bank as of December 31, 1993. Although the FDIC and Commissioner have not yet issued the formal examination report, management believes that the results of the examination will not have a significant impact on the Company's financial statements.

Failure to maintain the minimum leverage capital ratio of 5.5% (see Note 11) included in the MOU, or compliance with other provisions of the MOU, or the agreement with the Federal Reserve, could subject the Bank or the Company to additional actions by the regulatory authorities.

(2) ACQUISITION

On June 4, 1993, the Bank purchased certain assets and assumed the deposits and certain other liabilities of the New First National Bank of Vermont (NFNBV) from the FDIC. NFNBV was a three bank holding company conducting banking activities primarily in central and northern Vermont. NFNBV had been taken over by the FDIC in January 1993. The acquisition involved an assumption of net deposits and liabilities which resulted in the Bank receiving a cash payment from the FDIC of approximately $5.7 million. The Bank subsequently acquired certain NFNBV property and equipment from the FDIC for approximately $1.5 million which is payable to the FDIC on June 3, 1994. The acquisition was accounted for using the purchase method of accounting and accordingly, the acquired assets and liabilities have been recorded at their estimated fair market values at the date of acquisition. The operating results related to NFNBV are included in the Company's statement of operations since the date of the acquisition.

In accordance with the purchase method of accounting, the purchase price has been allocated to the assets acquired and liabilities assumed based on their fair market value at the date of acquisition. Included in the purchase price allocation is the establishment of an allowance for possible loan losses of $2 million and a core deposit intangible of approximately $4.5 million, which is being amortized over 15 years using the straight line method. The fair market value of the assets acquired and liabilities assumed is summarized as follows (in thousands):

Cash	$ 5,290
Federal Funds Sold	6,075
Investment Securities	4,118
Loans	23,909

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Segregated Assets	154,537
Allowance for Possible Loan Losses	(2,000)
Premises and Equipment	1,509
Other Assets	1,523
Intangible Asset - Core Deposit Intangible	4,478
Deposits	(203,031)
Other Liabilities	(537)
Cash Payment From the FDIC, Net of Settlement Amount Payable for Premises and Equipment	$ 4,129

Summarized below are the results of operations on an unaudited pro forma basis, of the acquired NFNBV business as if NFNBV had been acquired on January 1, 1992. The pro forma information is based on the Company's audited historical results of operations for 1992 and NFNBV's unaudited historical results of operations for the period October 1, 1991 to September 30, 1992, giving effect to certain pro forma adjustments. The pro forma financial information does not purport to be indicative of the results of operations that would have occurred had the purchase been made on January 1, 1992 or of future results of operations of the combined companies. No pro forma information is presented for the period January 1, 1993 to the date of the acquisition because no accurate financial information is available relative to NFNBV's operations from the FDIC.

	Pro Forma 1992 (in thousands except per share data)
Net Interest Income	$ 36,185
Net Income	7,463
Earnings Per Share	1.83

In computing the pro forma net income, adjustments were recognized to give effect to a reduced provision for possible loan losses and other real estate owned (OREO) expenses, resulting from loss sharing and the transfer of problem loans and OREO to the FDIC Division of Liquidation prior to acquisition; amortization of the core deposit intangible; and reduced operating expenses relating to regulatory actions.

Under the terms of the acquisition, the Company will receive financial assistance (loss sharing) with respect to certain acquired loans charged-off by the Company during the three years subsequent to the acquisition. The FDIC will reimburse the Company, on a quarterly basis, 80% of net charge-offs and certain expenses related to loans subject to loss sharing up to cumulative losses aggregating $41.1 million, after which the reimbursement rate will be 95% of net charge-offs on the loans. The Bank received $1,674,615 in reimbursement from the FDIC for the year ended December 31, 1993. Acquired loans subject to loss sharing are classified as Segregated Assets in the accompanying consolidated balance sheets.

In addition, under the terms of the acquisition approval received from the State of Vermont Department of Banking, Insurance and Securities, the Bank is required to, among other things, maintain Tier 1 leverage capital at the higher of 5.5% or the minimum regulatory leverage capital required by the FDIC, and to refrain from paying dividends from the Bank to the Company if the Bank's capital is below the minimum capital requirement. The Bank and the Company were in compliance with all the terms of the acquisition approval agreement with the State of Vermont during 1993.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, the Bank and Merchants Properties, Inc, after elimination of all material intercompany accounts and transactions.

Investment Securities
In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115). Under the new statement, investments in debt securities may be classified as held-to-maturity and measured at amortized cost only if the Company has the positive intent and ability to hold such securities to maturity. Investments in debt securities

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that are not classified as held-to-maturity and equity securities that have readily determinable fair values are classified as trading securities or available-for-sale securities. Trading securities are investments purchased and held principally for the purpose of selling in the near term; available-for-sale securities are investments not classified as trading or held-to-maturity. Unrealized holding gains and losses for trading securities are included in earnings; unrealized holding gains and losses for available-for-sale securities are reported in a separate component of stockholders' equity, net of applicable income taxes. Dividend and interest income, including amortization of premiums and discounts, is recorded in earnings for all categories of investment securities. Discounts and premiums related to debt securities are amortized using a method which approximates the level-yield method. As permitted by SFAS No. 115, the Company elected to apply the accounting principle to investment securities held as of December 31, 1993. All investment securities were classified as available-for-sale at December 31, 1993 and the resulting adjustment was included in the accompanying consolidated statement of changes in stockholders' equity as the effect of a change in accounting principle.

Prior to December 31, 1993, debt securities were designated at the time they were purchased as either held for sale or held for investment, based on management's intentions in light of investment policy, asset/liability management policy, liquidity needs and economic factors. Debt securities held for sale were stated at the lower of amortized cost or market value while debt securities held for investment, where management had the intention and ability to hold such securities until maturity, were stated at amortized cost. Unrealized losses on debt securities held for sale were recorded as a valuation allowance against the related securities. The provision for the valuation allowance was recorded in the accompanying consolidated statements of operations.

Marketable equity securities were stated at the lower of aggregate cost or market value. Net unrealized losses, considered temporary in nature, were shown as a reduction of stockholders' equity. Unrealized losses, considered other than temporary in nature, were recognized in the accompanying consolidated statements of operations. The gain or loss recognized on the sale of an investment security was based upon the adjusted cost of the specific security.

Loan Origination and Commitment Fees
Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized over the lives of the related loans. Net deferred origination fees were $1,310,416 and $1,183,360 at December 31, 1993 and 1992, respectively.

Premises and Equipment
Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is provided using straight-line and accelerated methods at rates that amortize the original cost of the premises and equipment over estimated useful lives. Expenditures for maintenance, repairs and renewals of minor items are generally charged to expense as incurred.

Gains and Losses on Sales of Loans
Gains and losses on sales of loans are recognized based upon the difference between the selling price and the carrying amount of loans sold. Gains and losses are adjusted for excess servicing rights resulting from the sale of loans with servicing rights retained. Excess servicing rights are recorded at the net present value of estimated future servicing revenue less expected normal servicing costs. Deferred excess servicing is amortized over the period of estimated net servicing income. Origination fees collected, net of commitment fees paid in connection with the sales of loans and net of the direct cost of loan originations, are recognized at the time such loans are sold. The net gain on sales of loans is included in interest and fees on loans and amounted to $818,375, $584,669 and $268,082 in 1993, 1992 and 1991, respectively.

Income Taxes
The Company provided for income taxes in accordance with the comprehensive income tax allocation method under Statement of Financial Accounting Standards No. 96 prior to 1992. Effective January 1, 1992, the Company implemented Statement of Financial Accounting Standards No. 109. There was no material effect from this change on the accompanying consolidated financial statements. This method recognizes the tax effects of all income and expense transactions in each year's consolidated statement of operations, regardless of the year in which the transactions are

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reported for tax purposes. Investment tax credits related to the Bank's leasing activities are deferred and amortized over the life of the related leases. Low income housing tax credits are recognized in the year in which they are earned.

Investments in Real Estate Limited Partnerships
The Bank has investments in various real estate limited partnerships that acquire, develop, own and operate low and moderate income housing. The Bank's ownership interest in these limited partnerships varies from 35% to 100% as of December 31, 1993. The Bank consolidates the financial statements of the limited partnership in which the Bank is actively involved in management and has a controlling interest. The Bank generally accounts for its investments in limited partnerships where the Bank does not actively participate and have a controlling interest under the equity method of accounting.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand, amounts due from banks and federal funds sold in the accompanying consolidated statements of cash flows.

Other Real Estate Owned
Collateral acquired through foreclosure and loans accounted for as in-substance foreclosures are recorded at the lower of cost or fair value, less estimated costs to sell, at the time of acquisition or designation as in-substance foreclosure. A valuation allowance is established for the estimated costs to sell and is charged to expense. Subsequent changes in the fair value of other real estate owned are reflected in the valuation allowance and charged or credited to expense. Net operating income or expense related to foreclosed property is included in non-interest expense in the accompanying statements of operations. Because of the present adverse market conditions, there are inherent uncertainties in the assumptions with respect to the estimated fair value of other real estate owned. Because of these inherent uncertainties, the amount ultimately realized on real estate owned may differ from the amounts reflected in the consolidated financial statements.

Reclassification
Certain amounts in the 1992 and 1991 consolidated financial statements have been reclassified to be consistent with 1993 classifications.

(4) INVESTMENT SECURITIES
Investments in debt securities are classified as available for sale as of December 31, 1993 and as held for sale as of December 31, 1992. The amortized cost and estimated fair values are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1993				
U.S. Treasury and Agency Obligations	$ 85,713,865	0	$ 438,865	$ 85,275,000
Other Debt Securities	230,677	0	0	230,677
	$ 85,944,542	$ 0	$ 438,865	$ 85,505,677
1992				
U.S. Treasury and Agency Obligations	$104,221,663	$ 0	$1,024,163	$103,197,500

Marketable equity securities are classified as available for sale at December 31, 1993 and are stated at their estimated fair value of $1,451,793. Marketable equity securities were carried at the lower of cost or market at December 31, 1992 and were stated at cost of $1,411,393. Gross unrealized gains related to marketable equity securities were $414,328 and $291,333; and gross unrealized losses were $193,125 and $90,000, at December 31, 1993 and 1992, respectively.

The contractual maturities of all debt securities held at December 31, 1993 are between one and five years.

Proceeds from sales of investment securities were $403,140,859 and $386,442,780 during 1993 and 1992, respectively. Gross gains of $2,120,838, $4,474,318 and $2,953,496 and gross losses of $221,893, $1,624 and $179,869 were realized on those sales in 1993, 1992 and 1991, respectively.

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At December 31, 1993, securities carried at $7,300,000 were pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes required by law.

(5) LOANS

The composition of the loan portfolio at December 31, 1993 and 1992 is as follows (including segregated assets - Note 2):

	1993	1992
Commercial, Financial and Agricultural	$105,631,000	$ 84,862,000
Real Estate - Construction	30,526,000	18,776,000
Real Estate - Mortgage	413,112,000	305,513,000
Installment Loans to Individuals	22,836,000	18,332,000
Lease Financing	42,000	630,000
All Other Loans (including overdrafts)	1,324,000	1,422,000
	$573,471,000	$429,535,000

As discussed in Note 2, segregated assets consist of loans subject to loss sharing. Segregated assets, net of the allocated reserve for losses of $2,360,232 totaled $130,518,976 at December 31, 1993, and consisted of $28,428,878 of commercial loans, $58,856,952 of commercial mortgages, $45,478,471 of residential real estate, $74,031 of consumer loans, and $40,876 of OREO. There has been an insignificant effect on the Bank's non-interest expenses for 1993 as a result of expenses and charge-offs relating to the segregated assets. The Bank's share of the charge-offs was charged to the allowance for losses on the segregated assets, which was established in conjunction with the acquisition. Accordingly, there has been no impact to the consolidated statement of operations for these charge-offs. Management believes that the allowance for losses on the segregated assets is adequate to cover possible losses inherent in the segregated assets.

Charge-offs, net of recoveries, and eligible expenses on segregated assets aggregated $2,093,268 for 1993. The Bank received $1,384,156 from the FDIC during 1993 and $290,459 during February 1994 for eligible charge-offs and reimbursable expenses related to 1993 in accordance with the loss sharing arrangement. The amount due from the FDIC in the amount of $290,459 as of December 31, 1993 is included in other assets in the accompanying consolidated balance sheets.

The Company originates primarily residential and commercial real estate loans and a lesser amount of installment loans to customers throughout the state of Vermont. In order to minimize its interest rate and credit risk, the Company sells loans to the secondary market and to financial investors such as insurance companies and pension funds located in other states. Substantially all of the Company's loan portfolio is based in the state of Vermont. There are no known significant industry concentrations in the loan portfolio.

An analysis of loans in excess of $60,000 to directors and executive officers for the year ended December 31, 1993 is as follows:

Balance, December 31, 1992	$15,997,467
Additions	3,088,505
Repayments	(2,302,840)
Balance, December 31, 1993	$16,783,132

It is the policy of the Bank to grant such loans on substantially the same terms, including interest rates and collateral, as those prevailing for comparable lending transactions with other persons.

The reserve for possible loan losses is based on management's estimate of the amount required to reflect the risks in the loan portfolio, based on circumstances and conditions known or anticipated at each reporting date. There are inherent uncertainties with respect to the final outcome of certain of the Bank's loans and non-performing assets. Because of these inherent uncertainties, actual losses may differ from the amounts reflected in these consolidated financial statements. Factors considered in evaluating the adequacy of the reserve include previous loss experience, current economic conditions and their effect on the borrowers, the performance of individual loans in relation to contract terms and estimated fair values of properties to be foreclosed. Losses are charged against the reserve for loan losses when management believes that the collectibility of principal is doubtful.

Key elements of the above estimates, including those used in independent appraisals, are dependent upon the economic conditions prevailing at the time of the estimates. Accordingly, uncertainty exists as to the final outcome of certain of the valuation judgments as a result of the difficult and unpredictable operating conditions in the region. The inherent

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uncertainties in the assumptions relative to the projected sales prices or rental rates may result in the ultimate realization of amounts on certain loans which are different from the amounts reflected in these consolidated financial statements.

An analysis of the reserve for possible loan losses for each of the three years in the period ended December 31, 1993 is as follows:

	1993	1992	1991
Balance, beginning of year	$ 7,411,635	$6,650,217	$5,074,745
Provision for possible loan losses	23,822,000	8,050,000	7,243,443
Reserve recorded in connection with acquisition of NFNBV	2,000,000	--	--
Loans charged-off	(13,952,000)	(7,739,000)	(6,504,000)
Recoveries	778,424	450,418	836,029
Balance, end of year	$20,060,059	$7,411,635	$6,650,217

Included in the 1993 provision for possible loan losses is $666,667 recorded as a provision for the Bank's potential share of losses on segregated assets. Included in 1993 are charge-offs of $306,435 and recoveries of $8,249 related to segregated assets.

In May, 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan". The new standard requires that impaired loans be measured based on the present value of expected future cash flows discounted at each loan's effective interest rate or, as a practical expedient, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. The statement also changes the accounting for in-substance foreclosures and troubled debt restructurings. This statement is applied prospectively with any adjustment reflected in the provision for possible loan losses.

The Company is required to adopt the new standard by January 1, 1995, although early implementation is permitted. Because of the complexities of the new standard and the changing composition of the impaired loan portfolio, management has not yet determined the effect that this change in accounting will have on the Company's consolidated financial statements.

Nonperforming assets at December 31, 1993 and 1992 were as follows:

	1993			
	Loans	Segregated Assets	Total	1992
Nonaccrual Loans	$29,712,089	$17,356,607	$47,068,696	$12,148,233
Restructured Loans	2,772,783	68,389	2,841,172	1,838,120
Loans Past Due 90 Days or More and Still Accruing	712,391	2,978	715,369	7,251,028
Other Real Estate Owned	13,633,383	40,876	13,674,259	12,661,294
Total	$46,830,646	$17,468,850	$64,299,496	$33,898,675

Included in Nonaccrual Loans is $4,543,860 and $8,354,797 of loans whose terms have been substantially modified in troubled restructurings at December 31, 1993 and 1992, respectively. Other Real Estate Owned is shown net of a valuation reserve of $598,675 at December 31, 1993.

The Bank's policy is to discontinue the accrual of interest on loans when scheduled payments become contractually past due in excess of 90 days and, in the judgement of management, the ultimate collectibility of principal or interest becomes doubtful.

The amount of interest which was not earned but which would have been earned had the nonaccrual and restructured loans performed in accordance with their original terms and conditions was approximately $2,688,000, $1,268,000 and $1,283,000 in 1993, 1992 and 1991, respectively.

(6) PREMISES AND EQUIPMENT

The components of premises and equipment included in the

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accompanying consolidated balance sheets are as follows:

	1993	1992
Land and Buildings	$17,835,574	$16,571,052
Leasehold Improvements	869,444	869,444
Furniture and Equipment	10,421,058	8,911,663
	$29,126,076	$26,352,159
Less: Accumulated Depreciation and Amortization	12,977,974	11,716,363
	$16,148,102	$14,635,796

Depreciation and amortization expense amounted to $1,595,914, $1,646,560, and $1,890,153 in 1993, 1992 and 1991, respectively.

Merchants Bancshares, Inc.
Notes to Consolidated Financial Statements
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(7) EMPLOYEE BENEFIT PLANS

Pension Plan

The Company maintains a noncontributory defined benefit plan covering all eligible employees. The plan is a final average pay plan with benefits based on the average salary rates over the five consecutive plan years out of the last ten consecutive plan years that produces the highest average. It is the Company's policy to fund the cost of benefits expected to accrue during the year plus amortization of any unfunded accrued liability that has accumulated prior to the valuation date based on IRS regulations for funding. The plan's funded status and amounts recognized in the accompanying consolidated balance sheets and statements of operations as of December 31, 1993 and 1992 are as follows:

	1993	1992
Actuarial Present Value of Benefit Obligation:		
Vested Benefit Obligation	$4,827,238	$4,067,456
Nonvested Benefits	155,662	129,696
Accumulated Benefit Obligation	$4,982,900	$4,197,152
Effects of Projected Future Compensation Levels	1,661,854	1,211,997
Projected Benefit Obligation for Service Rendered to Date	$6,644,754	$5,409,149
Plan Assets	6,544,833	6,004,578
Excess (Deficiency) of Plan Assets Over (Under) Projected Benefit Obligation	$ (99,921)	$ 595,429
Unrecognized Net Asset at January 1, 1987 Being Amortized over 13.4 Years	(210,691)	(249,780)
Unrecognized Net (Gain) Loss	260,749	(558,330)
Accrued Pension Costs Included in Other Liabilities	($ 49,893)	($212,681)

	1993	1992	1991
Net Pension Expense Included the Following Components:			
Service Cost - Benefits Earned During the Year	$257,232	$221,688	$236,548
Interest Cost on Projected Benefit Obligation	432,963	387,401	373,648
Actual Return on Plan Assets	(488,860)	(518,990)	(608,820)
Net Amortization and Deferral	(24,194)	21,042	186,440
	$177,141	$111,141	$187,816

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The actuarial present value of the projected benefit obligation was determined using a weighted average discount rate of 7.5%, 8% and 8.25% as of December 31, 1993, 1992, and 1991, respectively. The assumed rate of increase of future compensation levels used for 1993 was 4% for the period 1993-1995, 4.5% for the period 1996-1997 and 5% thereafter. The rate of increase in future compensation levels for 1992 was 4% and for 1991 was 5%. The expected long-term rate of return on assets used was 8% in 1993 and 8.25% in 1992 and 1991.

Employee Stock Ownership Plan/ 401(K) Plan

Under the terms of the Company's Employee Stock Ownership Plan (ESOP), eligible employees are entitled to contribute up to 10% of their compensation to the ESOP, and the Company contributes a percentage of the amounts contributed by the employees, as authorized by the Company's Board of Directors. The Company contributed approximately 75% of the amounts contributed by the employees (up to 4.5% of individual employee compensation) in 1993, 1992 and 1991. Substantially all contributions to the ESOP are funded with cash and are used to purchase the Company's common stock.

(7) EMPLOYEE BENEFIT PLANS (Continued)

Performance Progress Sharing Plan

The Company maintains a Performance Progress Sharing Plan. Substantially all Company employees are eligible to participate in this plan, and awards are based on performance of the Company measured against goals established by the Board of Directors.

Deferred Compensation Plans

The Company maintains an Executive Salary Continuation Plan and a Deferred Compensation Plan for Directors. The plans are designed to supplement the retirement benefits available to certain key employees and directors of the Company. The plans are part of the Company's overall strategy for attracting and retaining high quality management. Under the plans, each participant is entitled to receive monthly benefits for 15 years in an amount specified in each participant's contract. Benefits commence upon retirement and may be reduced in the case of early retirement. If death occurs after retirement but before all benefits have been paid, the balance of the payments will be made to the participant's designated beneficiary. The Company has purchased insurance policies on the lives of the participants to help fund benefits payable under the plans.

Phantom Stock Plan

The Company maintains a Phantom Stock Plan, which expired in 1993, wherein certain key officers of the Bank receive an annual award of phantom shares of stock for up to five consecutive years. Each year, the Board of Directors reviews the performance of the officers and may make additional awards based upon such reviews. The value of the phantom shares for each annual grant is vested over a one-year period subject to certain early termination provisions. Benefits are payable in 60 monthly installments subsequent to the payment commencement date, as defined in the plan. The benefit level is based upon the market value of the Company's stock at the determination date, as defined in the plan.

A summary of expenses relating to the Company's various employee benefit plans for each of the three years in the period ended December 31, 1993 is as follows:

	1993	1992	1991
Pension Plan	$177,141	$ 111,141	$187,816
Employee Stock Ownership Plan/ 401K Plan	285,199	267,636	246,651
Performance Progress Sharing Plan	264,000	360,641	162,791
Deferred Compensation Plans	272,946	233,222	202,026
Phantom Stock Plan	249,600	259,896	144,000
	$1,248,886	$1,232,536	$943,284

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(8) INCOME TAXES

The provision (benefit) for income taxes for each of the three years in the period ended December 31, 1993 consists of the following:

	1993	1992	1991
Current	$(4,385,126)	$2,708,861	$2,904,002
Prepaid	(25,360)	(2,133,353)	(1,994,973)
	$(4,410,486)	$ 575,508	$ 909,029

Prepaid and deferred income taxes result from differences between financial reporting income and taxable income relating primarily to the provision for possible loan losses, accelerated tax depreciation and the difference between the book and tax treatments of equipment leases. The net prepaid tax asset amounted to approximately $3,422,000 and $3,316,000 at December 31, 1993 and 1992, respectively. In addition, as of December 31, 1993, the Bank has filed for a refund for overpayment of 1989 and 1990 taxes totalling $1,191,000. These tax assets are included in other assets in the accompanying consolidated balance sheets.

The following is a reconciliation of the federal income tax provision (benefit), calculated at the statutory rate, to the recorded provision (benefit) for income taxes:

	1993	1992	1991
Applicable Statutory Federal Income Tax (benefit)	$(3,465,299)	$2,125,686	$2,016,866
(Reduction) Increase in Taxes Resulting From:			
Loss on Investment Securities	40,018	171,074	37,134
Tax-Exempt Income	(213,631)	(371,334)	(525,000)
Tax Credits	(960,750)	(941,500)	(626,000)
Other, Net	189,176	(66,270)	6,029
	$(4,410,486)	$ 575,508	$ 909,029

The components of the net prepaid tax asset as of December 31, 1993 and 1992 are as follows:

	1993	1992
Reserve for Possible Loan Losses	$6,387,000	$2,645,000
Deferred Compensation	1,522,000	1,351,000
Unrealized Securities Losses	74,000	357,000
Loan Fees	446,000	402,000
Leveraged Leases	(42,000)	(547,000)
Depreciation	(389,000)	(375,000)
Accrued Liabilities	189,000	185,000
Capital Loss Carryforwards	576,000	544,000
Investments in Limited Partnerships	(463,000)	(375,000)
Excess Servicing on Sold Mortgages	(60,000)	(169,000)
Loan Market Adjustment	(4,274,000)	0
Other	32,000	(158,000)
	$3,998,000	$3,860,000
Valuation Allowance	(576,000)	(544,000)
	$3,422,000	$3,316,000

A valuation allowance is provided when it is more likely than not that some portion of the net prepaid tax asset will not be realized. The Bank has established a valuation allowance for capital loss carryforwards since such losses may only be utilized against future capital gains.

The State of Vermont assesses a franchise tax for banks in lieu of income tax. The franchise tax is assessed based on deposits and amounted to approximately $247,000, $234,000 and $233,000 in 1993, 1992 and 1991, respectively. These amounts are included in other expenses in the accompanying consolidated statements of operations.

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(9) OTHER BORROWED FUNDS

Other borrowed funds consist of the following at December 31, 1993 and 1992:

	1993	1992
Treasury Tax and Loan Notes	$5,742,607	$4,869,873
Securities Sold Under Agreements to Repurchase	1,681,474	3,594,939
Federal Funds Purchased	7,500,000	0
	$14,924,081	$8,464,812

The Bank may borrow up to $48,400,000 in federal funds on an unsecured basis. The following table provides certain information regarding other borrowed funds for each of the two years in the period ended December 31, 1993:

1993	Maximum Month-end Amount Outstanding	Average Amount Outstanding	Weighted Average Annual Interest Rate	Weighted Average Rate on Amounts Outstanding
Treasury Tax and Loan Notes	$5,742,607	$3,540,180	2.74%	3.11%
Securities Sold Under Agreements to Repurchase	$12,051,559	$7,669,030	2.99%	2.65%
Federal Funds Purchased	$14,600,000	$2,636,629	3.34%	3.50%
1992				
Treasury Tax and Loan Notes	$5,379,420	$3,496,710	3.39%	3.20%
Securities Sold Under Agreements to Repurchase	$6,080,811	$5,021,966	3.72%	3.25%
Federal Funds Purchased	$18,300,000	$2,148,709	4.39%	----

(10) DEBT

Debt outstanding consists of the following at December 31, 1993 and 1992:

	1993	1992
10% Senior Subordinated Debt Payable 1994 Through 1996	$7,200,000	$ 9,600,000
9% Mortgage Note, Payable in Monthly Installments of $1,736 (Principal and Interest) Through 2020	209,909	211,782
1% Mortgage Note, Payable in Monthly Installments of $2,542 (Principal and Interest) Through 2039	1,193,513	1,195,353
9.81% Capital Notes, Interest Payable Semiannually, Principal Payable 1995 Through 2000	10,000,000	10,000,000
9.81% Capital Notes, Interest Payable Semiannually, Principal Payable in 1997	10,000,000	10,000,000
Federal Home Loan Bank Notes Payable, Interest Rates from 4.83% to 8.66% due 1995 through 2001	18,030,000	18,030,000
	$46,633,422	$49,037,135

Maturities of debt subsequent to December 31, 1993 are: 1994 - $2,404,056; 1995 -$8,404,431; 1996 - $4,404,841; 1997 - $21,005,288; 1998 - $7,035,778; and $3,379,028 thereafter.

The capital and senior subordinated note agreements contain a number of restrictive covenants including, among other things, limitations on additional indebtedness, the payment of dividends and certain other uses of cash. In addition, the agreements

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contain restrictions, based upon defined formulas, with respect to maintaining certain financial ratios and specified levels of capital. Under the Federal Home Loan Bank agreement,the Bank pledged as collateral mortgages on 1 to 4 family residences totaling approximately $7,200,000. As of December 31, 1993, the Company is in compliance with all of the covenants of the capital notes, senior subordinated note and Federal Home Loan Bank agreements.

(11) STOCKHOLDERS' EQUITY

As a state-chartered bank, the Bank's primary regulator is the FDIC. The Bank is subject to regulatory capital regulations that provide for two capital requirements: a leverage requirement and a risk-based capital requirement. The leverage requirement provides for a minimum "core" capital, consisting primarily of common stockholders' equity, of 3.0% of total adjusted assets, for those institutions with the most favorable composite regulatory examination rating. As discussed in Note 1, the Bank is required to maintain a minimum leverage capital ratio of 5.5% under the MOU. As of December 31, 1993 the Bank's leverage capital was 5.94%. The minimum risk-based capital requirement provides for minimum capital levels based on risk-weighted assets of 8.0% at December 31, 1993. At December 31, 1993, the Bank exceeded all capital requirements of the FDIC. Vermont state law requires the Bank to appropriate a minimum of 10% of net income to surplus until such time as appropriated amounts equal 10% of deposits and other liabilities. The Bank's stockholders' equity includes $6,561,600 as of December 31, 1993 and 1992, respectively, of such appropriations. Debt covenants and Vermont state law restrict the payment of dividends under certain circumstances. The most restrictive of these limits dividend payments on a cumulative basis since December 31, 1985 to cumulative net income for the same period plus $2,000,000. In addition, as discussed in Note 1, the Company may not declare or pay a dividend without the approval of the Federal Reserve.

(12) STOCK DIVIDENDS

On December 6, 1991, the Company declared a 2% stock dividend, payable on December 30, 1991, to shareholders of record on December 20, 1991. On November 13, 1992, the Company declared a 3% stock dividend, payable on December 11, 1992 to shareholders of record on November 30, 1992. All per share amounts were restated in prior years to reflect this activity.

(13) COMMITMENTS AND CONTINGENCIES

The Bank is involved in various legal proceedings arising in the normal course of business. Based upon consultation with legal counsel, management believes that the resolution of these matters will not have a material effect on the consolidated financial position and results of operations of the Company.

<TABLE>

(14) PARENT COMPANY

The Company's investments in its subsidiaries are recorded using the equity method of accounting. Summarized financial information relative to the Company's (parent company only) balance sheets at December 31, 1993 and 1992 and statements of operations and cash flows for each of the three years in the period ended December 31, 1993 is as follows:

<CAPTION>

Balance Sheets - December 31,	1993	1992
<S>	<C>	<C>
Assets:		
Investment in and Advances to Subsidiaries	$51,006,872	$60,167,795
Other Investments	1,077,035	1,050,817
Other Assets	896,099	1,315,752
Total Assets	$52,980,006	$62,534,364
Liabilities and Equity Capital:		

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	1993	1992
Notes Payable	$7,200,000	$9,600,000
Other Liabilities	60,000	731,451
Equity Capital	45,720,006	52,202,913
Total Liabilities and Equity Capital	$52,980,006	$62,534,364

<CAPTION>

Statements of Operations for the Year Ended December 31,	1993	1992	1991
<S>	<C>	<C>	<C>
Dividends from the Merchants Bank*	$848,585	$3,320,194	$3,230,861
Equity in Undistributed Earnings (Loss) of Subsidiaries*	(6,365,554)	2,161,917	2,300,879
Other Expense, Net	(450,636)	(2,734)	(648,470)
Provision for Income Taxes	186,036	197,134	248,077
Net Income (Loss)	($5,781,569)	$5,676,511	$5,131,347

<CAPTION>

Statements of Cash Flows for the Year Ended December 31,	1993	1992	1991
<S>	<C>	<C>	<C>
Cash Flows from Operating Activities:			
Net Income (Loss)	($5,781,569)	$5,676,511	$5,131,347
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:			
Amortization	15,265	18,260	21,255
Losses (Gains) on Investment Securities	(76,316)	(530,300)	53,754
(Increase) Decrease in Miscellaneous Receivables	998,729	(40,870)	0
Increase (Decrease) in Miscellaneous Payables	(868,585)	396,997	(272,476)
Equity in Undistributed (Earnings) Losses of Subsidiaries	6,365,554	(2,161,917)	(2,300,879)
Net Cash Provided by Operating Activities	$653,078	$3,358,681	$2,633,001
Cash Flows from Investing Activities:			
Repayment of Advances to Subsidiaries	2,379,917	382,420	657,975
Additional Investment in Subsidiary	0	0	(66,000)
Proceeds from Sales of Investment Securities	271,316	2,142,410	170,272
Net Cash Provided by Investing Activities	$2,651,233	$2,524,830	$762,247
Cash Flows From Financing Activities:			
Sale of Treasury Stock	388,998	1,193,522	849,236
Purchase of Treasury Stock	(132,058)	(964,717)	(1,133,584)
Cash Dividends Paid	(838,050)	(3,293,450)	(3,212,698)
Principal Payments on Debt	(2,400,000)	(2,400,000)	0
Net Cash Used in Financing Activities	($2,981,110)	($5,464,644)	($3,497,046)
Increase (Decrease) in Cash and Cash Equivalents	323,201	418,867	(101,798)
Cash and Cash Equivalents at Beginning of Year	445,543	26,676	128,474
Cash and Cash Equivalents at End of Year	$768,744	$445,543	$26,676
Total Interest Paid	$820,000	$1,080,000	$1,200,000
Taxes Paid	1,190,000	2,860,000	3,415,000

<FN>
*Account balances are partially or fully eliminated in consolidation.
</TABLE>

Merchants Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 1993

(15) FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments primarily include commitments to extend credit and financial guarantees. Such instruments involve, to varying degrees, elements of credit and interest rate risk that are not recognized in the accompanying consolidated balance sheets.

Exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and financial guarantees written is represented by the contractual amount of those instruments. The Company generally requires collateral to support such financial instruments in excess of the contractual amount of those instruments and, therefore, is in a fully secured position. The

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Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. The contractual amounts of these financial instruments at December 31, 1993 and 1992 were as follows:

	Contractual Amount
1993	
Financial Instruments Whose Contract Amounts Represent Credit Risk:	
Commitments to Extend Credit	$113,360,000
Standby Letters of Credit	11,721,000
Loans Sold with Recourse	2,527,000
1992	
Financial Instruments Whose Contract Amounts Represent Credit Risk:	
Commitments to Extend Credit	$104,377,000
Standby Letters of Credit	14,346,000
Loans Sold with Recourse	2,458,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent a future cash requirement. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained by the Company upon extension of credit is based on management's credit evaluation of the counterparty, and an appropriate amount of real and/or personal property is obtained as collateral.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. Most guarantees extend for less than two years and 75% are for less than $100,000. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company obtains real and/or personal property as collateral for those commitments for which collateral is deemed to be necessary.

(16) FAIR VALUE OF FINANCIAL INSTRUMENTS

INVESTMENTS
The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents and stock in the Federal Home Loan Bank of Boston (FHLB) approximate fair values. Fair value for investment securities is determined from quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Refer to Note 4 - Investment Securities.

LOANS
The fair value of variable rate loans that reprice frequently and have no significant credit risk is based on carrying values. The fair value of fixed rate (one-to-four family residential) mortgage loans, and other consumer loans, is based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair value for other loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

An analysis of the estimated fair value of the loan portfolio (including segregated assets) as of December 31, 1993 and 1992 is as follows:

	1993		1992	
	Carrying Amount	Calculated Fair Value	Carrying Amount	Calculated Fair Value

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		(In Thousands)		
Net Loans	$553,412	$554,905	$422,124	$424,157

DEPOSITS
The fair value of demand deposits approximates the amount reported in the consolidated balance sheets. The fair value of variable rate, fixed term certificates of deposit also approximate the carrying amount reported in the consolidated balance sheets. The fair value of fixed rate and term certificates of deposit is estimated using a discounted cash flow which applies interest rates currently being offered for deposits of similar remaining maturities.

An analysis of the estimated fair value of deposits as of December 31, 1993 and 1992 is as follows:

	1993		1992	
	Carrying Amount	Calculated Fair Value	Carrying Amount	Calculated Fair Value
		(In Thousands)		
Demand Deposits	$ 96,413	$ 96,414	$ 82,272	$ 82,272
Savings, NOW and Money Markets	321,821	311,606	289,670	291,925
Time Deposits Over $100,000	21,215	22,617	6,647	6,647
Other Time	179,861	191,747	125,464	125,464
	$619,310	$622,384	$504,053	$506,308

DEBT
The fair value of debt is estimated using current market rates for borrowings of similar remaining maturity.

An analysis of the estimated fair value of the debt of the Company as of December 31, 1993 and 1992 is as follows:

	1993		1992	
	Carrying Amount	Calculated Fair Value	Carrying Amount	Calculated Fair Value
		(In Thousands)		
Debt	$46,633	$47,699	$49,037	$49,143

COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT
The fair value of commitments to extend credit is estimated using the 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 financial standby 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. The fair value of commitments to extend credit and standby letters of credit is $165,468 and $183,583 as of December 31, 1993 and 1992, respectively.

(17) RESTATEMENT OF 1990 FINANCIAL STATEMENTS

During 1991, the staff of the Securities and Exchange Commission (the Commission staff) performed a review of the Company's financial statements in its Form 10-K for the year ended December 31, 1990. In communications with the Company regarding this review, the Commission staff expressed certain views and provided additional guidance to the Company regarding the accounting for its marketable equity securities portfolio. The Commission staff's additional guidance focused on the criteria for determining when the unrealized depreciation of marketable equity securities should be deemed to be other than temporary in nature and, therefore, recognized as a loss in the consolidated statements of operations. While management believes that it had properly accounted for marketable equity securities as of December 31, 1990 in accordance with generally accepted accounting principles and guidance existing at that time,

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management concluded, in light of the Commission staff's additional guidance, that the unrealized depreciation of marketable equity securities as of December 31, 1990 included amounts deemed to be other than temporary in nature. The Company reflected this conclusion by retroactively recognizing in the consolidated statement of operations additional losses with respect to certain securities as of December 31, 1990. This restatement had no effect on the total stockholders' equity at December 31, 1990 as originally reported. The consolidated statement of changes in stockholders' equity as of December 31, 1990 was restated as follows:

	Originally Reported	As Restated
Retained Earnings	$23,366,472	$20,783,372
Valuation Allowance for Net Unrealized Depreciation of Investment Securities	(2,900,368)	(317,268)

Merchants Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 1993

<TABLE>

(18) SUMMARY OF UNAUDITED QUARTERLY FINANCIAL INFORMATION (in thousands):

<CAPTION>

<S>	1993 <C> Restated (A) Q1	<C> Restated (A) Q2	<C> Q3	<C> Q4	<C> YEAR	1992 <C> Q1	<C> Q2	<C> Q3	<C> Q4	<C> YEAR
Interest and Fee Income	$11,060	$11,745	$14,357	$14,312	$51,474	$12,613	$12,551	$12,147	$11,928	$49,239
Interest Expense	4,779	5,029	6,361	5,787	21,956	6,531	6,373	5,912	5,235	24,051
Net Interest Income	$6,281	$6,716	$7,996	$8,525	$29,518	$6,082	$6,178	$6,235	$6,693	$25,188
Provision for Possible Loan Losses (B)	5,008	9,314	2,750	6,750	23,822	1,400	1,400	3,000	2,250	8,050
Non-Interest Income	3,221	2,126	2,617	2,490	10,454	2,613	2,189	4,491	902	10,195
Non-Interest Expense	5,756	5,885	7,048	7,653	26,342	5,250	5,150	5,447	5,234	21,081
Income (Loss) Before Provision (Benefit) for Income Taxes	($1,262)	($6,357)	$815	($3,388)	($10,192)	$2,045	$1,817	$2,279	$111	$6,252
Provision (Benefit) For Income Taxes	(792)	(2,416)	(26)	(1,176)	(4,410)	278	366	527	(595)	576
Net Income (Loss)	($470)	($3,941)	$841	($2,212)	($5,782)	$1,767	$1,451	$1,752	$706	$5,676
Earnings (Loss) Per Share	($0.11)	($0.93)	$0.20	($0.53)	($1.37)	$0.43	$0.35	$0.43	$0.18	$1.39
Dividends Per Share	$0.20	$0.00	$0.00	$0.00	$0.20	$0.20	$0.20	$0.20	$0.20	$0.80

<FN>
(A) Based on subsequent discussions with the FDIC and additional review of certain credit information in connection with the 1993 regulatory examination discussed in Note 1, management decided to amend the Bank's call reports and Forms 10-Q for the quarters ended March 31, 1993 and June 30, 1993 to allocate $3 million of the additional provision for possible loan losses originally recorded in the quarter ended June 30, 1993 to the quarter ended March 31, 1993.

(B) During the fourth quarter of 1993, as a result of significant increases in nonperforming assets and continuing weakness in the regional economy the Company provided reserves for possible loan losses of $5 million in addition to the planned provision of $1.75 million.
</TABLE>

<TABLE>
Merchants Bancshares, Inc.
Interest Management Analysis
<CAPTION>

(Taxable Equivalent, in thousands)	1993	1992	1991
Total Average Assets	$705,516	$602,317	$592,343

	1993	% of	1992	% of	1991	% of

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NET INTEREST INCOME:		Assets		Assets		Assets
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest and Dividend Income	$ 47,194	6.69%	$ 45,528	7.56%	$ 54,712	9.24%
Fees on Loans	4,598	0.65%	4,326	0.72%	3,397	0.57%
Total	$ 51,792	7.34%	$ 49,854	8.28%	$ 58,109	9.81%
Interest Expense	21,956	3.11%	24,051	3.99%	32,104	5.42%
Net Interest Income Before Provision for Possible Loan Losses	$ 29,836	4.23%	$ 25,803	4.28%	$ 26,005	4.39%
Provision for Possible Loan Losses	23,822	3.38%	8,050	1.34%	7,243	1.22%
Net Interest Income	$ 6,014	0.85%	$ 17,753	2.95%	$ 18,762	3.17%
OPERATING EXPENSE ANALYSIS:						
Non-Interest Expense						
Personnel	$ 12,305	1.74%	$ 10,195	1.69%	$ 10,680	1.80%
Occupancy Expense	1,949	0.28%	1,490	0.25%	1,465	0.25%
Equipment Expense	1,880	0.27%	1,783	0.30%	2,045	0.35%
Other	10,208	1.45%	7,612	1.26%	7,047	1.19%
Total Non-Interest Expense	$ 26,342	3.73%	$ 21,080	3.50%	$ 21,237	3.59%
Less Non-Interest Income						
Service Charges on Deposits	$ 3,571	0.51%	$ 2,536	0.42%	$ 2,421	0.41%
Other, Including Securities Gains (Losses)	6,883	0.98%	7,659	1.27%	6,956	1.17%
Total Non-Interest Income	$ 10,454	1.48%	$ 10,195	1.69%	$ 9,377	1.58%
Net Operating Expense	$ 15,888	2.25%	$ 10,885	1.81%	$ 11,860	2.00%
SUMMARY:						
Net Interest Income	$ 6,014	0.85%	$ 17,753	2.95%	$ 18,762	3.17%
Less: Net Overhead	15,888	2.25%	10,885	1.81%	11,860	2.00%
Profit Before Taxes - Taxable Equivalent Basis	$ (9,874)	-1.40%	$ 6,868	1.14%	$ 6,902	1.17%
Net Profit (Loss) After Taxes	$ (5,781)	-0.82%	$ 5,677	0.94%	$ 5,131	0.87%

</TABLE>

<TABLE>

Merchants Bancshares, Inc.
Five Year Summary of Operations
(Not Covered by Report of Independent Public Accountants)

<CAPTION>

For the years ended	1993	1992	1991	RESTATED 1990	1989
<S>	<C>	<C>	<C>	<C>	<C>
Interest and Investment Income	$ 51,474	$ 49,239	$ 57,249	$ 62,797	$ 60,632
Interest Expense	21,956	24,051	32,104	34,792	$ 32,540
Net Interest Income	$ 29,518	$ 25,188	$ 25,145	$ 28,005	$ 28,092
Provision for Possible Loan Losses	23,822	8,050	7,243	4,492	2,480
Net Interest Income after Provision for Loan Losses	$ 5,696	$ 17,138	$ 17,902	$ 23,513	$ 25,612
Non-interest Income	$ 10,454	$ 10,195	$ 9,376	$ 4,301	$ 7,268
Non-interest Expense	26,342	21,081	21,238	21,351	$ 20,651
INCOME (LOSS) BEFORE INCOME TAXES	$ (10,192)	$ 6,252	$ 6,040	$ 6,463	$ 12,229
Provision (benefit) for Income Taxes (Notes 3 and 8)	(4,410)	575	909	1,670	3,263
NET INCOME (LOSS)	$ (5,782)	$ 5,677	$ 5,131	$ 4,793	$ 8,966
SELECTED AVERAGE BALANCES (IN THOUSANDS)					
Total Assets	$ 705,516	$ 602,317	$ 592,343	$ 597,385	$ 577,347
Average Earning Assets	627,049	542,157	537,806	537,787	521,784
Loans	515,805	441,291	471,141	488,792	482,582
Total Deposits	570,957	490,908	488,831	495,299	486,657
Debt	47,835	42,171	35,007	25,416	12,864
Stockholders' Equity	48,511	51,548	48,668	46,493	42,631
Stockholders' Equity plus Loan Loss Reserve	59,999	59,028	54,707	51,401	47,392
SELECTED RATIOS					
Net Income (Loss) to:					
Average Stockholders' Equity	-11.92%	11.01%	10.53%	10.31%	21.03%
Average Assets	-0.82%	0.94%	0.86%	0.80%	1.55%
Average Stockholders' Equity to Average Total Assets	6.88%	8.56%	8.22%	7.78%	7.38%
Average Primary Capital to Average Total Assets	8.50%	9.80%	9.24%	8.60%	8.21%
Common Dividend Payout Ratio	N/C	58.48%	62.69%	64.99%	30.37%

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Loan Loss Reserve to Total Loans at Year End	3.50%	1.73%	1.41%	1.03%	1.03%
Net Charge-Offs to Average Loans	1.95%	1.65%	1.20%	0.93%	0.35%
PER SHARE (Note 1)					
Net Income (Loss)	$ (1.37)	$ 1.39	$ 1.21	$ 1.13	$ 2.12
Cash Dividends	0.20	0.80	0.78	0.74	0.63
Year End Book Value	10.74	12.39	11.82	11.30	10.59
Other					
Cash Dividends Paid (In Thousands)	$ 848	$ 3,320	$ 3,231	$ 3,115	$ 2,723
Stock Dividends Issued	0.0%	3.0%	2.0%	5.0%	5.0%

<FN>

(Note 1): All stock dividends and splits are reflected retroactively. See Note 12 of Notes to Consolidated Financial Statements.
</TABLE>

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

The following discussion and analysis of financial condition and results of operations of the Company and its subsidiaries for the three years ended December 31, 1993 should be read in conjunction with the consolidated financial statements and notes thereto and selected statistical information appearing elsewhere in this annual report. The information is discussed on a fully taxable equivalent basis. Particular attention should be given to the INTEREST MANAGEMENT ANALYSIS and OPERATING EXPENSE ANALYSIS TABLES immediately preceding this discussion upon which this discussion is primarily based. The financial condition and operating results of the Company essentially reflect the operations of its principal subsidiary, The Merchants Bank.

REGULATORY MATTERS

During the second quarter of 1993, the FDIC and the Commissioner of the Vermont Department of Banking, Insurance and Securities performed a joint field examination of the Bank as of March 31, 1993. Additionally during the quarter, the Federal Reserve Bank of Boston performed a field examination of the Company as of March 31, 1993. As a result of these examinations, the Bank entered into a Memorandum of Understanding (MOU) with the FDIC and the Commissioner on October 29, 1993. Under the terms of the MOU, the Bank is required to, among other things, maintain a leverage capital ratio of at least 5.5%, revise certain operating policies, enhance certain loan review procedures, refrain from declaring dividends and correct certain technical exceptions and violations of applicable regulations. Management believes the Bank is in substantial compliance with all of the provisions of the MOU as of December 31, 1993. The Bank was also directed by the FDIC to increase the reserve for possible loan losses by approximately $12 million and charge off loans totaling approximately $8 million at the conclusion of the examination in June, 1993. The Bank recorded the increase in the reserve for possible loan losses as directed by the FDIC as of June 30, 1993. Based on subsequent discussions with the FDIC and additional review of certain loans, management decided to amend the Bank's call reports and Forms 10-Q for the quarters ended March 31, 1993 and June 30, 1993 to allocate $3 million of the additional provision for possible loan losses originally recorded in the quarter ended June 30, 1993 to the quarter ended March 31, 1993.

Additionally, on February 18, 1994, the Company entered into a Written Agreement with the Federal Reserve Bank of Boston which precludes the Company from declaring or paying any dividends without prior permission, directed the Company to submit a capital plan to maintain an adequate capital position at the Bank and at the Company, precludes any additional borrowings or incurrance of debt without the Federal Reserve's permission, and requires the Bank to review and assess the qualifications of senior management and form a succession plan for senior management, revise certain policies, and not enter into certain transactions without prior Federal Reserve permission.

Management is actively responding to the agreements, and has addressed substantially all of the issues in the MOU and is in the process of addressing the issues in the Written Agreement.

The FDIC and the Commissioner conducted another joint field examination of the Bank as of December 31, 1993 which was completed on March 31, 1994. An exit conference with management was held on March 31, 1994 and management believes that the Bank is in substantial compliance with the terms of the MOU.

On March 31, 1994, the FDIC and the Commissioner completed the field work related to their most recent examination of the Bank as of December 31, 1993. Although the FDIC and Commissioner have not yet issued the formal examination report, management believes that the results of the examination will not have a significant

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impact on the Company's financial statements.

FDIC ASSISTED ACQUISITION

The Company expanded its banking operations through an FDIC-assisted acquisition of the New First National Bank of Vermont (NFNBV), a three bank holding company conducting banking activities primarily on the eastern side of Vermont. Formerly known as Independent Bank Group and later as the First National Bank of Vermont, it was taken over by the FDIC in January 1993 as a result of inadequate capital and subsequently run by the FDIC as a bridge bank until its sale on June 4, 1993. Prior to submitting its bid to the FDIC to acquire NFNBV, the Company was able to conduct a due diligence review of NFNBV's assets and liabilities using internal and outside consultants which the Company believes contributed importantly to its successful bid and reduced its risks relating to the acquisition. The acquisition enabled the Company to acquire greater earning assets and achieve economies of scale by consolidating administration and operations, standardizing policies and procedures, and providing uniform products and services. Management believes that the acquisition represented a very attractive opportunity to expand the Company's operations into a contiguous market area. The integration of operations was completed in October, 1993.

Under the terms of the Purchase and Assumption Agreement between the Company and the FDIC, the Company purchased $178.4 million in performing loans, $154.5 million of which are covered under a Loss Sharing Agreement and classified as "Segregated Assets" in the consolidated financial statements. Additionally purchased was $11.4 million in cash and cash equivalents, $4.1 million of investment securities, $1.5 million of buildings and equipment and $1.5 million of other assets. A purchase accounting adjustment was made to set up an allowance for possible loan losses in the amount of $2 million, which represents managements' estimate of general credit risks within the acquired portfolio as adjusted under the provisions of the loss sharing agreement with the FDIC. The purchase price consisted of the assumption of all of the deposit liabilities ($203 million) and $537,000 in other liabilities. Additionally, the Company received cash from the FDIC in the amount of $4.1 million. Accordingly, the Company recognized a core deposit intangible in the amount of $4.5 million which is being amortized over 15 years using the straight-line method.

Under the terms of the Loss Sharing Agreement, the FDIC will reimburse the Company, on a quarterly basis, 80% of the net charge-offs and certain expenses relating to Segregated Assets up to cumulative losses aggregating $41.1 million, after which the rate will be 95% of net charge-offs on the loans. The Loss Sharing Agreement runs for three years, after which time the Company will reimburse the FDIC 80% of all recoveries on the charged-off loans for three years.

RESULTS OF OPERATIONS

The Company recognized a loss of $5,781,569 for the year ended December 31, 1993, due primarily to a significant increase in the provision for possible loan losses. (Refer to the discussion under "Provision For Possible Loan Losses" which follows). Core earnings, not including the provision for possible loan losses, improved over 1992 due to a stable interest rate environment which allowed the Bank to improve the interest margin by reducing the average cost of funding. Net gains on investment securities decreased to $1,898,945 from $3,448,500 in 1992.

Net income for 1992 increased 10.6% to $5,676,500 over 1991. Core earnings remained down rather significantly, due in part to lower interest rates, increased non-performing assets and the related higher provision for loan losses. Net gains on investment securities increased dramatically, however, to $3,448,500 from $ 2,774,000 in 1991.

The 1993 loss on a per share basis was $1.37. Earnings per share adjusted for all stock dividends increased 14.9% to $1.39 in 1992 from $1.21 in 1991. The cash dividends paid per share were $0.20, $0.80 and $0.78 respectively for years 1993, 1992 and 1991 after adjustments for all stock dividends.

The net loss as a percentage of average equity capital was 11.92% for 1993, while the net return on average equity capital was 11.0% in 1992 and 10.5% in 1991. The ten-year average return on equity is 15.32%. The net loss as a percentage of average assets was .82% in 1993, while the net return on average assets was .94% in 1992 and .86% in 1991. The ten-year average return on assets is 1.02%.

NET INTEREST INCOME

Net interest income before the provision for possible loan losses is the difference between total interest, loan fees, and investment income and total interest expense. Net interest income before the provision for possible loan losses is the key

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indicator of bank performance in managing its assets and liabilities. Maximization and stability of this margin is the primary objective of the Company. Net interest income before the provision for possible loan losses on a fully taxable equivalent basis was $29.8 million in 1993, up 15.5% from $25.8 million the previous year. This increase is primarily due to the larger asset base resulting from the NFNBV transaction, which added approximately $84 million in earning assets and $80 million in deposit liabilities to the averages. Interest rates remained level during 1993, however, an increased level of nonperforming assets reduced the net interest income before the provision for possible loan losses as a percentage of total average assets to 4.23% from 4.28% in 1992.

Net interest income before the provision for possible loan losses was $25.8 million in 1992, down 0.7% from $26.0 million the previous year. There are several causes for this net decline: (1) a significantly lower cost of funding, which dropped from an average of 6.7% on average interest bearing liabilities in 1991 to 5.0% in 1992 and saved the Company nearly $8,000,000 in interest expense during the year; (2) while the average yield on average interest earning assets was down 14.9%, from 10.8% in 1991 to 9.19% in 1992, average earning assets increased $4,300,000 resulting in a net decrease in interest income of $9,180,000; (3) average prime lending rates were 6.25% in 1992 as compared to 8.47% in 1991, a decrease of 26%; (4) fees on loans increased significantly (27.3%) to $4.3 million in 1992 as compared to $3.7 million in 1991. The net interest margin as a percentage of total average assets was 4.28% in 1992 compared to 4.39% in 1991.

Total interest income increased 3.7% in 1993 from 1992, while total interest expense decreased 8.7% as the Company continued to decrease its costs of funding by lowering the interest rates paid to borrowers. The decrease in total interest expense is dramatic, when the assumption of additional deposits from the NFNBV acquisition is taken into consideration. Total interest income declined 16.6% in 1992 while total interest expense declined 25.1% from 1991 totals. Included in fees on loans and interest income are net gains on sales of loans of $818,300, $404,000 and $268,000 in 1993, 1992 and 1991, respectively. These net gains included the present value of the difference between the weighted average interest rate on the sold loans serviced by the Bank and the interest rate remitted to the investor, adjusted for a normal servicing fee.

Net interest income after the provision for possible loan losses was $11.7 million lower in 1993 than 1992, which was a 5.4% decrease ($1,009,000) lower than 1991. The net interest margin after the provision was .85% of average assets compared to 2.95% in 1992.

NET OPERATING EXPENSE

Net operating expense (net overhead) is total non-interest expense reduced by non-interest income. Operating expense includes all staff, occupancy, equipment, supplies, and all other non-interest expenses. Non-interest income consists primarily of fee income on deposit accounts, trust services, credit card, corporate and data processing services, and gains or losses on investment securities.

Non-interest income increased marginally (2.5%) during 1993, to $10.5 million from $10.2 million in 1992. Trust department income increased $287,000 (20.5%), service charges increased $1,035,000 (40.8%) due to increased charges and many more deposit accounts due to the NFNBV acquisition, all other non-interest income increased $486,000 (17.3%), while gains on the sales of investment securities decreased $1,550,000 (44.9%). Included in the 1993 investment gains is $1,024,000 recognized on the sale of U.S. Treasury issues sold during the first quarter of 1993 which had been written down as of December 31, 1992 as an unrealized loss and recognized as a reduction of investment gains during 1992.

During 1992, non-interest income increased $818,000, 8.7% higher than 1991. Service charges on deposit accounts increased $115,000 (4.8%), due to higher prices and an increase in the number of accounts subject to service charges. All other non-interest revenue decreased $696,000 (10.0%). Included in non-interest revenue is $3,449,000 of net securities gains in 1992 compared to $2,774,000 of net security gains in 1991, a difference of $675,000. Interest rates continued to fall during the first half of 1992, creating the need to realign the Company's interest sensitive balance sheet, which was accomplished by changing the maturities of the U.S. Treasury portfolio, as well as placing emphasis on writing fixed rate loans and variable rate deposit products. To reflect the change in strategy management redesignated its U.S. Treasury security portfolio as held for sale within the context of its asset/liability management policies. As rates fell during the year, the market value of the U.S. Treasury issues held for sale

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increased and, through a series of sales and purchases of different maturities, the Company realized gains on these instruments of $3,942,000 in 1992 as compared to $2,714,000 in 1991. During the fourth quarter of 1992 a change in short term interest rates caused the market value of the Company's U.S. Treasury portfolio to decrease. As a result, an unrealized loss of $1,024,000 was recognized in non-interest income.

The Company's operating expenses increased $5,261,000 or 25% over 1992, due to the costs of regulatory actions and the acquisition of NFNBV. Total personnel costs increased $2.1 million (20.7%) as the Company took on the 129 employees of NFNBV on a temporary or consulting basis while converting the new branches into the computer and operating systems. By December 31, 1993, the Company had hired on a permanent basis 64 employees and paid approximately $100,000 in separation and severance pay to the employees not hired. Occupancy and equipment expenses increased $556,000 in the aggregate, or 17%, again due to additional branches acquired in the NFNBV acquisition. Losses on and write-downs of other real estate owned increased to $1.97 million from $833,300 due to the deterioration in the real estate market and the economic recession during the late 1980's and early 1990's. All other non-interest expenses increased $1.5 million (27.1%) due to higher FDIC insurance premiums, legal and professional fees and amortization of the core deposit intangible arising from the NFNBV transaction and regulatory actions.

The Company's operating expenses for 1992 decreased $157,000, .7% lower than 1991. 1992 total personnel costs decreased $485,000 or 4.5% from 1991, reflecting a 5.1% decrease in salaries and 4.4% decrease in benefit costs. In February 1991, the Bank downsized staff by 40 employees, mostly middle managers, to reduce overhead in a difficult economic environment. This action reduced annualized salaries expense by $920,000, however, severance expenses recognized during 1991 totaled $400,000. The Bank's share of health and life insurance expense decreased $40,600 (6.5%) during 1992. Deferred compensation plan costs increased $31,200, pension costs decreased $76,700 and other benefit costs decreased $25,000 for a total benefit cost decrease of $111,100. During 1992, the Company began a wellness incentive plan which awards employees for consistent activities which lead toward a more healthy existence. The Company paid approximately $70,000 to employees under this plan in 1992. Equipment costs decreased $261,600 (12.8%) from 1991 while net occupancy costs increased slightly by $24,000 (1.7%).

All other expenses increased $565,000 (8.1%) in 1992 compared to 1991. Of this amount, $86,000 represents increased losses in low income housing projects. Expenses relating to foreclosed assets increased $551,000 (195.1%) during 1992 reflecting a continuing difficult economy.

When non-interest income is netted against non-interest expense, net operating expense (net overhead) increased $5.0 million (46%) from the 1992 level. As a percent of average total managed assets, net overhead increased to 2.25% in 1993 from 1.81% in 1992.

The Company provided for income taxes in accordance with the comprehensive income tax allocation method under Statement of Financial Accounting Standard (SFAS) No. 96 prior to 1992. Effective January 1, 1992, the Company implemented SFAS No. 109. There was no material effect from this change on the accompanying consolidated financial statements. The Company recognized $960,000 in low income housing tax credits as a reduction in the provision for income taxes during 1993 and 1992. As a consequence of the operating loss during 1993, the Company recognized a tax benefit of $4.4 million including $961,000 in low income housing tax credits. Additionally, the Company has a cumulative prepaid tax asset of $3.4 million arising from timing differences between the Company's book and tax reporting. The prepaid tax asset is included in other assets.

PROVISION FOR POSSIBLE LOAN LOSSES

Beginning in the late 1980's, the New England region was severely affected by a deterioration in the real estate market and an economic recession. During this period, the Company increased the provision for possible loan losses and incurred costs associated with with troubled assets and lost income on nonaccrual loans. The provision for possible loan losses charged to operations was $23,822,000 in 1993, $8,050,000 in 1992, and $7,243,000 in 1991. Net charge offs were $13,174,000 in 1993, $7,289,000 in 1992, and $5,668,000 in 1991. In addition, a reserve for possible loan losses $2 million was set up related to the loans acquired in connection with the acquisition of NFNBV, to reflect the general credit risks within the acquired portfolio, net of the effects of the loss sharing agreement with the FDIC.

The reserve for possible loan losses (RPLL) was $20,060,000 at December 31, 1993, $7,412,000 at December 31, 1992, and $6,650,000 at December 31, 1991. As a percent of loans outstanding, the reserve for possible loan losses was 3.50%,

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1.73%, and 1.41%, at year-end 1993, 1992, and 1991 respectively. The increase in the reserve for possible loan losses reflects management's efforts to maintain the reserve at a level adequate to provide for loan losses based on an evaluation of known and inherent risks in the loan portfolio. Given the continuing increase in the Bank's nonperforming assets (discussed) below) and continued weakness in the regional economy, together with other relevant economic factors, management concluded that a significant increase in the reserve for possible loan losses was appropriate. Among the factors which management considers in establishing the level of the reserve are an analysis of individual loans, the overall risk characteristics and size of the loan portfolio past credit loss history, the assessment of current economic and real estate market conditions, estimates of the current value of the underlying collateral and other relevant factors. Further, during the fourth quarter of 1993, as a result of significant increases in nonperforming assets and ongoing weakness in the regional economy the Company provided incremental reserves for possible loan losses of $5 million in addition to the planned provision of $1.75 million.

Nonperforming assets (loans past due 90 days or more and still accruing, non-accruing loans, restructured loans and other real estate owned) increased 89.7% to $64,299,000 at December 31, 1993 from $33,899,000 at year-end 1992. Of the 1993 amount, $17,469,000 represents segregated assets covered by the FDIC loss sharing agreement. Excluding the FDIC's 80% exposure on the segregated assets ($13,975,000), adjusted nonperforming assets totaled $50,324,000, an increase of 48% over the 1992 level. At December 31, 1991, non-performing assets were $28,735,000. The Company's policy is to classify a loan more than 90 days past due with respect to principal or interest as a nonaccruing loan, unless the underlying collateral is deemed collectible as to both principal and interest and is in the process of collection. Income accruals are suspended on all nonaccruing loans, and all previously accrued and uncollected interest is reversed against current income. A loan remains on nonaccruing status until the factors which suggest doubtful collectibility no longer exist, or the loan is liquidated, or when the loan is determined to be uncollectible and is charged off against the reserve for possible loan losses. In those cases where a nonaccruing loan is secured by real estate, the Company can, and usually does, initiate foreclosure proceedings. The result of such action is to force repayment of the loan through the proceeds of a foreclosure sale or to allow the Company to take possession of the collateral in order to manage a future resale of the real estate. Foreclosed property is recorded at the lower of its cost or estimated fair value, less any estimated costs to sell. Any cost in excess of the estimated fair value on the transfer date is charged to the reserve for possible loan losses, while further declines in market values are recorded as an expense in other non-interest expense in the statement of operations.

The continuing effect of the downturn in the regional economy was the
primary reason for the increase in nonperforming assets during 1993 and 1992. In response, the Company continued to enhance its loan review and loan workout functions to provide additional resources to address nonperforming assets and maximize collections and recoveries. Historically, the Company worked closely with borrowers and pursued vigorous collection efforts. As the recession continued and property values declined further, policies and procedures related to the collection of troubled assets were evaluated, especially with respect to the accrual of interest on delinquent loans. During 1993, non-accruing loans and loans past due 90 days or more and still accruing increased $28.4 million due to the acquisition of NFNBV and an overall incrase in nonperforming assets. $19.6 million of this increase is due to the acquisition of NFNBV of whcih $17.4 million is covered by the loss sharing agreement. Restructured loans were $2,841,000 at December 31, 1993 as compared to $1,838,000 at December 31, 1992. Other real estate owned and in-substance foreclosures grew by $1,012,000 to $13,674,000 during 1993 from $12,661,000 a year earlier.

During 1992, the most significant change in nonperforming assets occurred in the other real estate owned/in-substance foreclosure category which grew to $12,661,000 from $6,110,000 the year earlier. Restructured loans within the nonperforming category totaled $1,838,000 and $5,679,000 at December 31, 1992 and 1991, respectively. Prior to 1991, the Company's management avoided loan restructuring and focused efforts on collecting loans according to existing terms. However, during 1991 and 1992 some otherwise high quality loan relationships experienced decreasing cash flows. In such circumstances, management utilized restructuring to where long term cash flow prospects appeared good, the borrower's business abilities had been historically demonstrated through successful operations and sound collateral values existed.

At December 31, 1992, nonaccruing loans were 45.8% higher than the previous year-end balance of $8,333,000. Loans 90 days

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past due and still accruing decreased to $7,251,000 at December 31, 1992, from $8,613,000 at the end of 1991.

The Company takes all appropriate measures to restore non-performing assets to performing status or otherwise liquidate these assets in an orderly fashion so as to maximize their value to the Company. There can be no assurances that the Company will be able to complete the disposition of nonperforming assets without incurring further losses.

BALANCE SHEET ANALYSIS

Total year-end assets increased $112.6 million (18.1%) over year-end 1992 due almost entirely to the NFNBV acquisition. Total assets acquired in the transaction approximated $197 million, however, due to the efforts expended in converting the systems and operations of the new branches, as well as dealing with the ongoing effects of regulatory actions, fewer loans were originated (other than residential mortgage loans, which were subsequently sold on the secondary market) by the Company in 1993 in comparison to 1992. During 1993, approximately $97.5 million of loans originated were sold to secondary market investors. As a result, the portfolio reduced in size due to scheduled amortization and charge-offs. Total year-end deposit balances grew by $115.3 (22.9%), however, deposits totaling $203 million were purchased in the NFNBV transaction. This shrinkage was due, in part to normal runoff after an acquisition and also due to aggressive marketing by existing banks in the NFNBV marketplace following the acquisition.

The investment portfolio decreased by $17.7 million as of December 31, 1993, and the cash assets including federal funds sold decreased by $16.7 million as the Company replaced the funding sources lost through the shrinkage in deposits during the year. Non-deposit liabilities grew by $3.8 million (5.8%) over the year.

Total year-end 1992 assets increased 3.6%, or $21.6 million over year-end 1991. Net of the year-end transactions noted below, loans decreased $35.4 million. In addition, during 1992 approximately $118 million of loans originated were sold to secondary market investors. The investment portfolio increased $39.9 million over year-end 1991 while cash assets including Federal Funds Sold were $14.7 million higher. Deposits, net of the year-end transaction, increased $19.5 million (4.1%), non-deposit liabilities increased $5.6 million (9.2%) and equity capital increased $2.61 million or 5.3% over the previous year-end. A series of year-end transactions increased year-end 1992, and 1991 assets, loans, and deposits by approximately $5.3 million and $11.3 million, respectively. (The transaction total at December 31, 1993 was only $2.9 million). These transactions arise through an agreement with a customer of the Bank to provide year-end bridge loans relative to certain leveraged leasing transactions of the customer. The customer, a lessor, has an annual note payment due December 31, and an annual rent receivable January 2, for an equal amount. The transaction bridges the gap between the loan payment and the rental income receipt. Annually, since 1986, loans are originated on the last business day of the calendar year and the proceeds are invested in 0% certificates of deposit until the first business day of the next calendar year, at which time the certificate of deposit proceeds are used to pay off the loans. The funds never leave the control of the Bank, and the Bank collects fee income on the loans as well as a market rate of interest. Excluding these transactions, growth (reduction) of these categories were as follows:

	1992		1991	
Assets	$27.6 million	9.5%	($5.6) million	(.9%)
Loans	($35.4)million	(7.7%)	($17.4) million	(3.7%)
Deposits	$19.5 million	4.1%	($1.2) million	(.2%)

For the year ended December 31, 1993, the Company adopted Statement of Financial Accounting Standards No. 115 (FASB 115), entitled "Accounting for Certain Debt and Equity Securities." FASB 115 establishes standards of financial accounting and reporting for investments in equity securities that have readily determinable fair values and all investments in debt securities. The effects of implementing FASB 115 was that certain investment securities were designated as available-for-sale and adjustments related to unrealized gains and losses with respect thereto (net of taxes) were made to stockholders' equity.

LIQUIDITY

Liquidity, as it pertains to banking, can be defined as the ability to generate cash in the most economical way to satisfy loan demand, deposit withdrawal demand, and to meet other business opportunities which require cash. Sources of liquidity for banks include short term liquid assets, cash generated from loan repayments and amortization, borrowing, deposit generation, and earnings.

The Merchants Bank has historically maintained a high percentage of its total resources in loans. Accordingly, the Bank relies on

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careful management of its ability to borrow money and generate deposits for liquidity. At year-end 1993, the Bank had available $40,900,000 in unused Federal Funds lines of credit. Only 2.9% of total resources were funded by large certificates of deposit at December 31, 1993 and 1.1% at December 31, 1992.

EFFECTS OF INFLATION

The financial nature of the Company's Balance Sheet and Statement of Operations is more clearly affected by changes in interest rates than by inflation, but inflation does affect the Company because as prices increase the money supply tends to increase, the size of loans requested tends to increase, total bank assets increase, and interest rates are affected by inflationary expectations. In addition, operating expenses tend to increase without a corresponding increase in productivity. There is no precise method, however, to measure the effects of inflation on the Company's financial statements. Accordingly, any examination or analysis of the financial statements should take into consideration the possible effects of inflation.

ACCOUNTING PRONOUNCEMENTS

In May, 1993 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan. The Company is required to adopt the new standard by January 1, 1995, although early adoption is permitted. Due to the complexities of the new standard and the changing nature of the impaired loan portfolio, management has not yet determined the effect that this change in accounting will have when adopted on the Company's consolidated financial statements.

CAPITAL RESOURCES

Capital growth is essential to support deposit and asset growth and to ensure strength and safety of the Company. The operating loss together with dividends paid reduced the Company's capital position by $6.6 million in 1993. Operating income of $2,612,000 and $1,900,000 (after payment of cash dividends) added to equity capital in 1992 and 1991. Dividend Reinvestment (DRP) and Employee Stock Ownership Plan (ESOP) requirements were satisfied by open market purchases of stock during 1993, 1992 and 1991. No new equity capital was generated from the sale of common stock to DRP and ESOP participants during 1993, 1992 or 1991 although this could be an important source of capital if management felt additional capital was necessary. Over the three year period, the equity capital of the Company has decreased $1,919,000 or 4.1%.

As a state chartered bank, the Bank's primary regulator is the Federal Deposit Insurance Corporation (FDIC). Accordingly, the Bank is affected by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) which was enacted in August 1989 and the Federal Deposit Insurance Corporation Improvement Act (FDICIA) enacted in December 1992. The Bank is subject to regulatory capital regulations which provide for two capital requirements - a leverage requirement and a risk-based capital requirement. The leverage requirement provides for a minimum "core" capital consisting primarily of common stockholders' equity of 3% of total adjusted assets for those institutions with the most favorable composite regulatory rating. Under the terms of the MOU, the Bank is required to maintain a leverage capital ratio of at least 5.5% and refrain from declaring dividends without the prior approval of the FDIC. The Company is also required to refrain from declaring dividends without the Federal Reserve's prior permission. The risk-based capital requirement of FIRREA provides for minimum capital levels based on the risk weighted assets of the Bank. The guidelines require banks to meet a minimum Tier 1 risk-based capital ratio of 4.0% and a total risk-based capital ratio of 8.0% as of December 31, 1993.

The Bank's leverage capital ratio is 5.94% at December 31, 1993. As of December 31, 1993, the Bank's risk-based Tier 1 capital ratio is 7.63% and the total risk-based ratio is 11.02%. As of December 31, 1993 all the Bank's capital measurements exceeded regulatory minimums.

At the present time, Merchants Bancshares, Inc. has the following sources of equity capital available as approved by stockholders and regulatory authority:

A. Common Stock ($0.01 par value)
   Shares Authorized: 4,700,000
   Shares Issued and Outstanding at
   December 31, 1993: 4,242,927
   (Includes stock dividend
   issued December 11, 1992)

B. Preferred Stock, Class A
   Non-voting ($0.01 par value)
   Shares Authorized: 200,000
   Shares Outstanding: -0-

C. Preferred Stock, Class B
   Voting ($0.01 par value)
   Shares Authorized: 1,500,000
   Shares Outstanding: -0-

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The Preferred Stock was authorized by shareholders at the Annual Meeting held on May 15, 1984. While the Company has no present intention to issue any Preferred Stock, the Board of Directors of the Company may do so in the future for any lawful purpose. The two preferred issues afford the ability to offer a broader range of securities and thus increase the ability to structure capital transactions on terms and conditions beneficial to the Company.

In May, 1986 the Company issued privately $12 million of its 10% Senior Notes due in 1996 to institutional investors. The proceeds of this note issue are in use for general corporate purposes. The current balance outstanding of this issue is $7.4 million.

In April, 1990, the Bank issued privately $20 million in 9.81% capital notes to institutional investors. These proceeds increased the regulatory capital of the Company and are in use for general corporate purposes.

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