



LEDYARD

FINANCIAL GROUP

2009 ANNUAL REPORT

Plan well.
Live well.



MISSION STATEMENT

LEDYARD IS COMMITTED TO BEING THE FINANCIAL SERVICES INSTITUTION OF CHOICE BY COMBINING INNOVATION WITH UNPARALLELED PERSONALIZED CLIENT SERVICE. WE OFFER OUR EMPLOYEES A CHALLENGING AND REWARDING WORK EXPERIENCE. AS A RESULT OF OUR EFFORTS, LEDYARD CLIENTS RECEIVE EXCEPTIONAL FINANCIAL SERVICES AND OUR SHAREHOLDERS EXPERIENCE CONSISTENT AND SUPERIOR RETURNS.



FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)

YEARS-ENDED DECEMBER 31,	2009	2008	2007	2006	2005
FINANCIAL CONDITION DATA					
Assets	\$ 393,615	\$ 363,188	\$ 325,803	\$ 320,230	\$ 285,495
Investments	152,473	94,015	53,706	48,278	60,601
Net loans, including loans held-for-sale	197,593	226,405	228,879	218,869	194,893
Deposits	320,129	295,586	276,933	271,142	240,828
Federal home loan bank advances	24,718	21,868	1,551	3,214	8,857
Shareholders' equity	33,082	31,283	30,517	27,271	24,391
OPERATING DATA					
Net interest income	\$ 12,515	\$ 12,892	\$ 12,480	\$ 12,099	\$ 11,486
Provision for loan loss	2,250	3,123	705	525	780
Non-interest income	7,211	6,569	6,754	6,282	5,834
Non-interest expense	15,130	13,270	12,306	11,894	11,354
Income taxes	565	1,040	2,361	2,176	1,748
Net income	1,780	2,028	3,862	3,787	3,439
OTHER DATA					
Earnings per share, basic	\$1.74	\$1.99	\$3.80	\$3.75	\$3.43
Dividends per share	\$1.24	\$1.24	\$1.16	\$1.08	\$0.98
Dividend payout ratio	71%	62%	31%	29%	29%
Book value per share	\$ 32.37	\$ 30.61	\$ 29.95	\$ 26.99	\$ 24.16
Shares outstanding	1,021,931	1,021,510	1,018,996	1,010,246	1,009,746
Return on average assets	0.47%	0.62%	1.20%	1.31%	1.25%
Return on average equity	5.53%	6.68%	13.37%	14.66%	14.85%
Equity to asset ratio	8.40%	8.61%	9.37%	8.52%	8.54%
Allowance for loan losses to total loans	3.11%	2.13%	1.45%	1.27%	1.21%



LETTER FROM THE CEO & BOARD CHAIR

To our fellow owners, our loyal clients and members of our community:

Plan well. Live well.

The above phrase captures the essence of Ledyard's mission. It serves as our call to action – an everyday reminder that inspires us to deliver to our clients the most relevant and insightful financial advice, as well as the innovative and comprehensive solutions that address all aspects of their financial well-being. We believe that educating and guiding our clients to plan their financial futures will ultimately put them in positions to enjoy the rewards of that careful planning. In other words, our goal is to help each client fulfill the life that he or she envisions.

It is in this spirit that we proudly share with you our 2009 annual report. Ledyard's full year results reflect the strength of our two core businesses – community banking and wealth management. Our focus on and investment in these dual pillars resulted in record revenue for Ledyard National Bank. Deposits at the Bank ended the year at an all-time high and our capital strength increased as shareholders' equity finished the year at \$33.1 million. Specific to Ledyard Financial Advisors, the division secured record new assets of \$122 million and reported its highest annual revenue figure since it was established in 1994.

Our financials also reflect the realities of the current economic environment and our proactive response to it as we prudently built loan loss reserves to ensure we had an appropriate safety net if the economy continued its decline. As the actual level of charge-offs was not as high as anticipated, we remain comfortable with our level of reserves as of year-end.

THE FOUNDATION OF OUR SUCCESS

As we move into the new year, we remain focused on the core values and principles of community banking – safety and soundness – while we continue to build upon the strategy that elevated us in 2009.

A significant component of that strategy includes enhancing our own expertise, skill-sets and professional designations so that we are better prepared to build and enhance our relationships with personal and commercial banking clients, developing partnerships that touch all facets of the banking experience and helping our clients to achieve more than they thought possible. As we've always maintained, our success in this endeavor relies on our people, the knowledge and experience that they offer, as well as the unique bonds they form with each client. In short, we believe in growing and succeeding together.

EMERGING EVEN STRONGER

Despite the challenges presented by an uncertain economy – perhaps because of the challenges – we ended 2009 stronger, more confident and more resilient than ever before. We responded to the financial crisis by viewing it as an opportunity to pursue elements of our strategic plan that focus on enhancing knowledge and capabilities – elements that position us well for future growth. We capitalized on the turbulence in the employment market by hiring several experienced and credentialed individuals. One



LETTER FROM THE CEO & BOARD CHAIR
concluded

such addition, specific to the Ledyard Financial Advisors division, was Larry Draper. With more than 35 years of banking experience and deep connections to our community, Larry made an immediate impact. His knowledge of wealth management, along with his ability to provide advice and counsel to our clients, is a key element that reinforces the Ledyard promise – we help you plan well so that you can live well.

In order to achieve the ambitious goals set for the coming year, we created a new senior level strategic position designed to better align the organization and dedicated to business development as well as client education. Marty Candon, our Senior Retail Banking Officer since 1991, will lead this effort and work across all lines of business.

In December 2009, Chris Taylor joined the bank as Senior Vice President and Retail Banking Leader. With over 30 years of banking experience, Chris will further develop a culture that puts the client first and build the skill-sets across his team to manage client relationships to their fullest capacity. We're confident that Chris will achieve much success at Ledyard in the coming years.

LOOKING AHEAD

We are mindful that 2010 will continue to present new challenges. But we also know that these unprecedented times can provide unprecedented opportunity. As we place a new and sharper

emphasis on the three foundational elements that make Ledyard a special institution – comprehensive financial services, focus on personal relationships and immersion in the community – we are poised to take advantage of these opportunities. We are truly excited about our ability to deliver sustainable growth for our shareholders, the most relevant financial solutions for our clients and a rewarding work experience for our employees.

We thank our shareholders, clients, employees and board members for their trust, advice and counsel. Your support has been, and will continue to be, the key to Ledyard's success.



Kathryn Underwood

Dennis E. Logue

KATHRYN G. UNDERWOOD
PRESIDENT & CEO
LEDYARD FINANCIAL GROUP/
LEDYARD NATIONAL BANK

DENNIS E. LOGUE
CHAIR
LEDYARD FINANCIAL GROUP/
LEDYARD NATIONAL BANK



STRENGTHENING RELATIONSHIPS WITH THE FAMILIES, BUSINESSES AND COMMUNITIES WE SERVE

At Ledyard, it's often said that when you do business with us, you get more than just bankers with knowledge, expertise and local decision-making capabilities. You get true partnerships.

Since opening our doors nearly two decades ago, New Hampshire and Vermont families, businesses and communities have come to trust Ledyard because of our commitment – to educate and advise our clients on all aspects of their financial well-being, to develop meaningful relationships that grow through the years and to help make the communities we serve better places to live, work and raise a family. Our comprehensive, consultative approach is designed with one goal in mind: the success of our clients. Looking back on 2009 and ahead to 2010, our strategy is clear – continue to expand upon Ledyard's brand promise and deliver the best relationship-focused financial services experience in the Upper Valley/Lake Sunapee region.

WE HELP YOU PLAN WELL SO THAT YOU CAN LIVE WELL

Launching in 2010, Ledyard's new brand positioning statement "Plan well. *Live well.*" is the embodiment of our long held business philosophy and of our continuing effort to provide a seamless and holistic approach to banking and wealth management. As we work to synthesize the new look and feel of our brand during the coming year, our efforts to better communicate and enhance our underlying promise are already well on their way.

For example, we recently implemented a new contact and client management system, which provides our account managers with a complete snapshot of each

client's account – personal and/or business. Having this information, together with an understanding of an individual's financial goals and aspirations, allows us to recommend the right mix of products and services. It also provides us with a superior customer response platform in order to assist clients with whatever they need.

SOMETIMES THE GREATEST VALUE WE DELIVER TO OUR CLIENTS IS OUR KNOWLEDGE

A big part of what differentiates Ledyard from our competitors is our consultative, relationship-based approach. We make it our responsibility to understand our client's financial goals and the challenges they face. We act as a sounding board and proactively bring financial solutions to the table that a client may not have considered before. Ultimately, our clients remain partners with us because of the unique value we deliver in helping them achieve their vision for financial well-being.



Michelle LeClair, Assistant Vice President, Commercial Loan Officer, collaborates with a client on development of his business plan.

Every member of the Ledyard team is also part of the community, and thus uniquely qualified to discuss and develop personalized solutions for our clients. As such, Ledyard continues to work diligently to expand our financial knowledge base, as well as that of our clients.



During 2009, Ledyard sponsored a number of public seminars focused on the critical financial issues of the day, including the state of the economy, taxes and wealth management strategies. We believe that by educating our clients, we can help them gain a better understanding for how to maximize their relationship with us.

Internally, Ledyard put similar emphasis on expanding and implementing Employee Education and Skills Development initiatives. For example, Ledyard Financial Advisors put into practice the training it began in 2008, which focused on 13 key wealth management issues. The program highlighted the importance of listening to our client's financial needs in order to design a framework for managing their wealth. By understanding those key wealth management issues, including retirement planning, taxes and gifting, our Financial Advisors are better able to engage clients in ways that help them navigate through any financial situation.

Ledyard's focus on knowledge building is equally important within its personal and business banking divisions. Our employees are encouraged and trained to become versatile in all facets of banking. This comprehensive expertise helps them recommend the right product mix and add more value to the client relationship.

One such example is Ledyard's partnership with Jim Umland, President, Resource Plastics, Inc., of West Lebanon, NH, a leading manufacturer of plastic injection molded components.

Jim's relationship with Ledyard began in 2001 with a residential mortgage and commercial line of credit for a new business. Over the next nine years, Ledyard remained committed to assisting Jim in achieving his goals, and the partnership continued to evolve.

A few years ago, Jim shared with us his vision of acquiring another manufacturer. With that in mind,



(l-r) Larry Draper, Senior Financial Advisor, and Jon Molesworth, Director of Portfolio Management, discuss investment strategy with clients



Diane Marchegiani, Assistant Vice President, Branch Manager (Route 120, Lebanon office), reviewing account options with a client.

we worked with Jim to position his company for its next growth phase. So, when the opportunity presented itself in 2009, we had a plan in place to move forward. As part of Jim's team, including lawyers, accountants and other financing professionals, we played a key role in structuring a financing package for this complex acquisition that met the needs of both Jim and the other stakeholders.

As Jim puts it, "To me, Ledyard's philosophy of trust and a willingness to go the extra mile is worth more than a few additional basis points. It's true value."

Today, Jim continues to grow his business with Ledyard and places a premium on the value of his relationship with us. In fact, Jim hopes to utilize even more of our comprehensive financial services in the near future, including those of Ledyard Financial Advisors.



COMMUNITY-BASED COMMUNITY-FOCUSED

As a community bank, Ledyard has first-hand knowledge of the difficulties and challenges facing individuals, businesses and non-profit organizations. Specific to non-profits, the monetary donations that sustained them in years past have, in large part, disappeared. Now, more than ever, these local groups need our support.

To bridge this gap, Ledyard is finding new ways to help. One way is by supplementing monetary assistance with physical assistance, including serving on boards and volunteer activities. In 2009, these efforts amounted to over 3,500 volunteer hours by Ledyard employees and board members. From a cost-savings standpoint, we estimate that our work saved the organizations we helped thousands of dollars that they would have otherwise had to pay professionals in order to complete that same work.

Ledyard's flagship volunteer event is called "Ledyard Lend a Hand Day." It is designed to deepen our commitment to the community and provide employees with hands-on opportunities to give back and to see firsthand how our work affects the experience and lives of those who depend on local non-profit organizations.

For example, our volunteers at the Children's Hospital at Dartmouth (CHaD) saw how their work creating art packs for the children receiving medical care brought much needed distraction (and hopefully joy) during their fight for improved health. Similarly, our volunteers at Hannah House, an organization that provides residential support services for pregnant and parenting youth, witnessed how their home improvements lifted the spirits of several teenage mothers without another place to call "home".



Raking and gardening at the Upper Valley Hostel
Photo: Guy Denechaud and Valley Business Journal



Painting the Upper Valley Turning Point building for the Second Wind Foundation



Preparing to paint and clean at the Upper Valley Senior Center





LEDYARD FINANCIAL GROUP
concluded

Each project we chose was unique and allowed us to immerse ourselves in environments that were, in general, not part of our employees' daily lives. It helped us better understand the communities we serve – and from a business standpoint, may translate into enhanced products and services in the long term.

Our volunteers did everything from cleaning and painting to raking and clearing trails. The projects were chosen with an eye towards diversity in order to leverage each volunteer's interest and skill set and to ensure the best possible outcomes.

"Ledyard Lend a Hand Day" 2009 was an overwhelming success. Ledyard was able to assist 12 non-profit organizations across the six communities we serve. Our employee participation rate neared 60%. Additionally, we raised the interest of our own clients, board members and family, incorporating several of them into our work teams for the day.

Ledyard is committed to growing the "Ledyard Lend a Hand Day" program in the years to come, with the intent of making it top-of-mind and accessible for all the area non-profits when they have a need. We want to create a greater familiarity between Ledyard and the community. We want the community to feel comfortable working with Ledyard, however we can help. At Ledyard, we believe this is nothing more than an extension of our everyday business philosophy.

As we look back on 2009, we're proud of the strides we've made in living up to our brand promise. We look forward to improving on those commitments in 2010 and building even stronger relationships with our clients, shareholders and the communities we serve.



VINS volunteers raked nature trails and planted bulbs



Painting at the Mascoma Area Senior Center



Advance Transit volunteers cleaned 13 bus shelters in the Upper Valley





MANAGEMENT'S FINANCIAL DISCUSSION

REVIEW OF FINANCIAL STATEMENTS

The discussion and analysis which follows focuses on the factors affecting the Company's financial condition at December 31, 2009 and 2008, and its results of operations for the years ended December 31, 2009 and 2008. The Financial Statements and Notes to the Financial Statements should be read in conjunction with this review.

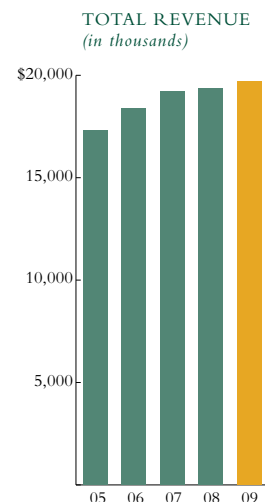
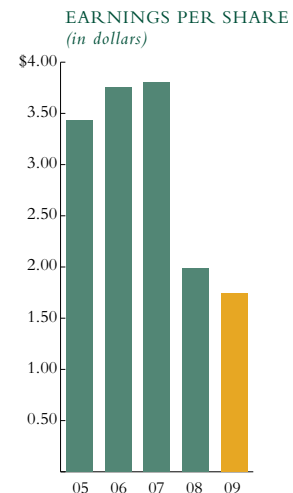
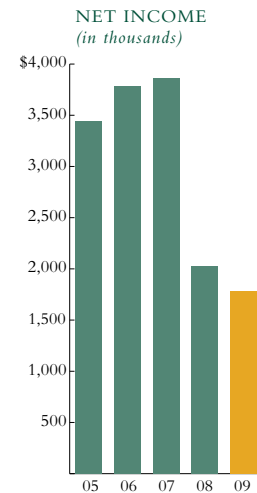
STATEMENT OF INCOME

Our results for the year continue to reflect the strength in our two basic businesses, community banking and wealth management services. As in 2008, we continued to invest in both during 2009 in terms of people, facilities and systems. Total revenue for the year ended December 31, 2009, was a record high of \$19,725,953, compared to \$19,460,800 for the same period in 2008. Net interest income for the year ended December 31, 2009, was \$12,515,349, compared to \$12,891,820 for the same period in 2008. Net income was \$1,780,381, or \$1.74 per share for the twelve months ended 2009 as compared to \$2,027,744, or \$1.99 per share for 2008, a decrease of \$247,363, or 12.20%. The primary contributors to our income being down for the year were the continued build up of our allowance for loan losses, the increased costs associated with FDIC insurance and the increase in salaries and employee benefits.

Interest and fees on loans totaled \$12,046,519 for the year ended December 31, 2009, as compared to \$14,818,873 for 2008. This decrease of \$2,772,354, or 18.71%, was due to a decrease in interest rates and the decrease in loans outstanding that occurred during 2009. Investment income for the year ended December 31, 2009, totaled \$4,762,210 as compared to \$3,688,423 for 2008, an increase of \$1,073,787, or 29.11%.

The Company's interest expense on deposits was \$3,472,489 for the year ended December 31, 2009, as compared to \$4,868,601 for the year ended December 31, 2008, a decrease of \$1,396,112, or 28.68%. Deposit rates were lowered throughout the year to reflect the changes in interest rates resulting in lower interest paid. Interest expense on borrowed funds increased \$74,016, or 9.91% for the year ended December 31, 2009, totaling \$820,891 as compared to \$746,875 at December 31, 2008. The increase was primarily due to the increase in borrowings from the Federal Home Loan Bank.

During 2009, the Company added \$2,250,000 to the allowance for loan losses (the "allowance") and realized net charge-offs of \$829,911 resulting in a net increase in the allowance of \$1,420,089 and a total allowance of \$6,345,589, or 3.11% of total loans. Like most community banks, Ledyard saw an increase in non-performing loans and a higher level of charge-offs during 2009, resulting in an increase in the allowance. The determination of an appropriate level of allowance is based on management's judgment





MANAGEMENT'S FINANCIAL DISCUSSION

continued

of the adequacy of the allowance based on various factors and a review of the Company's loan portfolio. An evaluation of the adequacy of the allowance is performed each quarter by management. Management believes that the allowance at December 31, 2009, was appropriate given the current economic conditions in the Company's service area.

Non-interest income totaled a record high of \$7,210,604 in 2009 as compared to \$6,568,980 in 2008, an increase of \$641,624, or 9.77%. Income from the Company's Ledyard Financial Advisors division totaled an all time high of \$5,124,844, up from \$4,895,381 in 2008, an increase of \$229,463, or 4.69%. This increase in revenue was a result of new business activity and market conditions during 2009. Service fees and other non-interest income increased by \$412,161 during 2009. Non-interest expense totaled \$15,130,330 for 2009 as compared to \$13,269,856 in 2008, an increase of \$1,860,474, or 14.02%.

FINANCIAL CONDITION

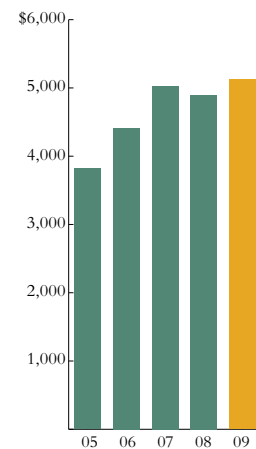
At year-end, total assets were \$393,614,823 compared to \$365,188,308 at December 31, 2008, an increase of \$28,426,515, or 7.78%. The change in assets consisted primarily of an increase of \$53,059,616 in cash and cash equivalents, securities available-for-sale and held-to-maturity ("investments") and a decrease of \$28,811,908 in net loans, including loans held-for-sale.

The Company maintains investments in interest-bearing deposits and investment securities in order to diversify its revenue, as well as to provide interest rate and credit risk diversification. These investments also provide for liquidity and funding needs. As mentioned above, total investments increased \$53,059,616, or 45.17%. This increase consisted of an increase in securities available-for-sale of \$62,154,255, a decrease in cash and cash equivalents of \$5,395,070 and a decrease in securities held-to-maturity of \$3,699,569. During 2009, the Company purchased \$86,571,730 of available-for-sale and held-to-maturity securities and realized proceeds from maturities and paydowns of available-for-sale and held-to-maturity securities totaling \$29,742,394.

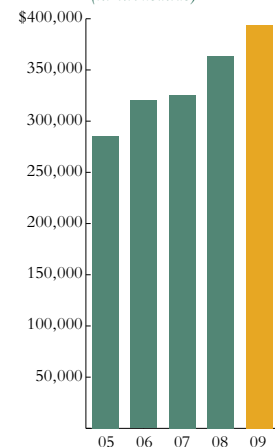
The Company provides loans primarily to customers located within its geographic market area. Net loans, including loans held-for-sale, totaled \$197,593,247 at December 31, 2009, a \$28,811,908, or 12.73% decrease from a year ago. This decrease reflects the increased competition to retain existing loans and a general slow-down in lending activity due to economic conditions.

Commercial loans consist of 1) loans secured by various corporate assets, 2) loans to provide working capital in the form of secured and unsecured lines of credit, and 3) commercial real estate loans secured by income-producing commercial real estate. The Company focuses on lending to financially-sound business customers within its geographic marketplace. Total commercial loans decreased by \$28,900,093, or 22.20%, during 2009.

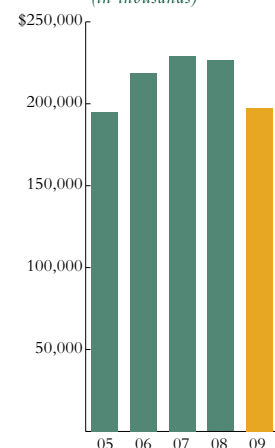
Ledyard Financial Advisors
GROSS INCOME
(in thousands)



TOTAL ASSETS
(in thousands)



NET LOANS, INCLUDING
LOANS HELD FOR SALE
(in thousands)





MANAGEMENT'S FINANCIAL DISCUSSION
concluded

Residential real estate loans consist of loans secured by one-to-four family residences. The Company usually retains adjustable-rate mortgages in its portfolio and will generally sell fixed-rate mortgages. Residential real estate loans increased by \$87,656 in 2009.

Consumer loans are originated by the Company for a wide variety of purposes designed to meet the needs of its customers. Consumer loans include overdraft protection, automobile, boat, recreation vehicles, home equity, and secured and unsecured personal loans. Consumer loans increased by \$1,406,958, or 26.39%, in 2009.

Deposits continue to represent the Company's primary source of funds. In 2009, total deposits increased by \$24,543,858, or 8.30% over 2008, ending the year at \$320,129,428. Comparing year-end balances in 2009 to 2008, NOW accounts increased by \$5,979,237, time deposits increased by \$10,877,938, money market and savings accounts increased by \$10,484,055 and demand deposits decreased by \$2,797,372.

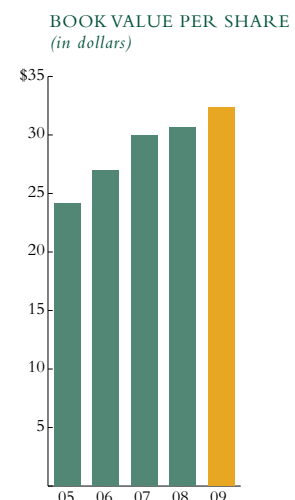
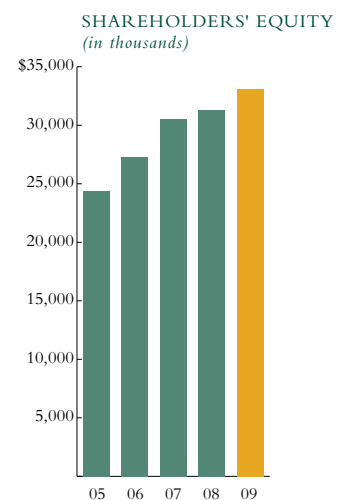
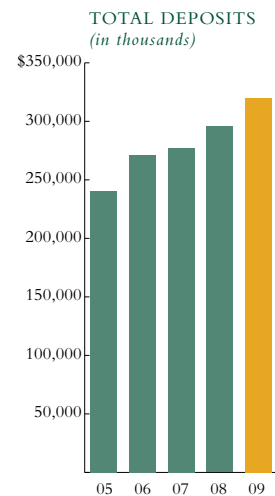
Borrowings supplement deposits as a source of liquidity. In addition to borrowings from the Federal Home Loan Bank, the Company purchases federal funds and sells securities under agreements to repurchase. Total borrowings were \$38,431,680 at December 31, 2009, compared to \$36,295,903 at December 31, 2008, an increase of \$2,135,777. The borrowings were distributed between securities sold under agreements to repurchase and advances from the Federal Home Loan Bank. In addition to the liquidity sources discussed above, the Company believes the investment portfolio and residential loan portfolio provide a significant amount of contingent liquidity that could be accessed in a reasonable time period through sales or pledging, if needed. The Company believes that the level of liquidity is sufficient to meet current and future funding requirements.

Shareholders' equity was \$33,081,984 on December 31, 2009, compared to \$31,283,345 on December 31, 2008, an increase of \$1,798,639. The increase was primarily attributable

to net income of \$1,780,381 less \$1,276,179 in cash dividends to the Company's shareholders and an increase in accumulated other comprehensive income of \$1,157,589. The Company's book value per share on December 31, 2009, was \$32.37 per share based on 1,021,931 shares outstanding, an increase of \$1.75 per share from a year earlier.



GREGORY D. STEVERSON
EXECUTIVE VICE PRESIDENT,
CHIEF FINANCIAL OFFICER,
LEDYARD FINANCIAL GROUP/
LEDYARD NATIONAL BANK





I N D E P E N D E N T A U D I T O R S ' R E P O R T

Board of Directors and Shareholders of Ledyard Financial Group, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Ledyard Financial Group, Inc. and Subsidiary (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 Ledyard Financial Group, Inc. and Subsidiary as of December 31, 2009 and 2008, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Berry, Dunn, McNeil & Parker

Portland, Maine

February 10, 2010

BERRY. DUNN. MCNEIL & PARKER





CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

	2009	2008
ASSETS		
Cash and due from banks	\$ 8,887,901	\$ 10,614,627
Interest bearing deposits	11,175,252	14,843,596
Total cash and cash equivalents	20,063,153	25,458,223
Securities available-for-sale	114,281,417	52,127,162
Securities held-to-maturity	36,177,845	39,877,414
Nonmarketable equity securities	2,013,300	2,010,900
Loans held-for-sale	112,500	832,000
Loans receivable, net of allowance for loan losses of \$6,345,589 in 2009 and \$4,925,500 in 2008	197,480,747	225,573,155
Other real estate owned	265,865	200,000
Accrued interest receivable	1,564,322	1,325,024
Premises and equipment, net	8,534,250	8,946,898
Deferred income taxes	1,782,320	1,743,800
Bank owned life insurance	8,347,073	5,574,450
Prepaid FDIC insurance	1,826,655	40,941
Other assets	1,165,376	1,478,341
	<u>\$ 393,614,823</u>	<u>\$ 365,188,308</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Demand	\$ 48,586,114	\$ 51,383,486
NOW accounts	52,258,226	46,278,989
Money market accounts	120,334,539	110,456,277
Savings	14,760,272	14,154,479
Time, \$100,000 and over	44,210,203	27,728,309
Other time	39,980,074	45,584,030
Total deposits	320,129,428	295,585,570
Securities sold under agreements to repurchase	13,713,739	14,427,836
Advances from Federal Home Loan Bank	24,717,941	21,868,067
Accrued expenses and other liabilities	1,971,731	2,023,490
Total liabilities	360,532,839	333,904,963
Commitments and contingencies (Notes 5, 11, 12, 13, 14 and 15)		
Shareholders' equity		
Common stock, \$1.00 par value; 5,500,000 shares authorized; 1,021,931 and 1,021,510 shares issued at December 31, 2009 and 2008, respectively	1,021,931	1,021,510
Additional paid-in capital	9,870,192	9,733,765
Treasury stock, at cost; 5,500 shares at December 31, 2009	(223,805)	(223,805)
Retained earnings	21,012,256	20,508,054
Accumulated other comprehensive income	1,401,410	243,821
Total shareholders' equity	33,081,984	31,283,345
	<u>\$ 393,614,823</u>	<u>\$ 365,188,308</u>

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



CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2009 and 2008

	2009	2008
Interest and dividend income		
Interest and fees on loans	\$ 12,046,519	\$ 14,818,873
Investment securities	4,699,435	3,376,241
Other interest-earning assets	62,775	312,182
Total interest and dividend income	16,808,729	18,507,296
Interest expense		
Deposits	3,472,489	4,868,601
Borrowed funds	820,891	746,875
Total interest expense	4,293,380	5,615,476
Net interest income	12,515,349	12,891,820
Provision for loan losses	2,250,000	3,123,000
Net interest income after provision for loan losses	10,265,349	9,768,820
Noninterest income		
Ledyard Financial Advisors division income	5,124,844	4,895,381
Service fees	1,059,022	1,022,470
Other	1,026,738	651,129
Total noninterest income	7,210,604	6,568,980
Noninterest expense		
Salaries and employee benefits	8,441,840	7,212,227
Occupancy and equipment	2,869,476	2,815,350
FDIC insurance fees	753,760	100,232
Other general and administrative	3,065,254	3,142,047
Total noninterest expense	15,130,330	13,269,856
Income before income taxes	2,345,623	3,067,944
Income tax expense	565,242	1,040,200
Net income	\$ 1,780,381	\$ 2,027,744
Basic earnings per share	\$ 1.74	\$ 1.99
Diluted earnings per share	\$ 1.73	\$ 1.98
Weighted average numbers of shares outstanding	1,021,721	1,020,926

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



CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2009 and 2008

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, DECEMBER 31, 2007	\$ 1,018,996	\$ 9,577,926	\$ -	\$ 19,747,532	\$ 172,884	\$ 30,517,338
Comprehensive income						
Net income	-	-	-	2,027,744	-	2,027,744
Change in net unrealized appreciation on securities available-for-sale, net of tax of \$36,543	-	-	-	-	70,937	70,937
Total comprehensive income	-	-	-	2,027,744	70,937	2,098,681
Cash dividends paid, \$1.24 per share	-	-	-	(1,267,222)	-	(1,267,222)
Stock repurchase (5,500 shares)	-	-	(223,805)	-	-	(223,805)
Stock-based compensation expense	-	80,960	-	-	-	80,960
Restricted stock issued, 150 shares	150	(150)	-	-	-	-
Stock warrants exercised, 2,364 shares	2,364	75,029	-	-	-	77,393
BALANCE, DECEMBER 31, 2008	<u>\$ 1,021,510</u>	<u>\$ 9,733,765</u>	<u>\$ (223,805)</u>	<u>\$ 20,508,054</u>	<u>\$ 243,821</u>	<u>\$ 31,283,345</u>
Comprehensive income						
Net income	-	-	-	1,780,381	-	1,780,381
Change in net unrealized appreciation on securities available-for-sale, net of tax of \$596,334	-	-	-	-	1,157,589	1,157,589
Total comprehensive income	-	-	-	1,780,381	1,157,589	2,937,970
Cash dividends paid, \$1.24 per share	-	-	-	(1,276,179)	-	(1,276,179)
Stock-based compensation expense	-	136,848	-	-	-	136,848
Restricted stock issued, 421 shares	421	(421)	-	-	-	-
BALANCE, DECEMBER 31, 2009	<u>\$ 1,021,931</u>	<u>\$ 9,870,192</u>	<u>\$ (223,805)</u>	<u>\$ 21,012,256</u>	<u>\$ 1,401,410</u>	<u>\$ 33,081,984</u>

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



CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,780,381	\$ 2,027,744
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization or accretion	727,925	662,687
Provision for loan losses	2,250,000	3,123,000
Deferred income tax benefit	(634,900)	(741,600)
Fair value of stock warrants vested during the year	136,848	80,960
Loss on sale of other real estate owned, net	57,149	-
Increase in accrued interest receivable	(239,298)	(29,644)
Decrease in accrued expenses and other liabilities	(51,759)	(1,863,424)
(Increase) decrease in other assets	(1,724,138)	538,088
Net decrease (increase) in loans held-for-sale	719,500	(632,000)
Net cash provided by operating activities	3,021,708	3,165,811
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of securities available-for-sale	19,140,578	10,070,870
Proceeds from maturities and paydowns of securities held-to-maturity	10,601,816	7,285,126
Net purchase of FHLB stock	(2,400)	(919,800)
Purchase of securities available-for-sale	(79,634,199)	(31,539,751)
Purchase of securities held-to-maturity	(6,937,531)	(25,080,580)
Purchase of bank owned life insurance	(2,521,188)	(5,000,000)
Net decrease in loans to customers	25,326,313	82,882
Proceeds from sale of other real estate owned	393,081	-
Purchase of premises and equipment	(186,704)	(1,286,380)
Net cash used by investing activities	(33,820,234)	(46,387,633)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	24,543,858	18,652,078
Proceeds from long-term FHLB borrowings	7,500,000	21,500,000
Repayment of long-term FHLB borrowings	(4,650,126)	(1,183,388)
Net decrease in securities sold under agreements to repurchase	(714,097)	(331,390)
Purchase of treasury stock	-	(223,805)
Proceeds from exercise of stock warrants	-	77,393
Cash dividends paid on common stock	(1,276,179)	(1,267,222)
Net cash provided by financing activities	25,403,456	37,223,666
Net decrease in cash and cash equivalents	(5,395,070)	(5,998,156)
Cash and cash equivalents, beginning of year	25,458,223	31,456,379
Cash and cash equivalents, end of year	\$ 20,063,153	\$ 25,458,223
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid on deposits and borrowed funds	\$ 4,349,355	\$ 5,579,872
Income taxes paid	\$ 1,050,000	\$ 1,875,000
Non-cash transaction: Loans transferred to other real estate owned	\$ 516,100	\$ 200,000

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NATURE OF BUSINESS

Ledyard Financial Group, Inc. (the Company) is headquartered in Hanover, New Hampshire, and, as a bank holding company, it provides financial services to its customers through its wholly-owned bank subsidiary, Ledyard National Bank (the Bank). The Bank provides retail and commercial banking and wealth management services through its office locations in Central New Hampshire and Vermont.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in conformity with U.S. generally accepted accounting principles (GAAP) and general practices within the banking industry. The following is a description of the more significant policies.

Basis of Presentation

The Company follows accounting standards as set by the Financial Accounting Standards Board, commonly referred to as the FASB. The FASB sets GAAP that management follows to consistently report the Company's financial condition, results of operations and cash flows. In June 2009, the FASB issued FASB Accounting Standards Codification (ASC) Topic 105, *Generally Accepted Accounting Principles*, which establishes the FASB ASC as the sole source of authoritative GAAP. Pursuant to the provisions of FASB ASC Topic 105, the Company has updated references to GAAP in its financial statements issued for the period ended December 31, 2009. The adoption of FASB ASC Topic 105 did not impact the Company's financial position or results of operations.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned bank subsidiary. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of other real estate owned. In connection with the determination of the allowance and the carrying value of other real estate owned, management obtains independent appraisals for significant properties and collateral securing significant loans. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's loan portfolio. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and due from banks, and interest bearing deposits.

The Company's due from bank accounts and interest bearing deposits, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for amortization of premiums and accretion of discounts over the period to call or maturity using methods approximating the interest method. Securities not classified as held-to-maturity, including equity securities with readily determinable fair values, are classified as available-for-sale and are carried at fair value. Nonmarketable equity securities, consisting of stock in the Federal Home Loan Bank and Federal Reserve Bank, are carried at cost and evaluated for impairment. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Unrealized gains and losses on securities available-for-sale are reported as a net amount in other comprehensive income or loss, net of tax.

For declines in the fair value of individual debt securities available-for-sale below their cost that are deemed to be other than temporary, where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings; and 2) other factors is recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows using the effective rate at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

In estimating other-than-temporary impairment losses, management considers 1) the length of time and the extent to which the fair value has been less than cost; 2) the financial condition and near-term prospects of the issuer; and 3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held-for-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the amount of unpaid principal, reduced by deferred loan fees and an allowance for loan losses.

Loans past due 30 days or more are considered delinquent. Management is responsible to initiate immediate collection efforts to minimize delinquency and any eventual adverse impact on the Company.

In general, consumer loans will be charged off if the loan is delinquent for 120 consecutive days. Commercial and real estate loans are charged off in part or in full if they are considered uncollectible.

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

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

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is appropriate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses.

After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed over the estimated useful life of the related asset, principally by the straight-line method. Improvements to leased property are amortized over the lesser of the term of the lease or life of the improvements.

Income Taxes

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the book bases and the tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Adjustments to the Company's deferred tax assets are recognized as deferred income tax expense or benefit based on management's judgment relating to the realizability of such assets.

FASB ASC Topic 740, *Income Taxes*, defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Effective January 1, 2007, the Company has adopted these provisions and there was no material effect on the financial statements, and no cumulative effect. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and State tax authorities for the years ended December 31, 2006 through 2008.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Earnings Per Share

Basic earnings per share data is computed based on the weighted average number of the Company's common shares outstanding during the year. Potential common stock is considered in the calculation of weighted average shares outstanding for diluted earnings per share, and is determined using the treasury stock method.

Stock Warrant Plans

FASB ASC Topic 718, *Compensation-Stock Compensation*, requires entities issuing stock options in exchange for services to measure the fair value of the options at the grant date and to recognize the fair value of those options as expense, generally over the period in which they vest. On January 1, 2006, the Company adopted the provisions of FASB ASC Topic 718 using a modified prospective application, which applies to options granted or modified in periods beginning after December 15, 2005. Additionally, compensation cost for the portion of outstanding options for which requisite service has not been rendered as of the effective date shall be recognized as the service is rendered on or after the effective date.

Ledyard Financial Advisors Assets and Fees

Assets held by Ledyard Financial Advisors (a division of Ledyard National Bank) for its customers, other than trust cash on deposit at the Bank, are not included in these financial statements because they are not assets of the Bank. Fees that Ledyard Financial Advisors earns are recorded on the accrual basis.

Comprehensive Income

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

Recently Issued Accounting Pronouncements

In April 2009, the FASB issued a change to FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, related to determining fair values when there is no active market or where the price inputs being used represent distressed sales. This update provides guidance in determining when and how to use modeled values, as opposed to broker price quotes. The update should result in a greater use of models for estimating fair value, as well as more consistent approaches in modeling. This change was effective for interim and annual reporting periods ending after June 15, 2009. This guidance does not require any new fair value measurements. Management has adopted this guidance and there was no material impact on the financial statements of the Company.

In April 2009, the FASB issued a change to FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about credit and noncredit components of impaired debt securities that are not expected to be sold. Under the guidance, for many securities with other-than-temporary impairment, only the amount of the estimated credit loss is recorded through earnings, while the remaining mark-to-market loss is recognized through other comprehensive



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

income or loss. The change is retroactive, meaning entities will reclassify amounts back into retained earnings related to non-credit-related market losses on certain investments held at the beginning of the period of adoption. This guidance was effective for interim and annual reporting periods ending after June 15, 2009. Management has adopted the new guidance for the year ended December 31, 2009.

In May 2009, the FASB issued FASB ASC Topic 855, *Subsequent Events*, which establishes general standards of, and accounting for and disclosure of, events that occur after the balance sheet date but before financial statements are issued. This guidance was effective for interim and annual periods ending after June 15, 2009. The Company has complied with the requirements of ASC Topic 855.

In June 2009, FASB issued to FASB ASC Topic 860, *Transfers and Servicing*, to improve the reporting for the transfer of financial assets resulting from (1) practices that have developed since the issuance of guidance formally known as FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company will review the requirements of the guidance and comply with its requirements. The Company does not expect that the adoption of this guidance will have a material impact on the Company's financial statements.

In June 2009, FASB issued changes to FASB ASC Topic 810, *Consolidation*, to improve financial reporting by enterprises involved with variable interest entities. This Statement shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company will review the guidance and comply with its requirements. The Company does not expect that the adoption of this guidance will have a material impact on the Company's financial statements.

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance will become effective with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for any Level 3 fair value measurements, which will become effective with the reporting period beginning January 1, 2011. Other than requiring additional disclosures, adoption of this new guidance will not have a material impact on the Company's financial statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Business Segments

GAAP requires public companies to report (i) certain financial and descriptive information about “reportable operating segments,” as defined, and (ii) certain enterprise-wide financial information. Operating segment information is reported using a “management approach” that is based on the way management organizes the segments for purposes of making operating decisions and assessing performance.

The Company’s two primary business segments are Banking and Wealth Management Services.

Banking consists principally of lending to commercial and consumer customers, as well as deposit gathering activities.

Wealth Management Services includes, as its principal business lines, financial planning services, investment management services, personal tax services, trustee services and estate planning.

The Company’s business segment disclosure is based on information generated by an internal profitability reporting system, which generates information by business segment based on the needs of management responsible for managing those segments. Allocations between the business segments can be subjective in nature and are reviewed and refined as circumstances warrant. Any allocations that may affect the reported results of any business segment will not affect the consolidated financial position or results of operations of the Company as a whole. The Company does not allocate assets by segment.

The following tables provide selected financial information for the Company’s business segments:

	<i>Banking</i>	<i>Wealth Management Services</i>	<i>Total Consolidated</i>
YEAR ENDED DECEMBER 31, 2009			
Net interest income	\$ 12,515,349	\$ -	\$ 12,515,349
Provision for loan losses	2,250,000	-	2,250,000
Noninterest income	2,085,760	5,124,844	7,210,604
Noninterest expense	10,648,699	4,481,631	15,130,330
Income before income taxes	1,702,410	643,213	2,345,623
Income tax expense	410,242	155,000	565,242
Net income	1,292,168	488,213	1,780,381
YEAR ENDED DECEMBER 31, 2008			
Net interest income	\$ 12,891,820	\$ -	\$ 12,891,820
Provision for loan losses	3,123,000	-	3,123,000
Noninterest income	1,673,599	4,895,381	6,568,980
Noninterest expense	9,574,239	3,695,617	13,269,856
Income before income taxes	1,868,180	1,199,764	3,067,944
Income tax expense	633,415	406,785	1,040,200
Net income	1,234,765	792,980	2,027,744



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *concluded*

Subsequent Events

Subsequent events represent events or transactions occurring after the balance sheet date but before the financial statements are issued. Financial statements are considered “issued” when they are widely distributed to shareholders and others for general use and reliance in a form and format that complies with GAAP.

Specifically, there are two types of subsequent events:

- Those comprising events or transactions providing additional evidence about conditions that existed at the balance sheet date, including estimates inherent in the financial statement preparation process (referred to as recognized subsequent events).
- Those comprising events that provide evidence about conditions not existing at the balance sheet date but, rather, that arose after such date (referred to as non-recognized subsequent events).

Subsequent events have been evaluated through February 10, 2010, the issuance date of the December 31, 2009 financial statements. Management believes there are no subsequent events to be reported in accordance with GAAP.

2. CASH AND DUE FROM BANKS

The Bank is required to maintain certain reserves of vault cash or deposits with the Federal Reserve Bank (FRB). The amount of this reserve requirement, included in cash and due from banks, was approximately \$163,000 and \$96,000 as of December 31, 2009 and 2008, respectively.

3. SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, follow:

2009	<i>Amortized Cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
SECURITIES AVAILABLE-FOR-SALE				
U.S. Government sponsored enterprises	\$ 56,246,114	\$ 281,119	\$ (96,464)	\$ 56,430,769
Mortgage-backed securities	34,287,637	1,503,425	(54,322)	35,736,740
Collateralized mortgage obligations	1,222,684	98,937	-	1,321,621
State and municipal	15,471,301	193,834	(64,119)	15,601,016
Corporate bonds	4,930,332	260,939	-	5,191,271
Total securities available-for-sale	\$ 112,158,068	\$ 2,338,254	(214,905)	\$ 114,281,417
SECURITIES HELD-TO-MATURITY				
U.S. Government sponsored enterprises	\$ 997,004	\$ 27,663	\$ -	\$ 1,024,667
Mortgage-backed securities	32,369,866	1,389,937	(4,962)	33,754,841
Collateralized mortgage obligations	786,797	32,598	-	819,395
State and municipal	2,024,178	10,589	-	2,034,767
Total securities held-to-maturity	\$ 36,177,845	\$ 1,460,787	\$ (4,962)	\$ 37,633,670



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

3. SECURITIES *continued*

2008	<i>Amortized Cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
SECURITIES AVAILABLE-FOR-SALE				
U.S. Government sponsored enterprises	\$ 4,499,448	\$ 60,870	\$ -	\$ 4,560,318
Mortgage-backed securities	33,134,848	826,294	(54,968)	33,906,174
Collateralized mortgage obligations	1,502,335	48,657	-	1,550,992
State and municipal	<u>12,621,106</u>	<u>48,591</u>	<u>(560,019)</u>	<u>12,109,678</u>
Total securities available-for-sale	<u>\$ 51,757,737</u>	<u>\$ 984,412</u>	<u>\$ (614,987)</u>	<u>\$ 52,127,162</u>
SECURITIES HELD-TO-MATURITY				
U.S. Government sponsored enterprises	\$ 992,146	\$ 47,931	\$ -	\$ 1,040,077
Mortgage-backed securities	35,539,028	956,801	(88,167)	36,407,662
Collateralized mortgage obligations	786,365	-	(15,246)	771,119
State and municipal	<u>2,559,875</u>	<u>13,377</u>	<u>(40,174)</u>	<u>2,533,078</u>
Total securities held-to-maturity	<u>\$ 39,877,414</u>	<u>\$ 1,018,109</u>	<u>\$ (143,587)</u>	<u>\$ 40,751,936</u>

At December 31, 2009 and 2008, securities with a carrying value of \$49,595,867 and \$44,332,360, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2009, follow:

	AVAILABLE-FOR-SALE		HELD-TO-MATURITY	
	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Amortized Cost</i>	<i>Fair Value</i>
Within one year	\$ 2,746,573	\$ 2,771,339	\$ 997,004	\$ 1,024,667
Over one year through five years	59,735,197	60,224,416	-	-
Over five years through ten years	5,726,125	5,750,618	1,785,991	1,791,655
Over ten years	<u>8,439,852</u>	<u>8,476,683</u>	<u>238,187</u>	<u>243,112</u>
	76,647,747	77,223,056	3,021,182	3,059,434
Collateralized mortgage obligations and mortgage-backed securities	<u>35,510,321</u>	<u>37,058,361</u>	<u>33,156,663</u>	<u>34,574,236</u>
Total	<u>\$112,158,068</u>	<u>\$114,281,417</u>	<u>\$ 36,177,845</u>	<u>\$ 37,633,670</u>

There were no sales of securities available-for-sale or securities held-to-maturity during 2009 and 2008.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

3. SECURITIES *concluded*

Information pertaining to securities with gross unrealized losses at December 31, 2009 and 2008, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

DECEMBER 31, 2009	LESS THAN 12 MONTHS		12 MONTHS OR GREATER		TOTAL	
	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>
U.S. Government sponsored enterprises	\$ 15,671,445	\$ (96,464)	\$ -	\$ -	\$ 15,671,445	\$ (96,464)
Mortgage-backed securities	6,361,469	(57,451)	152,350	(1,833)	6,513,819	(59,284)
Collateralized mortgage obligations						
State and municipal	3,145,205	(64,119)	-	-	3,145,205	(64,119)
Total	<u>\$25,178,119</u>	<u>\$(218,034)</u>	<u>\$ 152,350</u>	<u>\$ (1,833)</u>	<u>\$25,330,469</u>	<u>\$(219,867)</u>

DECEMBER 31, 2008	LESS THAN 12 MONTHS		12 MONTHS OR GREATER		TOTAL	
	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>
Mortgage-backed securities	\$ 10,748,153	\$ (100,936)	\$ 1,068,901	\$ (42,199)	\$ 11,817,054	\$ (143,135)
Collateralized mortgage obligations	-	-	771,119	(15,246)	771,119	(15,246)
State and municipal	9,224,486	(511,148)	774,252	(89,045)	9,998,738	(600,193)
Total	<u>\$19,972,639</u>	<u>\$(612,084)</u>	<u>\$2,614,272</u>	<u>\$(146,490)</u>	<u>\$22,586,911</u>	<u>\$(758,574)</u>

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

These unrealized losses related principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

4. LOANS

The composition of net loans, including loans held-for-sale, at December 31, is as follows:

	2009	2008
Commercial	\$ 27,117,069	\$ 34,723,875
Commercial real estate	74,142,880	95,436,167
Residential real estate	95,742,622	94,935,466
Consumer	6,739,165	5,332,207
Loans held-for-sale	112,500	832,000
Subtotal	203,854,236	231,259,715
Allowance for loan losses	(6,345,589)	(4,925,500)
Net deferred loan costs	84,600	70,940
Loans, net	<u>\$197,593,247</u>	<u>\$ 226,405,155</u>

At December 31, 2009 and 2008, nonaccrual loans were \$5,535,866 and \$3,502,128, respectively. There were no loans 90 days past due and still accruing interest at December 31, 2009 and 2008.

An analysis of the allowance for loan losses follows:

YEARS ENDED DECEMBER 31,	2009	2008
Balance at beginning of year	\$ 4,925,500	\$ 3,360,003
Provision for loan losses	2,250,000	3,123,000
Loans charged off	(1,087,757)	(1,605,706)
Recoveries of loans previously charged off	257,846	48,203
Balance at end of year	<u>\$ 6,345,589</u>	<u>\$ 4,925,500</u>

The following is a summary of information pertaining to impaired loans:

YEARS ENDED DECEMBER 31,	2009	2008
Impaired loans without a valuation allowance	\$ 4,426,329	\$ 795,923
Impaired loans with a valuation allowance	1,434,938	3,371,989
Total impaired loans	<u>\$ 5,861,267</u>	<u>\$ 4,167,912</u>
Valuation allowance related to impaired loans	<u>\$ 411,345</u>	<u>\$ 919,927</u>
Average investment in impaired loans	<u>\$ 5,014,589</u>	<u>\$ 3,381,165</u>

Interest income recognized on impaired loans during 2009 and 2008 amounted to \$34,279 and \$43,099, respectively. No additional funds are committed to be advanced in connection with impaired loans.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

5. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment follows:

	2009	2008
Land and improvements	\$ 1,922,993	\$ 1,922,993
Buildings and improvements	7,765,037	7,753,992
Equipment	4,934,459	4,758,643
	<u>14,622,489</u>	<u>14,435,628</u>
Accumulated depreciation	(6,088,239)	(5,488,730)
	<u>\$ 8,534,250</u>	<u>\$ 8,946,898</u>

Depreciation, included in occupancy and equipment expense, amounted to \$599,352 and \$680,701 for the years ended December 31, 2009 and 2008, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2009, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows

2010	\$ 593,647
2011	474,430
2012	449,910
2013	415,410
2014	413,910
Thereafter	<u>1,204,655</u>
	<u>\$ 3,551,962</u>

The leases contain options to extend for periods from three to ten years. The cost of such extensions is not included above. Total rent expense for the years ended December 31, 2009 and 2008 amounted to \$496,945 and \$449,397, respectively.

6. DEPOSITS

At December 31, 2009, the scheduled maturities of time deposits are as follows:

2010	\$ 71,809,946
2011	9,337,179
2012	596,379
2013	1,547,760
2014	<u>899,013</u>
	<u>\$ 84,190,277</u>

Deposit accounts with related parties were \$6,981,370 and \$7,348,263 at December 31, 2009 and 2008, respectively.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

7. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under repurchase agreements mature within twelve months and are collateralized by securities in the Company's investment portfolio. All securities collateralizing the repurchase agreements are under the Company's control. The maximum amount of repurchase agreements outstanding at any month-end during 2009 and 2008 was \$30,231,605 and \$15,286,776, respectively. The average amount of repurchase agreements outstanding during 2009 and 2008 was \$16,749,313 and \$13,278,500, respectively. The weighted average interest rate on repurchase agreements outstanding at December 31, 2009 and 2008 was .44% and 1.60%, respectively.

8. ADVANCES FROM FEDERAL HOME LOAN BANK

The Company's fixed-rate advances with the Federal Home Loan Bank (FHLB) of \$24,717,941 at December 31, 2009 mature through 2015. At December 31, 2009 and 2008, interest rates of fixed-rate advances ranged from 2.54% to 4.33%.

Outstanding FHLB borrowings are secured by a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by one to four family properties, certain unencumbered investment securities, and other qualified assets.

The contractual maturities of advances are as follows:

	<i>2009</i>	<i>2008</i>
2009	\$ -	\$ 6,599,037
2010	2,750,000	4,750,000
2011	7,000,000	5,000,000
2012	2,750,000	2,750,000
2013	4,717,941	2,769,030
2014	5,000,000	-
2015	2,500,000	-
Total	<u>\$ 24,717,941</u>	<u>\$ 21,868,067</u>

The Bank has a long-term line of credit with the FHLB that does not expire, in the amount of \$2.8 million.

There were no amounts outstanding at December 31, 2009 or 2008.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

9. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	2009	2008
Current tax expense		
Federal	\$1,005,780	\$ 1,383,300
State	194,362	398,500
	<u>1,200,142</u>	<u>1,781,800</u>
Deferred tax benefit		
Federal	(513,900)	(601,100)
State	(121,000)	(140,500)
	<u>(634,900)</u>	<u>(741,600)</u>
	<u>\$ 565,242</u>	<u>\$1,040,200</u>

The income tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes, as follows:

	2009	2008
Computed tax expense	\$ 797,512	\$1,043,101
Increase (reduction) in income taxes resulting from:		
Tax exempt income	(186,880)	(171,210)
State tax expense, net of federal benefit	48,419	170,281
Income from life insurance	(92,692)	(77,933)
Incentive stock options	46,528	27,528
Other	(47,645)	48,433
	<u>\$ 565,242</u>	<u>\$1,040,200</u>

The components of the net deferred tax asset are as follows:

	2009	2008
Deferred tax assets		
Allowance for loan losses	\$2,273,339	\$1,681,000
Employee benefit plans	397,085	325,800
Other	198,286	131,200
	<u>2,868,710</u>	<u>2,138,000</u>
Deferred tax liabilities		
Net unrealized gain on securities available-for-sale	721,939	125,604
Depreciation	179,844	134,100
Deferred rent	49,918	5,768
Other	134,689	128,728
	<u>1,086,390</u>	<u>394,200</u>
Net deferred tax asset	<u>\$1,782,320</u>	<u>\$1,743,800</u>

No valuation allowance is deemed necessary for the deferred income tax asset.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

10. EARNINGS PER SHARE

The following sets forth the computation of basic and diluted earnings per share for 2009 and 2008.

	<i>2009</i>	<i>2008</i>
Net income, as reported	<u>\$1,780,381</u>	<u>\$2,027,744</u>
Weighted-average shares outstanding	1,021,721	1,020,926
Effect of unvested stock grant	<u>9,418</u>	<u>1,150</u>
Adjusted weighted-average shares and assumed conversion	<u>1,031,139</u>	<u>1,022,076</u>
Basic earnings per share	\$ 1.74	\$ 1.99
Diluted earnings per share	\$ 1.73	\$ 1.98

There are 34,300 and 38,300 employee stock options excluded from the computation of dilutive earnings per share for 2009 and 2008, respectively, since inclusion of these common stock equivalents would be anti-dilutive.

11. 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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby and commercial letters-of-credit, and interest rate caps and floors written on adjustable rate loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

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

At December 31, 2009 and 2008, the following financial instruments were outstanding whose contract amounts represent credit risk:

CONTRACT AMOUNT	<i>2009</i>	<i>2008</i>
Commitments to grant loans	<u>\$43,130,754</u>	<u>\$50,685,785</u>
Commercial and standby letters-of-credit	<u>\$ 2,524,597</u>	<u>\$ 3,298,627</u>

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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK *concluded*

The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

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

Standby letters-of-credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers.

At times, the Company places interest rate caps and floors on loans written by the Company to enable customers to transfer, modify, or reduce their interest rate risk.

12. LEGAL CONTINGENCIES

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's financial statements.

13. SHAREHOLDERS' EQUITY AND REGULATORY MATTERS

The Company and its bank subsidiary are subject to various regulatory capital requirements administered by the FRB and the Office of the Comptroller of the Currency (OCC). Failure to meet minimum capital requirements can result in mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

These capital requirements represent quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by its regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital to average assets (as defined). Management believes that, as of December 31, 2009, the Company and its bank subsidiary meet all capital requirements to which they are subject. As of December 31, 2009, the most recent notification from the OCC categorized the banking subsidiary as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, a financial institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. Prompt corrective action provisions are not applicable to bank holding companies.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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13. SHAREHOLDERS' EQUITY AND REGULATORY MATTERS *concluded*

The actual capital amounts and ratios for the Bank are presented below. The capital ratios for the Company are not materially different from those presented below.

<i>(dollars in thousands)</i>	ACTUAL		MINIMUM CAPITAL REQUIREMENT		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
DECEMBER 31, 2009						
Total Capital to Risk-Weighted Assets	\$34,227	15.8%	\$17,331	8.0%	\$21,664	10.0%
Tier 1 Capital to Risk-Weighted Assets	\$31,474	14.5%	\$ 8,665	4.0%	\$12,998	6.0%
Tier 1 Capital to Average Assets	\$31,474	8.2%	\$15,330	4.0%	\$19,162	5.0%
DECEMBER 31, 2008						
Total Capital to Risk-Weighted Assets	\$33,691	14.5%	\$18,601	8.0%	\$23,252	10.0%
Tier 1 Capital to Risk-Weighted Assets	\$30,753	13.2%	\$ 9,301	4.0%	\$13,951	6.0%
Tier 1 Capital to Average Assets	\$30,753	8.9%	\$13,823	4.0%	\$17,279	5.0%

The ability of the Company to pay cash dividends depends on the receipt of dividends from its banking subsidiary. The Company, as the sole shareholder of the banking subsidiary, is entitled to dividends from legally available funds when and as declared by the banking subsidiary's Board of Directors.

In December 2007, the Board of Directors of the Company approved the 2007 Common Stock Repurchase Program, which permits the Company to purchase 30,000 shares of its authorized and issued common stock for a one-year period, expiring on December 13, 2008. The authority may be exercised from time to time and in such amounts as market conditions warrant. Any repurchases are intended to make appropriate adjustments to the Company's capital structure, including meeting share requirements related to employee benefit plans and for general corporate purposes.

The Company is dependent on dividends from its banking subsidiary to fund these share repurchases. The 2007 Common Stock Repurchase Program was not renewed upon expiration on December 13, 2008.

14. EMPLOYEE BENEFITS

The Company sponsors a 401(k) profit sharing plan which covers all employees who are at least 21 years of age and who have completed one year of employment. Eligible employees contribute a percentage of their annual compensation to the 401(k) plan and the Company matches a certain portion of employee contributions. In addition, the Company may make discretionary contributions on behalf of employees under the plan. For the years ended December 31, 2009 and 2008, expense attributable to the plan amounted to \$268,485 and \$322,556, respectively.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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14. EMPLOYEE BENEFITS *concluded*

Included in accrued expenses and other liabilities in the balance sheets at December 31, 2009 and 2008, are liabilities established pursuant to deferred compensation agreements with certain officers of the Company of \$984,976 and \$822,487, respectively. Deferred compensation expense related to these plans amounted to \$180,000 and \$179,316 for the years ended December 31, 2009 and 2008, respectively.

15. STOCK-BASED COMPENSATION

Warrants to purchase shares of the Company's common stock at various exercise prices have been granted to certain members of the organizing group, key management, and employees of the Company prior to April 2006. The warrants vest in three years and expire ten years from the date the warrant was granted.

On April 19, 2006, the shareholders of the Company approved the 2006 Stock Option and Incentive Plan (the "current plan"). The maximum number of shares of stock reserved and available for issuance under this Plan is 50,000 shares. Awards may be granted in the form of incentive stock options and restricted stock, or any combinations of the preceding, and the exercise price shall not be less than 100% of the fair market value on the date of grant. No stock options are exercisable more than ten years after the date the stock option is granted. The stock options vest over a three-year period. The restricted stock awards granted through December 31, 2009, each vest over a three-year period.

On January 1, 2006, the Company adopted FASB guidance for the incentive stock option and restricted stock grants relating to the current plan and previous plans. In accordance with that guidance, the Company recorded \$136,848 and \$80,960 of compensation expense during the years ended December 31, 2009 and 2008, respectively. Total compensation expense related to nonvested awards not yet recognized is \$268,893 as of December 31, 2009, and is expected to be recognized over a weighted-average period of 1.6 years.

A summary of nonvested restricted stock awards as of December 31, 2009, and changes during the year ended December 31, 2009, is presented below:

	<i>Shares</i>	<i>Weighted-Average Grant-Date Fair Value</i>
Nonvested shares at December 31, 2008	1,150	\$ 47.82
Granted	8,700	35.00
Vested	<u>(432)</u>	47.37
Nonvested shares at December 31, 2009	<u>9,418</u>	36.00

The weighted-average grant-date fair value of restricted stock awards granted in 2008 was \$49.19. Fair value is based on closing price of the stock.

The fair value of warrants granted during 2009 and 2008 was \$4.01 and \$4.02, respectively. The fair value of each warrant granted is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted-average assumptions:

	2009	2008
Dividend yield	3.54%	3.35%
Risk-free interest rate	3.02%	3.77%
Expected life	10 years	10 years
Expected volatility	11.45%	10.62%



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

15. STOCK-BASED COMPENSATION *concluded*

The expected volatility is based on historical volatility of a peer group of similar entities.

A summary of warrant activity as of December 31, 2009 and changes during the year then ended is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at beginning of year	38,300	\$ 43.77		
Granted	500	35.00		
Forfeited or expired	(4,500)	39.19		
Outstanding at December 31, 2009	<u>34,300</u>	<u>\$ 44.24</u>	<u>6.4 years</u>	<u>\$ -</u>
Exercisable at December 31, 2009	<u>29,033</u>	<u>\$ 43.43</u>	<u>6.1 years</u>	<u>\$ -</u>

The aggregate intrinsic value of warrants exercised during 2008 was \$33,130.

The remaining number of warrants available to be granted was 55,911 and 51,911 at December 31, 2009 and 2008, respectively.

16. OTHER NONINTEREST INCOME AND EXPENSES

The components of other noninterest income and expenses which are in excess of 1% of total revenues (total interest and dividend income and noninterest income) and not shown separately in the statements of income are as follows for the years ended December 31:

	2009	2008
Noninterest income		
Bank owned life insurance	\$ 275,033	\$ 229,214
Gain on sale of loans	442,689	158,754
	<u>\$ 717,722</u>	<u>\$ 387,968</u>
Noninterest expenses		
Professional fees	\$ 331,823	\$ 238,042
Loan collection and workout expenses	298,296	194,850
Advertising	391,394	374,153
	<u>\$1,021,513</u>	<u>\$ 807,045</u>

17. RELATED PARTY TRANSACTIONS

The Company has had, and may be expected to have in the future, transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Loans granted to related parties amounted to \$771,400 and \$1,187,307 at December 31, 2009 and 2008, respectively.



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December 31, 2009 and 2008

17. RELATED PARTY TRANSACTIONS *concluded*

During January 2007, the banking subsidiary entered into a long-term lease with a company whose sole owner is a director and shareholder of the Company. This lease is for space that is the new headquarters for the Bank's Ledyard Financial Advisors division. The lease has an initial term of ten years and calls for initial annual payments of \$320,000. The lease has three five-year options to renew.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs that may be used to measure fair value are:

- Level 1:** Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3:** Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009, USING

	<i>Total</i>	<i>Quoted Prices In Active Markets For Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
ASSETS				
Securities available-for-sale (market approach)				
U.S. Government sponsored enterprises	\$ 56,430,769	\$ 2,500,000	\$ 53,930,769	\$ -
Mortgage-backed securities	35,736,740	-	35,736,740	-
Collateralized mortgage obligations	1,321,621	-	1,321,621	-
State and municipal	15,601,016	-	15,601,016	-
Corporate bonds	5,191,271	-	5,191,271	-
	<u>\$ 114,281,417</u>	<u>\$ 2,500,000</u>	<u>\$ 111,781,417</u>	<u>\$ -</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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18. FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2008, USING

	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Securities available-for-sale (market approach)				
U.S. Government sponsored enterprises	\$ 4,560,318	\$ -	\$ 4,560,318	\$ -
Mortgage-backed securities	33,906,174	5,226,320	28,679,854	-
Collateralized mortgage obligations	1,550,992	-	1,550,992	-
State and municipal	12,109,678	-	12,109,678	-
	<u>\$ 52,127,162</u>	<u>\$ 5,226,320</u>	<u>\$ 46,900,842</u>	<u>\$ -</u>

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009, USING

	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Impaired loans (market approach)	\$ 1,023,593	\$ -	\$ 1,023,593	\$ -
Loans held-for-sale (market approach)	112,500	112,500	-	-
Other real estate owned (market approach)	265,865	-	265,865	-

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2008, USING

	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Impaired loans (market approach)	\$ 2,452,062	\$ -	\$ 2,452,062	\$ -
Loans held-for-sale (market approach)	832,000	832,000	-	-
Other real estate owned (market approach)	200,000	-	200,000	-

Certain impaired loans were written down to their fair value of \$1,023,593 and \$2,452,062 at December 31, 2009 and 2008, respectively, resulting in an impairment charge through the provision for loan losses, which was included in earnings for the period. Loans held-for-sale are recorded at the lower of cost or fair value with any resulting adjustment to fair value included in earnings for the period. Other real estate owned are initially recorded at fair value, then carried at the lower of the new cost basis or fair value through a provision charge to earnings.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

18. FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Certain financial and nonfinancial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

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

Cash and cash equivalents

The carrying amounts of cash and short-term instruments approximate fair values.

Securities

Fair values for securities, excluding Federal Home Loan Bank stock and Federal Reserve Bank stock, are determined by obtaining quoted market prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. The carrying value of Federal Home Loan Bank stock and Federal Reserve Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank and Federal Reserve Bank.

Loans held-for-sale

Fair values of loans held-for-sale are based on commitments on hand from investors or prevailing market prices.

Loans receivable

For variable-rate loans that repriced frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit liabilities

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities on time deposits.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2009 and 2008

18. FAIR VALUE OF FINANCIAL INSTRUMENTS *concluded*

Securities sold under agreements to repurchase

The carrying amounts of borrowings under repurchase agreements maturing within ninety days approximate their fair values.

Advances from Federal Home Loan Bank

The fair values of these borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest

The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet instruments

The Company's off-balance sheet instruments consist of loan commitments. Fair values for loan commitments have not been presented as the future revenue derived from such financial instruments is not significant.

The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments are as follows:

	2009		2008	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
FINANCIAL ASSETS				
Cash and cash equivalents	\$ 20,063,153	\$ 20,063,153	\$ 25,458,223	\$ 25,458,223
Securities available-for-sale	114,281,417	114,281,417	52,127,162	52,127,162
Securities held-to-maturity	36,177,845	37,633,670	39,877,414	40,751,936
Federal Home Loan Bank and Federal Reserve Bank stock	2,013,300	2,013,300	2,010,900	2,010,900
Loans and loans held-for-sale, net	197,593,247	197,577,403	226,405,155	227,973,766
Accrued interest receivable	1,564,322	1,564,322	1,325,024	1,325,024
FINANCIAL LIABILITIES				
Deposits	320,129,428	319,661,357	295,585,570	295,768,990
Repurchase agreements	13,713,739	13,713,739	14,427,836	14,427,836
Advances from Federal Home Loan Bank	24,717,941	24,338,502	21,868,067	21,590,165
Accrued interest payable	208,556	208,556	264,532	264,532



SENIOR MANAGEMENT TEAM

As of March 8, 2010



Seated (l-r):

Christopher J. Taylor
*Senior Vice President
& Retail Banking Leader*

Kathryn G. Underwood
President & Chief Executive Officer

Jeffrey H. Marks
*Senior Vice President
& Chief Marketing Officer*

Martha P. Candon
*Senior Vice President
& Business Development Officer*

Standing (l-r):

Robert T. Boon
*Executive Vice President
& Managing Director,
Ledyard Financial Advisors*

Gregory D. Steverson
*Executive Vice President
& Chief Financial Officer*

Darlene E. Romano
*Senior Vice President,
Human Resources & Finance*

D. Rodman Thomas
*Senior Vice President
& Director of Client Relations,
Ledyard Financial Advisors*

Daniel X. Stannard, Jr.
*Senior Vice President
& Senior Loan Officer*

Darcy D. Rogers
*Senior Vice President
& Chief Operations Officer*



BOARD OF DIRECTORS

As of March 8, 2010



Seated (l-r):

Dennis E. Logue

Steven Roth Professor of Management Emeritus,
Tuck School of Business, Dartmouth College & Chair,
Ledyard Financial Group/Ledyard National Bank

Adam M. Keller

Special Assistant to the President & Provost,
Dartmouth College

Kathryn G. Underwood

President & Chief Executive Officer,
Ledyard Financial Group/Ledyard National Bank

Standing (l-r):

Frederick A. Roesch

Retired, Senior Vice President,
Citigroup/Citibank & Co-Vice Chair,
Ledyard Financial Group/Ledyard National Bank

Deirdre Sheerr-Gross

Principal, Sheerr and White,
Residential Architecture

Douglas G. Britton

President, Britton Lumber Co., Inc. & Secretary,
Ledyard Financial Group/Ledyard National Bank

Richard W. Couch, Jr.

Chairman, President & Chief Executive Officer,
Hypertherm, Inc.

Cotton M. Cleveland

President, Mather Associates

James W. Varnum

Retired President, Dartmouth-Hitchcock Alliance and
Mary Hitchcock Memorial Hospital & Co-Vice Chair,
Ledyard Financial Group/Ledyard National Bank

Andrew A. Samwick

Professor of Economics & Director,
Nelson A. Rockefeller Center at Dartmouth College

Not pictured:

Bayne Stevenson

President, Bayson Company

For a current list of Boards, Senior Management and Officers,
please visit the "About Us" section of our website at www.ledyardbank.com.



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DARTMOUTH COLLEGE COLLIS CENTER ATM

LEBANON

ROUTE 120 AT OLD ETNA ROAD 603.448.2220 LOBBY, DRIVE-UP & ATM

LYME

ON THE GREEN 603.795.2288 LOBBY & ATM

NEW LONDON

178 COUNTY ROAD 603.526.7725 LOBBY, DRIVE-UP & ATM

NORWICH, VERMONT

320 MAIN STREET 802.649.2050 LOBBY, DRIVE-UP & ATM

WEST LEBANON

67 MAIN STREET 603.298.9444 LOBBY, DRIVE-UP & ATM

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