LEDYARD NATIONAL BANK. COMMITTED TO THE COMMUNITIES WE SERVE.

2005

Annual Report

LEDYARD
NATIONAL BANK
BANKING THE WAY IT SHOULD BE.

LEDYARD NATIONAL BANK'S SENIOR MANAGEMENT TEAM

Seated, from left: Martha P. Candon, *Senior Vice President and Senior Retail Banking Officer;*
Kathryn G. Underwood, *President and CEO;*
Darcy D. Rogers, *Senior Vice President and Chief Operations Officer.*
Standing, from left: D. Rodman Thomas, *Senior Vice President and Senior Trust Officer;*
Daryl J. Cady, *Executive Vice President and Chief Financial Officer;*
William B. Hamilton, Jr., *President, Investment and Trust Services Division;*
Jeffrey Goff, *Vice President, Sales Development and Marketing.*
Not pictured: Mark S. Clough, *Senior Vice President and Senior Loan Officer;*
Darlene E. Romano, *Vice President, Finance and Human Resources.*

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FINANCIAL HIGHLIGHTS

YEARS-ENDED DECEMBER 31, *(dollars in thousands, except per share data)*	**2005**	2004	2003	2002	2001
Financial Condition Data					
Assets	$ 285,495	$ 268,869	$ 242,761	$ 233,203	$ 209,037
Investments	60,601	65,467	61,005	43,030	38,207
Net Loans, including loans held for sale	194,893	175,189	157,406	157,047	141,798
Deposits	240,828	227,614	205,710	203,008	179,216
Federal Home Loan Bank Advances	8,857	11,981	10,493	5,000	5,000
Shareholders' Equity	24,391	21,849	19,716	17,840	16,055
Operating Data					
Net Interest Income	$ 11,486	$ 10,053	$ 9,631	$ 9,409	$ 8,784
Provision for Loan Loss	780	325	340	525	797
Non-interest Income	5,834	5,330	4,864	4,067	3,482
Non-interest Expense	11,354	10,452	9,767	9,237	8,478
Income Taxes	1,748	1,593	1,578	1,384	1,106
Net Income	3,439	3,013	2,810	2,330	1,885
Other Data					
Earnings per Share, basic	$ 3.41	$ 3.03	$ 2.84	$ 2.37	$ 1.93
Dividends per Share	$ 0.98	$ 0.91	$ 0.85	$ 0.73	$ 0.56
Dividend Payout Ratio	29%	30%	30%	31%	29%
Book Value per Share	$ 24.16	$ 21.96	$ 19.92	$ 18.15	$ 16.47
Shares Outstanding	1,009,746	994,895	990,679	983,519	976,269
Return on Average Assets	1.25%	1.20%	1.17%	1.06%	0.93%
Return on Average Equity	14.85%	14.56%	14.90%	13.58%	12.27%
Equity to Asset Ratio	8.54%	8.13%	8.12%	7.66%	7.69%
Allowance for Loan Losses to Total Loans	1.22%	1.35%	1.31%	1.53%	1.48%

MISSION STATEMENT:

We at Ledyard National Bank are committed to being the financial services institution of choice in each of the markets we serve by providing our customers with outstanding products and services. In order to accomplish this, we must have dedicated and capable employees for whom we will provide a challenging and rewarding work environment. As a direct result, we will provide our shareholders with consistent and superior returns over the long term.

COVER PHOTO:

by Jon Gilbert Fox

This aerial view was photographed from a hot air balloon over the Lyme, New Hampshire, area.

ALL OTHER PHOTOS:

by Jon Gilbert Fox

JON GILBERT FOX has been taking photographs professionally for over 30 years. His work has appeared in numerous corporate reports, brochures, publications and advertisements as well as such diverse periodicals as *U.S. News & World Report,* the *New York Times, House and Garden, Vogue, Der Stern, Scholastic Magazine, Mandate, Vermont Life, Scientific American, Der Spiegel, Focus Magazine,* the *Washington Post, Conde Nast Traveler*, along with many other American and worldwide publications. He is presently working on a book of New Hampshire photographs.

FELLOW OWNERS:

Kathryn G. Underwood
President & CEO,
Ledyard National Bank

Dennis E. Logue
Chair,
Ledyard National Bank

We are pleased to present Ledyard National Bank's Annual Report for 2005, a year of growth and progress.

The year 2005 was, first of all, a period of strong financial performance. Our net income in 2005 was $3.4 million or $3.41 per share, an increase of 14.1% over 2004. Total assets were $285.5 million at the end of 2005, a one-year increase of 6.2%. In addition, Investment and Trust Services' assets rose to $585.4 million at year-end, an increase of 7.7% over a year earlier.

This year witnessed changes in bank leadership with both of us joining Ledyard. Dennis, one of the bank's founding directors, returned to our Board of Directors as Chair in August after serving as Dean of the Price College of Business at the University of Oklahoma. Kathy joined Ledyard as its President and Chief Executive Officer in September from her previous position as District President of Key Bank in Maine. Prior to our arrivals, Cary Clark, another of the bank's founding directors, did a fine job as our Chair and Acting President, and he remains fully engaged in the important ongoing work of our board.

The two of us, along with the other directors and senior managers of your bank, remain firmly committed to continuing and enhancing Ledyard's role as a leading independent community bank in the region. Given the strength of our management team and the expertise, loyalty, and diligence of our staff, we should be able to achieve this objective. Our strategy for doing so is focused upon our offering enhanced financial services and continuing the growth of the banking and trust areas.

Toward that end, we are very pleased to mention several important recent developments. We have strengthened our top management team with the hiring of Mark Clough as our Senior Loan Officer and Jeffrey Goff as our top marketing executive; also, our Investment and Trust Division has been strengthened with the addition of J.T. Underwood in the investment area. In addition, early this year we increased our quarterly dividend by 8%. Lastly, we have arranged to have Ledyard's stock listed for trading on the "Pink Sheets" (ticker symbol: LYNA), a step we feel will make our stock more liquid and the market for our stock more continuous and transparent.

On behalf of all of us at Ledyard, we thank you for your support. We celebrate our bank's fifteenth birthday this May, and we hope we will continue to be worthy of your trust and confidence as we move forward in the months and years ahead providing "banking the way it should be."

Dennis E. Logue

DENNIS E. LOGUE
Chair

Kathryn G. Underwood

KATHRYN G. UNDERWOOD
President and Chief Executive Officer

THE UPPER VALLEY HAVEN

The Upper Valley Haven is a non-profit human services organization offering emergency shelter for families, a food shelf, clothing room and educational programming to those struggling to meet their basic needs. Through the generosity of Ledyard National Bank & others, all Haven services can be provided free of charge to those in need.

LYME NURSERY SCHOOL

Support of the Lyme Nursery School, whose purpose is to promote the social, emotional, physical and artistic growth of young children, demonstrates Ledyard's dedication to every community's most important asset: it's children.

THE UPPER VALLEY HUMANE SOCIETY

Ledyard National Bank supports the Upper Valley Humane Society's dedication to promoting a humane community by inspiring compassion for all living creatures and strengthening the bond between animals and humans.

BANKING AND COMMUNITY

Since our founding fifteen years ago as a community bank with a single office in Hanover, New Hampshire, Ledyard National Bank has certainly grown. Today we serve thousands of customers in the Dartmouth-Lake Sunapee Region with seven offices that provide the very best in personal and business banking. Ledyard's Investment and Trust Services division has clients around the globe.

Our growth, however, is not simply measured in numbers. Our commitment to our customers and to the communities we serve has also grown. That is because the phrase, "banking the way it should be," is much more than a slogan to us. It has become the mission of everyone here at Ledyard to live up to those words and to deliver a level of service and personal attention to our customers that far exceeds what is expected.

People who live and work in the area count on Ledyard for full-service banking convenience that fits their busy lifestyles. We have two offices in Hanover and offices in Lebanon, Lyme, New London and West Lebanon, New Hampshire, and in Norwich, Vermont. Customers also have access to their accounts 24 hours a day through Ledyard's no-fee ATMs and with our KwikNet online banking and KwikTel telephone banking services.

Ledyard provides the extensive services found at much larger financial institutions, but with the focus and attention of a true community bank. We know our customers, and our customers know us. From that knowledge, we are able to tailor our products and services to meet the specific needs of the people we serve.

From mortgages and home-equity loans to flexible deposit accounts and high-yield savings products, Ledyard customers have access to a full complement of personal banking services. Businesses rely on Ledyard to work with them as a trusted advisor to help their growth plans with a full range of deposit accounts, customized lending products, credit lines, full-service cash management and financing programs for business expansion.

BANKING AND COMMUNITY (continued)

We are customer-focused, but we are also community-minded. We are keenly aware that our acceptance and growth in the area is a direct result of the support we receive from the community. We are grateful for this support, and we take the greatest pride in being able to reciprocate. Everyone at Ledyard National Bank is dedicated to serving the many individuals and organizations that make this area of the state the best place to live.

Winston Churchill once said "We make a living by what we get, but we make a life by what we give." Few embody this spirit more than the people who work at Ledyard. Whether it is in the form of corporate contributions or the individual efforts of our staff, we strive to make a difference. From selling daffodils for the American Cancer Society to leading the United Way campaign in our communities or donating time at the soup kitchen, we try to do our part… and dare to believe we can do more.

DAVID'S HOUSE

A non-profit organization, David's House offers a comfortable home-away-from home for children receiving specialized care through Children's Hospital at Dartmouth. Ledyard National Bank wants to ensure that no family is ever turned away because of financial hardship.

MONTSHIRE MUSEUM OF SCIENCE.

Ledyard supports the need for a hands-on museum so everyone in the community can experience what goes on in the world of natural, ecological and physical sciences.

At Ledyard we also recognize and respect the rich cultural heritage of our area. It is a proud history of a proud people, many of whom we are honored to call friends, colleagues and clients. We also believe in the future of our communities… a future that promises to be bright, prosperous and more important, rooted in the values and work ethic that have made this area the great place to live and work that it has always been.

Music, dance, theatre and other forms of celebration enrich our lives every day. They inspire creativity in our younger generation and imagination in those who have preceded them. Ledyard is proud to support these efforts including the underwriting of Opera North's performance of "The Gondoliers," Northern Stage's production of "The Lion in Winter," and the Hopkins Center's performance of "The Wayne Shorter Quartet." More than anything, these efforts introduce all of us to diverse forms of expression, expand our understanding of other cultures and connect us to the larger world.

In the community, Ledyard supports numerous family-friendly events and festivals. In August we participated in New London's Hospital Days, in the fall we were active in Lyme's "Pumpkin Festival" and in the winter we are strong supporters of Dartmouth Athletic events, just to name a few.

LEDYARD GALLERY AT THE HOWE
The arts are an integral part of every community.

THETFORD HISTORICAL SOCIETY

Ledyard recognizes the importance of a community's past.

Museums, libraries and land conservation groups also benefit from Ledyard's contributions. In 2005 we continued our support of the Howe Library capital campaign that contributed to the opening of the "Ledyard Gallery." Several healthcare and outreach programs directly aimed at assisting individuals in our community were also beneficiaries of our financial support.

The stories and pictures in this report are a testament to and acknowledgement of the many small groups of committed citizens who dare to think big and who give all they have to transform our community every day. Ledyard National Bank is proud to work with them in making our neighborhoods better places to live, work and raise families.

NVESTMENT & TRUST SERVICES

William B. Hamilton, Jr.
President,
Investment & Trust
Services Division

To Our Shareholders:

After a breakthrough year in 2004, Ledyard's Investment and Trust Services Division had yet another strong year in 2005. On December 31, 2005, the Division held assets with an aggregate market value of $585 million (*Chart, top right*). This represents an increase of $42 million or 7.7% over the end of 2004. This increase was largely due to a strong flow of new accounts. Division revenue was 12% greater than revenue in 2004 (*Chart, bottom right*), and net pre-tax profit was 3% greater than net pre-tax profit in 2004.

Two highlights for the Investment and Trust Services Division in 2005 were investment performance and client satisfaction. During 2005, our common stocks outperformed their indexes in every investment sector. Our strong performance was led by the international sector with our developed international common stocks (largely Europe and Japan) generating a total return (dividends plus appreciation) of 16.82% and our emerging international common stocks (largely Asia, Eastern Europe and South America) generating a total return of 37.75%. Approximately 17% of our typical portfolio was invested in international common stocks during 2005.

With regard to client satisfaction, we ask our current clients to complete a satisfaction survey annually. In 2005, 98.1% of respondents to our survey stated that they would recommend our services to a friend. We are very proud of this endorsement.

Our Division currently employs a staff of 21 people and we have clients in 35 states and 7 foreign countries. We are the dominant investment and trust organization within the Dartmouth-Lake Sunapee Region and we are very pleased to contribute to Ledyard's continued success.

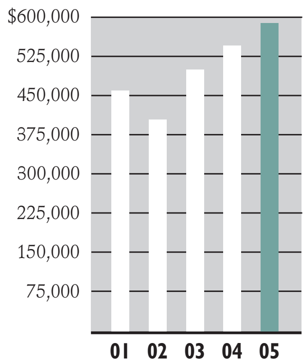
Thank you for your support.

William B. Hamilton, Jr.

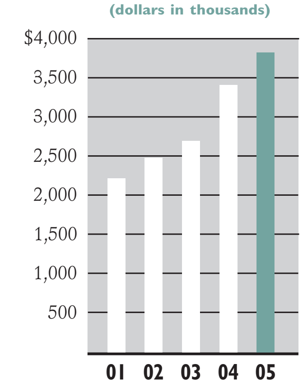
WILLIAM B. HAMILTON, JR.
President, Investment & Trust Services Division

INVESTMENT & TRUST SERVICES (concluded)

ASSETS UNDER MANAGEMENT OR CUSTODY
(dollars in thousands)



GROSS REVENUE
(dollars in thousands)



Ledyard's Investment and Trust Services Division offers a full complement of investment management, fiduciary and custody services.

As investment managers, we help our clients define their investment goals, risk tolerance and time horizon. We help establish investment strategy, portfolio design and asset allocation. We provide continuing portfolio management, including periodic meetings with account officers. Our services include safekeeping of securities, the collection and distribution of income, periodic statements, and an annual summary of income tax information. We also provide optional bill paying.

As corporate fiduciary, we serve as trustee or co-trustee for revocable trusts, irrevocable trusts and Individual Retirement Accounts.

As custodian, we provide securities safekeeping, accurate and comprehensive record keeping, periodic statements, and a comprehensive annual summary of tax information. We also purchase and sell securities within our custody accounts according to our clients' instructions. Again, bill paying is optional.

In addition to the services listed above, we offer both prospective and current clients an unusual and powerful investment tool. We have the ability to prepare a comprehensive review of a prospective or current client's total investment picture. Our reviews cover everything – from retirement accounts and IRA rollovers, to mutual funds, common stocks, Treasuries, certificates of deposit and money market funds. We cover asset allocation, sector weightings, diversification, risk tolerance and past performance. For the prospective client, this review represents an excellent first step towards establishing a successful working partnership with our organization. For the current client, this review represents a basis for careful, strategic coordination across multiple investment accounts – some with Ledyard and some with other organizations. These reviews are complimentary and without obligation.

MANAGEMENT'S FINANCIAL DISCUSSION

Daryl J. Cady,
Executive Vice President,
& Chief Financial
Officer

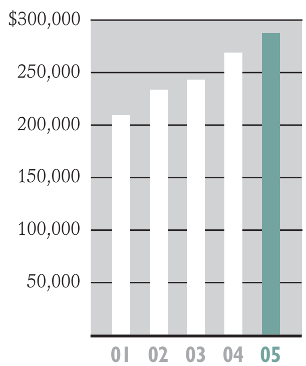
Review of Financial Statements

The discussion and analysis, which follows focuses on the factors affecting the Bank's financial condition at December 31, 2005 and 2004 and its results of operations for the years ended December 31, 2005 and 2004. The Financial Statements and Notes to the Financial Statements should be read in conjunction with this review.

Financial Condition

At year-end, total assets were $285,495,434 compared to $268,868,655 at December 31, 2004, an increase of $16,626,779, or 6.18%. The change in assets consisted primarily of an increase of $19,703,831 in net loans, including loans held for sale offset by a $4,865,547 decrease in investment securities.

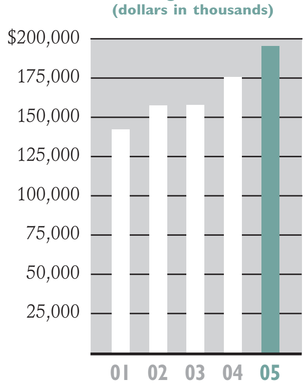
TOTAL ASSETS
(dollars in thousands)



The Bank maintains an investment portfolio consisting of various securities in order to diversify its revenue, as well as to provide interest rate and credit risk diversification. The portfolio also provides for liquidity and funding needs. As mentioned above, total investment securities decreased $4,865,547, or 7.43% from $65,466,672 to $60,601,125, as cash flows from mortgage-backed securities and proceeds from various maturing securities were used to fund loans. During 2005, the bank purchased $17,934,403 of held-to-maturity and available-for-sale securities and realized proceeds from maturities and paydowns of the same totaling $22,590,226.

The Bank provides loans to customers primarily located within its geographic market area. Net loans, including loans held for sale, totaled $194,892,597 at December 31, 2005, a $19,703,831, or 11.25% increase from a year ago. This reflects the strong loan growth experienced in the commercial and residential real estate loan portfolios.

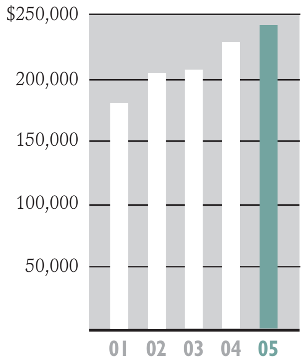
NET LOANS
including loans held for sale
(dollars in thousands)



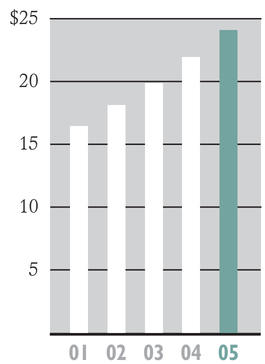
Commercial loans consist of (i) loans secured by various corporate assets, (ii) loans to provide working capital in the form of secured and unsecured lines of credit, and (iii) commercial real estate loans secured by income-producing commercial real estate. The Bank focuses on lending to financially sound small- and medium-sized business customers within its geographic marketplace. Total commercial loans increased by $4,880,275, or 4.15%, during 2005.

Residential real estate loans consist of loans secured by one-to-four family residences. The Bank usually retains adjustable-rate mortgages in its portfolio and will generally sell fixed-rate mortgages. Residential real estate loans increased by $16,568,645, or 32.63%, in 2005. During 2005, the Bank sold approximately $17 million of fixed-rate residential mortgage loans into the secondary market.

TOTAL DEPOSITS
(dollars in thousands)



BOOK VALUE PER SHARE
(in dollars)



Consumer loans are originated by the Bank 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 decreased by $922,067, or 12.12%, in 2005.

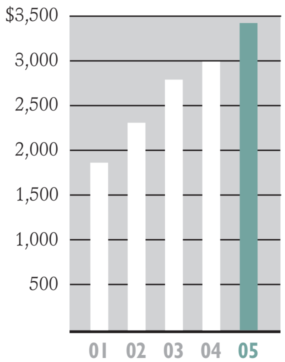
In determining the adequacy of the allowance for loan losses (the "allowance"), management reviews the loan portfolio to ascertain whether there are specific loans which require additional reserves and to assess the collectibility of the loan portfolio in the aggregate. Non-performing loans are examined on an individual basis to determine the estimated probable loss on these loans. In addition, the ongoing evaluation process includes a formal analysis of the allowance each quarter. During 2005, the Bank added $780,000 to its provision for loan losses and realized net charge-offs of $787,828 resulting in an allowance for loan losses totaling $2,383,359, or 1.22%, of total loans outstanding at December 31, 2005. Management believes that the allowance at December 31, 2005 was appropriate given the current economic conditions in the Bank's service area.

Premises and equipment totaled $8,878,154 at December 31, 2005 as compared to $9,332,902 at December 31, 2004. The net decrease of $454,748, or 4.87%, can be attributed to depreciation during 2005.

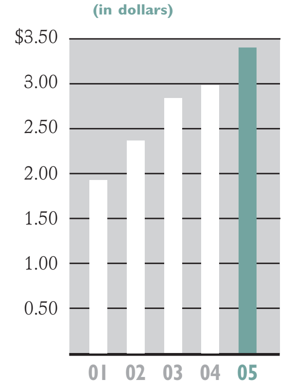
Deposits continue to represent the Bank's primary source of funds. In 2005, total deposits increased by $13,213,954, or 5.81% over 2004, ending the year at $240,827,605. Comparing year-end balances in 2005 to 2004, demand deposits and NOW accounts, increased by $742,828, and certificates of deposit increased by $15,071,666, while money market and savings accounts decreased by $2,600,540. Borrowings supplement deposits as a source of liquidity. In addition to borrowings from the FHLB, the Bank purchases federal funds, and sells securities under agreements to repurchase. Total borrowings were $19,116,913 at December 31, 2005 compared to $18,251,062 at December 31, 2004, an increase of $865,851. The majority of the borrowings were related to securities sold under agreements to repurchase followed by advances from the Federal Home Loan Bank. These advances remain the largest non-deposit-related, interest-bearing funding source for the Bank. In addition to the liquidity sources discussed above, the Bank 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 if needed.

Shareholders' equity was $24,391,136 on December 31, 2005 compared to $21,848,657 on December 31, 2004, and increase of $2,542,479. The increase was primarily attributable to net income of $3,438,532 less $984,528 in cash dividends to the Bank's shareholders. The Bank's book value on December 31, 2005 was $24.16 per share based on 1,009,746 shares outstanding, an increase of $2.20 per share, or 10.02% from a year earlier.

NET INCOME
(dollars in thousands)



EARNINGS PER SHARE
(in dollars)



Statement of Income

Net income was $3,438,532, or $3.41 per share for the twelve months ended 2005 as compared to $3,012,858, or $3.03 per share for 2004, an increase of $425,674, or 14.13%. Increased net interest income and higher Investment and Trust Division revenue accounted for the majority of the change.

Net interest income before the provision for loan loss totaled $11,486,166 for the year ended December 31, 2005, as compared to $10,053,061 for the year ended December 31, 2004. The increase of $1,433,105 or 14.26% was primarily attributable to an increase in interest income on loans.

Interest and fees on loans totaled $11,523,247 for the year ended December 31, 2005, as compared to $9,380,198 for 2004. This increase of $2,143,049, or 22.85%, was attributable to both an increase in interest rates and loan volume. Investment securities income for the year ended December 31, 2005, totaled $2,348,439 as compared to $2,289,693 for 2004, an increase of $58,746, or 2.57%. Higher average balances in mortgage-backed securities accounted for the majority of the change. Other interest-earning assets income increased $145,387 in 2005, totaling $232,071 in 2005 as compared to $86,684 for 2004. This increase was primarily attributable to a higher average balance in Federal Funds.

While the Bank continued to have core deposit growth during 2005, it also saw an increase in time deposits. These deposits tend to be higher-costing resulting in interest expense on deposits totaling $1,918,102 for the year ended December 31, 2005, as compared to $1,294,957 for the year ended December 31, 2004, an increase of $623,145, or 48.12%. Interest expense on borrowed funds increased $290,932, or 71.21% for the year ended December 31, 2005 totaling $699,489 as compared to $408,557 at December 31, 2004. The increase was primarily due to the Bank utilizing the Federal Home Loan Bank to supplement its other funding sources.

Non-interest income totaled $5,834,064 in 2005 as compared to $5,329,587 in 2004, an increase of $504,477, or 9.47%. Income from the Bank's Investment and Trust Services Division totaled $3,821,071 up from $3,411,978 in 2004, an increase of $409,093, or 11.99%. This increase was primarily attributable to increased asset volume and market conditions. Service fees increased slightly by $4,472 as the Bank realized additional fees associated with an increase in deposit accounts. Other non-interest income increased $90,912, or 19.10% due primarily to an increase in sold loan related fees. During 2005, mortgage volume increased as did the resultant fees.

Non-interest expense totaled $11,353,708 for 2005 as compared to $10,451,663 in 2004, an increase of $902,045, or 8.63%. Salaries and benefits expense increased as the Bank realized expenses associated with its management reorganization. Occupancy and equipment increased due to higher energy costs and expenses associated with outsourcing certain back-office functions. Other general and administrative expenses increased by 1.01% due to various third-party expenses.

INDEPENDENT AUDITORS' REPORT

BERRY. DUNN. MCNEIL & PARKER

B D M P

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

BOARD OF DIRECTORS AND SHAREHOLDERS
Ledyard National Bank

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

We conducted our audits in accordance with 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 financial statements referred to above present fairly, in all material respects, the financial position of Ledyard National Bank as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Berry, Dunn, McNeil & Parker

Portland, Maine
January 13, 2006

BALANCE SHEETS

	2005	2004
ASSETS		
Cash and due from banks	$ 8,735,319	$ 11,579,612
Federal funds sold	9,504,782	5,145,886
Total cash and cash equivalents	18,240,101	16,725,498
Securities available-for-sale	12,997,261	10,547,831
Securities held-to-maturity	45,886,014	53,208,140
Nonmarketable equity securities	1,717,850	1,710,701
Loans held for sale	862,750	1,694,968
Loans receivable, net of allowance for loan losses of $2,383,359 in 2005 and $2,391,187 in 2004	194,029,847	173,493,798
Accrued interest receivable	1,099,791	942,544
Bank premises and equipment, net	8,878,154	9,332,902
Other assets	1,783,666	1,212,273
	$ 285,495,434	$ 268,868,655
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Demand	$ 41,190,167	$ 44,018,183
NOW accounts	55,976,383	52,405,539
Money market accounts	76,624,027	78,804,219
Savings	16,182,940	16,603,288
Time, $100,000 and over	3,271,614	6,991,499
Other time	47,582,474	28,790,923
Total deposits	240,827,605	227,613,651
Securities sold under agreements to repurchase	10,259,834	6,270,211
Advances from Federal Home Loan Bank	8,857,079	11,980,851
Accrued expenses and other liabilities	1,159,780	1,155,285
Total liabilities	261,104,298	247,019,998
Commitments and contingencies (Notes 5, 10, 12, 13, 14 and 15)		
Shareholders' equity		
Common stock, $1.00 par value; 5,500,000 shares authorized; 1,009,746 and 994,895 shares issued and outstanding in 2005 and 2004, respectively	1,009,746	994,895
Additional paid-in capital	9,214,466	8,951,476
Retained earnings	14,370,371	11,916,367
Accumulated other comprehensive loss	(203,447)	(14,081)
Total shareholders' equity	24,391,136	21,848,657
	$ 285,495,434	$ 268,868,655

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

STATEMENTS OF INCOME

	2005	2004
Interest and dividend income		
Interest and fees on loans	$ 11,523,247	$ 9,380,198
Investment securities	2,348,439	2,289,693
Other interest-earning assets	232,071	86,684
Total interest and dividend income	14,103,757	11,756,575
Interest expense		
Deposits	1,918,102	1,294,957
Borrowed funds	699,489	408,557
Total interest expense	2,617,591	1,703,514
Net interest income	11,486,166	10,053,061
Provision for loan losses	780,000	325,000
Net interest income after provision for loan losses	10,706,166	9,728,061
Noninterest income		
Trust department income	3,821,071	3,411,978
Service fees	1,445,995	1,441,523
Other	566,998	476,086
Total noninterest income	5,834,064	5,329,587
Noninterest expense		
Salaries and employee benefits	5,969,382	5,149,934
Occupancy and equipment	1,888,213	1,843,370
Other general and administrative	3,496,113	3,458,359
Total noninterest expense	11,353,708	10,451,663
Income before income taxes	5,186,522	4,605,985
Income tax expense	1,747,990	1,593,127
Net income	$ 3,438,532	$ 3,012,858

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
BALANCE, DECEMBER 31, 2003	$ 990,679	$ 8,883,845	$ 9,806,972	$ 34,937	$ 19,716,433
Comprehensive income					
Net income	–	–	3,012,858	–	3,012,858
Change in net unrealized appreciation on securities available-for-sale, net of tax of $25,250	–	–	–	(49,018)	(49,018)
Total comprehensive income	–	–	3,012,858	(49,018)	2,963,840
Cash dividends paid, $0.91 per share	–	–	(903,463)	–	(903,463)
Stock warrants exercised, 4,216 shares	4,216	67,631	–	–	71,847
BALANCE, DECEMBER 31, 2004	994,895	8,951,476	11,916,367	(14,081)	21,848,657
Comprehensive income					
Net income	–	–	3,438,532	–	3,438,532
Change in unrealized loss on interest rate protection agreement, net of tax of $10,371	–	–	–	20,131	20,131
Change in net unrealized depreciation on securities available-for-sale, net of tax of $107,923	–	–	–	(209,497)	(209,497)
Total comprehensive income	–	–	3,438,532	(189,366)	3,249,166
Cash dividends paid, $0.98 per share	–	–	(984,528)	–	(984,528)
Stock warrants exercised, 14,851 shares	14,851	262,990	–	–	277,841
BALANCE, DECEMBER 31, 2005	$ 1,009,746	$ 9,214,466	$ 14,370,371	$ (203,447)	$ 24,391,136

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

STATEMENTS OF CASH FLOWS

	2005	2004
Cash flows from operating activities		
Net income	$ 3,438,532	$ 3,012,858
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	554,223	895,697
Provision for loan losses	780,000	325,000
Deferred income tax expense (benefit)	53,900	(108,600)
Increase in accrued income receivable	(157,247)	(94,028)
Increase in accrued expenses and other liabilities	4,495	287,341
Increase (decrease) in other assets	(497,238)	91,932
Net decrease in loans held for sale	832,218	1,308,304
Net cash provided by operating activities	5,008,883	5,718,504
Cash flows from investing activities		
Proceeds from maturities of securities available-for-sale	2,156,552	8,229,230
Proceeds from maturities and paydowns of securities held-to-maturity	20,433,674	14,063,792
Purchase of securities held-to-maturity	(12,960,555)	(21,172,388)
Purchase of nonmarketable equity securities	(7,149)	(300,851)
Purchase of securities available-for-sale	(4,973,848)	(5,585,580)
Net increase in loans to customers	(21,316,049)	(19,416,482)
Purchase of bank premises and equipment	(200,024)	(184,069)
Net cash used by investing activities	(16,867,399)	(24,366,348)
Cash flows from financing activities		
Net increase in deposits	13,213,955	21,903,780
Proceeds from long-term FHLB borrowings	2,000,000	6,528,487
Repayment of long-term FHLB borrowings	(5,123,772)	(5,040,980)
Net increase in securities sold under agreements to repurchase	3,989,623	297,260
Proceeds from exercise of stock warrants	277,841	71,847
Cash dividends paid on common stock	(984,528)	(903,463)
Net cash provided by financing activities	13,373,119	22,856,931
Net increase in cash and cash equivalents	1,514,603	4,209,087
Cash and cash equivalents, beginning of year	16,725,498	12,516,411
Cash and cash equivalents, end of year	$ 18,240,101	$ 16,725,498
Supplementary cash flow information:		
Interest paid on deposits and borrowed funds	$ 2,579,413	$ 1,687,805
Income taxes paid	$ 1,326,000	$ 1,432,871

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

NOTES TO FINANCIAL STATEMENTS

NATURE OF BUSINESS

The Bank is headquartered in Norwich, Vermont and provides a variety of financial services to individual and business customers through its office locations in central New Hampshire and Vermont. The Bank's primary deposit products are checking and savings accounts and certificates of deposit. Its primary lending products are commercial, real estate and consumer loans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, 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, management obtains independent appraisals for collateral securing significant loans. Accordingly, the ultimate collectibility 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 allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Significant Group Concentrations of Credit Risk

The Bank'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 Bank. Although the Bank 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 Bank and its borrowers may be especially vulnerable to the consequences of changes in the local economy. In addition, a substantial portion of the Bank'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 federal funds sold.

The Bank's due from bank accounts, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts. The Bank 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Securities (concluded)

stock in the Federal Home Loan Bank, are carried at cost and have not been evaluated for impairment. Unrealized gains and losses on securities available-for-sale are reported as a net amount in other comprehensive income, net of tax. Cost of securities is recognized 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 Bank.

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.

Loans considered to be impaired are reduced to the present value of expected future cash flows or to the fair value of collateral, by allocating a portion of the allowance for loan losses to such loans. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as provision for loan losses. Small balance homogeneous loans are collectively evaluated for impairment.

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 Bank is generally amortizing these amounts over the contractual life.

Allowance for Loan Losses

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

Credit Related Financial Instruments

In the ordinary course of business, the Bank 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Real Estate Owned

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

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

Bank Premises and Equipment

Land is carried at cost. Bank 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 Bank 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 Bank'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 Bank'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.

Stock Warrant Plans

Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, encourages all entities to adopt a fair value-based method of accounting for employee stock warrant compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock warrants issued under the Bank's stock warrant option plan have no intrinsic value at the grant date, and under Opinion No. 25 no compensation cost is recognized for them. The Bank has elected to continue with the accounting methodology in Opinion No. 25 and, as a result, has provided pro forma disclosures of net income as if the fair value-based method of accounting had been applied. The pro forma disclosures include the effects of all awards granted on or after January 1, 1995.

Had compensation cost been determined on the basis of fair value pursuant to SFAS No. 123, net income would have been reduced as follows:

Years Ended December 31,	**2005**	**2004**
As reported	$ 3,438,532	$ 3,012,858
Total stock warrant expense determined under fair value based method for all warrants, net of related tax	(30,077)	(65,936)
Pro forma	$ 3,408,455	$ 2,946,922

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Stock Warrant Plans (concluded)

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), *Share Based Payment*. SFAS No. 123 requires entities issuing stock options in exchange for services to recognize the fair value of those options as expense, generally over the period in which they vest. SFAS No. 123 applies to options granted or modified in periods beginning after December 15, 2005. Management does not expect implementation of SFAS No. 123 to have a material impact on the Bank's financial position or results of operations.

Trust Assets and Fees

Assets held by the trust department, other than trust cash on deposit at the Bank, are not included in these financial statements because they are not assets of the Bank. Trust fees are recorded on the accrual basis.

Derivative Financial Instruments

The Bank uses an interest rate protection agreement (cap) as a cash flow hedge to eliminate the cash flow exposure of interest rate movements on borrowings. The premium paid for the cap is amortized over its life. Any cash payments received are recorded as an adjustment to net interest income. The Bank documents its risk management strategy and hedge effectiveness at the inception of and during the term of the hedge.

The cap is designated and qualifies as a cash flow hedge, and thus is recorded at fair value. SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, provides that a cash flow hedge is effective to the extent the variability in its cash flows offsets the variability in the cash flows of the hedged item, in this case term borrowings. Management has determined that the hedge relationship is 100 percent effective. The fair value of the derivative is $0 at December 31, 2005 and 2004.

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 and the interest rate protection agreement, 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.

Reclassifications

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

2. CASH AND DUE FROM BANKS

The Bank is required to maintain certain reserves of vault cash or deposits with the Federal Reserve Bank. The amount of this reserve requirement, included in cash and due from banks, was approximately $385,000 and $3,879,000 as of December 31, 2005 and 2004, respectively.

3. SECURITIES

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

	2005			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Securities Available-for-Sale				
U.S. Government agencies and corporations	$ 4,981,879	$ –	$ (55,779)	$ 4,926,100
Mortgage-backed securities	8,323,634	–	(252,473)	8,071,161
Total securities available-for-sale	$ 13,305,513	$ –	$ (308,252)	$ 12,997,261
Securities Held-to-Maturity				
U.S. Government agencies and corporations	$ 14,455,872	$ –	$ (95,261)	$ 14,360,611
State and municipal	3,140,986	15,022	(9,763)	3,146,245
Collateralized mortgage obligations	1,030,747	–	(28,616)	1,002,131
Mortgage-backed securities	27,258,409	19,901	(765,364)	26,512,946
Total securities held-to-maturity	$ 45,886,014	$ 34,923	$ (899,004)	$ 45,021,933

	2004			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Securities Available-for-Sale				
Mortgage-backed securities	$ 10,538,663	$ 19,377	$ (10,209)	$ 10,547,831
Total securities available-for-sale	$ 10,538,663	$ 19,377	$ (10,209)	$ 10,547,831
Securities Held-to-Maturity				
U.S. Government agencies and corporations	$ 16,987,922	$ 61,678	$ (101,887)	$ 16,947,713
State and municipal	3,156,308	69,226	(2,436)	3,223,098
Collateralized mortgage obligations	1,456,228	5,749	–	1,461,977
Mortgage-backed securities	31,607,682	103,775	(240,818)	31,470,639
Total securities held-to-maturity	$ 53,208,140	$ 240,428	$ (345,141)	$ 53,103,427

At December 31, 2005 and 2004, securities with a carrying value of $18,616,355 and $15,570,107, 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, 2005 follow:

	AVAILABLE-FOR-SALE		HELD-TO-MATURITY	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Within one year	$ –	$ –	$12,969,943	$ 12,894,750
Over one year through five years	4,981,879	4,926,100	3,887,225	3,882,179
Over ten years	–	–	739,690	729,927
	4,981,879	4,926,100	17,596,858	17,506,856
Collateralized mortgage obligations and mortgage-backed securities	8,323,634	8,071,161	28,289,156	27,515,077
	$ 13,305,513	$12,997,261	$45,886,014	$ 45,021,933

3. SECURITIES *(concluded)*

There were no sales of securities available-for-sale or securities held-to-maturity during 2005 and 2004.

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

	LESS THAN 12 MONTHS		12 MONTHS OR GREATER		TOTAL	
	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES
U.S. Government agencies and corporations	$ 14,360,464	$ (85,138)	$ 4,926,247	$ (65,902)	$ 19,286,711	$ (151,040)
State and municipal	729,928	(9,763)	–	–	729,928	(9,763)
Collateralized mortgage obligations	1,002,131	(28,616)	–	–	1,002,131	(28,616)
Mortgage-backed securities	9,511,176	(208,789)	21,558,237	(809,048)	31,069,413	(1,017,837)
Total	$ 25,603,699	$ (332,306)	$ 26,484,484	$ (874,950)	$ 52,088,183	$ (1,207,256)

All investments with unrealized losses at December 31, 2004 have been in a continuous loss position less than twelve months.

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 Bank 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.

4. LOANS

The composition of net loans at December 31 is as follows:

	2005	2004
Commercial	$ 51,823,665	$ 48,135,795
Commercial real estate	70,568,854	69,376,449
Residential real estate	67,352,177	50,783,532
Consumer	6,683,906	7,605,973
Subtotal	196,428,602	175,901,749
Allowance for loan losses	(2,383,359)	(2,391,187)
Net deferred loan fees	(15,396)	(16,764)
Loans, net	$ 194,029,847	$ 173,493,798

At December 31, 2005 and 2004, nonaccrual loans were $343,061 and $627,106, respectively. There were no loans 90 days past due and still accruing interest at December 31, 2005 and 2004.

An analysis of the allowance for loan losses follows:

Years Ended December 31,	2005	2004
Balance at beginning of year	$ 2,391,187	$ 2,092,783
Provision for loan losses	780,000	325,000
Loans charged off	(831,260)	(62,131)
Recoveries of loans previously charged off	43,432	35,535
Balance at end of year	$ 2,383,359	$ 2,391,187

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

	2005	2004
Impaired loans with a valuation allowance	$ 343,061	$ 627,106
Total impaired loans	$ 343,061	$ 627,106
Valuation allowance related to impaired loans	$ 171,530	$ 105,857

Years Ended December 31,	2005	2004
Average investment in impaired loans	$ 304,387	$ 637,883

No interest income was recognized on impaired loans during 2005 and 2004. No additional funds are committed to be advanced in connection with impaired loans.

5. BANK PREMISES AND EQUIPMENT

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

	2005	2004
Land and improvements	$ 1,922,993	$ 1,922,993
Buildings and improvements	7,224,431	7,211,865
Equipment	4,578,202	4,389,047
	13,725,626	13,523,905
Accumulated depreciation	(4,847,472)	(4,191,003)
	$ 8,878,154	$ 9,332,902

Depreciation, included in occupancy and equipment expense, amounted to $656,469 and $666,457 for the years ended December 31, 2005 and 2004, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2005, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

2006	$ 151,170
2007	151,170
2008	116,670
2009	115,170
2010	106,370
Thereafter	20,790
	$ 661,340

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, 2005 and 2004 amounted to $155,741 and $163,907, respectively.

6. DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2005 and 2004 was $3,271,614 and $6,991,499, respectively.

At December 31, 2005, the scheduled maturities of time deposits are as follows:

2006	$ 42,478,751
2007	7,458,487
2008	178,333
2009	153,599
2010	584,918
	$ 50,854,088

Deposit accounts with related parties were $4,866,197 and $4,426,566 at December 31, 2005 and 2004, respectively.

7. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under repurchase agreements mature within twelve months and are collateralized by securities in the Bank's investment portfolio.

The maximum amount of repurchase agreements outstanding at any month-end during 2005 and 2004 was $21,803,899 and $6,357,127, respectively. The average amount of repurchase agreements outstanding during 2005 and 2004 was $8,130,256 and $5,035,932, respectively. The weighted average interest rate on repurchase agreements outstanding at December 31, 2005 and 2004 was 2.62% and 1.16%, respectively.

All securities collateralizing the repurchase agreements are under the Bank's control.

8. ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank's fixed-rate advances with the Federal Home Loan Bank (FHLB) of $8,857,079 at December 31, 2005 mature through 2013. At December 31, 2005, interest rates of fixed-rate advances ranged from 2.90% to 4.33%. At December 31, 2004, the interest rates ranged from 1.57% 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:

	2005	2004
2005	$ –	$ 2,500,000
2006	5,000,000	5,000,000
2007	1,000,000	1,000,000
2008	500,000	500,000
2009	1,947,592	2,528,487
2013	409,487	452,364
Total	$ 8,857,079	$ 11,980,851

9. INCOME TAXES

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

	2005	2004
Current tax provision		
Federal	$ 1,574,090	$ 1,593,727
State	120,000	108,000
	1,694,090	1,701,727
Deferred federal tax expense (benefit)	53,900	(108,600)
	$ 1,747,990	$ 1,593,127

The income tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes principally because of state income taxes.

The components of the net deferred tax asset, included in other assets, are as follows:

	2005	2004
Deferred tax assets		
Net unrealized loss on securities available-for-sale	$ 104,800	$ –
Allowance for loan losses	731,000	794,600
Employee benefit plans	261,300	223,500
Net unrealized loss on interest rate protection agreement	–	10,000
Other	30,200	100,900
	1,127,300	1,129,000
Deferred tax liabilities		
Depreciation	291,400	334,000
Net unrealized gain on securities available-for-sale	–	3,100
Other	126,300	126,300
	417,700	463,400
Net deferred tax asset	$ 709,600	$ 665,600

10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby and commercial letters-of-credit, 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 Bank has in particular classes of financial instruments.

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

10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (concluded)

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

At December 31, 2005 and 2004, the following financial instruments were outstanding whose contract amounts represent credit risk:

	CONTRACT AMOUNT	
	2005	2004
Commitments to grant loans	$ 41,462,409	$ 34,645,452
Commercial and standby letters-of-credit	$ 11,165,024	$ 3,402,471

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.

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 Bank, 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 Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the 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 Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers.

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

11. DERIVATIVE INSTRUMENTS

The Bank may enter into a variety of interest rate protection agreements, including interest rate caps, in managing its interest rate exposure. The notional amount of the Bank's interest rate cap agreement was $5,000,000 at December 31, 2005 and 2004.

The agreement has a strike rate of 6.75% and matures in 2006. The Bank controls the risk of interest rate cap agreements through credit approvals, limits and monitoring procedures.

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 Bank's financial statements.

13. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table, dollars in thousands) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2005 and 2004, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2005, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an 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. The Bank's actual capital amounts and ratios as of December 31, 2005 and 2004 are also presented in the table.

	ACTUAL		MINIMUM CAPITAL REQUIREMENT		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT >	RATIO >	AMOUNT >	RATIO >
December 31, 2005			*(dollars in thousands)*			
Total Capital to Risk Weighted Assets	$ 26,976	13.0%	$ 16,602	8.0%	$ 20,752	10.0%
Tier 1 Capital to Risk Weighted Assets	$ 24,594	11.9%	$ 8,301	4.0%	$ 12,451	6.0%
Tier 1 Capital to Average Assets	$ 24,594	8.8%	$ 11,124	4.0%	$ 13,905	5.0%
December 31, 2004						
Total Capital to Risk Weighted Assets	$ 24,196	13.0%	$ 14,931	8.0%	$ 18,664	10.0%
Tier 1 Capital to Risk Weighted Assets	$ 21,862	11.7%	$ 7,465	4.0%	$ 11,198	6.0%
Tier 1 Capital to Average Assets	$ 21,862	8.5%	$ 10,294	4.0%	$ 12,867	5.0%

14. EMPLOYEE BENEFITS

The Bank 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 Bank matches a certain portion of employee contributions. In addition, the Bank may make discretionary contributions on behalf of employees under the plan. For the years ended December 31, 2005 and 2004, expense attributable to the plan amounted to $427,284 and $443,364, respectively.

Included in accrued expenses and other liabilities in the balance sheets at December 31, 2005 and 2004 are liabilities established pursuant to deferred compensation agreements with certain officers of the Bank of $659,738 and $564,144, respectively. Deferred compensation expense related to these plans amounted to $95,593 and $85,032 for the years ended December 31, 2005 and 2004, respectively.

15. WARRANTS

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

A summary of warrants outstanding for the years ended December 31 is as follows:

	2005		2004	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	86,156	$ 33.08	69,372	$ 29.68
Granted	13,000	41.84	21,000	35.25
Exercised	(28,101)	30.59	(4,216)	16.43
Retired	(12,389)	34.22	–	–
Outstanding at end of year	58,666	$ 35.98	86,156	$ 33.08
Warrants exercisable at year end	35,499	$ 35.53	59,823	$ 32.42

15. WARRANTS *(concluded)*

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

	WARRANTS OUTSTANDING			WARRANTS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$17.85	3,416	0.8 years	17.85	1,916	17.85
$32.00 - $41.84	55,250	6.1 years	37.10	33,583	35.74
Outstanding at end of year	58,666	5.8 years	$ 35.98	35,499	$ 35.53

The remaining number of warrants available to be granted was 699 and 13,699 at December 31, 2005 and 2004, respectively. The warrants are valid for a period of ten years.

The fair value of warrants granted during 2005 and 2004, was $6.56 and $4.84, 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:

	2005	2004
Dividend yield	2.30%	2.28%
Risk-free interest rate	4.50%	4.19%
Expected life	10 years	10 years

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:

	2005	2004
Income		
Gain on sale of loans	$ 204,038	$ 231,635
Expenses		
Credit card charges	$ 678,445	$ 617,704
Advertising	335,816	347,409
Consulting	142,654	193,961
	$ 1,156,915	$ 1,159,074

17. RELATED PARTY TRANSACTIONS

The Bank has had, and may be expected to have in the future, banking 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 $1,614,808 and $1,882,028 at December 31, 2005 and 2004, respectively.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 Bank'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. SFAS No. 107, *Disclosure About Fair Value of Financial Instruments*, which prescribes fair value disclosures, excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

The following methods and assumptions were used by the Bank 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 based on quoted market prices. The carrying value of Federal Home Loan Bank Stock and Federal Reserve Bank stock approximate 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 reprice 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.

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 Bank'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 Bank'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.

Derivative financial instruments: Fair value for the interest rate protection agreement is based on quoted market prices.

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

	2005		2004	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets				
Cash and cash equivalents	$ 18,240,101	$ 18,240,101	$ 16,725,498	$ 16,725,498
Securities available-for-sale	12,997,261	12,997,261	10,547,831	10,547,831
Securities held-to-maturity	45,886,014	45,021,933	53,208,140	53,103,427
Federal Home Loan Bank and Federal Reserve Bank stock	1,717,850	1,717,850	1,710,701	1,710,701
Loans and loans held for sale, net	194,892,597	195,709,366	175,188,766	177,481,329
Accrued interest receivable	1,099,791	1,099,791	942,544	942,544
Financial liabilities				
Deposits	240,827,605	241,301,815	227,613,651	227,242,453
Repurchase agreements	10,259,834	10,259,834	6,270,211	6,270,211
Advances from Federal Home Loan Bank	8,857,079	8,817,962	11,980,851	9,923,785
Accrued interest payable	120,019	120,019	81,842	81,842

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As of March 15, 2006

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As of March 15, 2006

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As of March 15, 2006

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Lobby, Walk-Up and ATM

Investment & Trust Services | 603-643-0044

Lebanon Street at Park Street | 603-643-7457
Lobby, Drive-Up and ATM

Dartmouth College | Collis Center ATM

LEBANON
Route 120 at Old Etna Road | 603-448-2220

Lobby, Drive-Up and ATM

Centerra Park/River Valley Club ATM

LYME
On The Green | 603-795-2288

Lobby and ATM

NEW LONDON
178 County Road | 603-526-7725

Lobby, Drive-Up and ATM

Investment & Trust Services | 603-526-9251

NORWICH, VERMONT
320 Main Street | 802-649-2050

Lobby, Drive-Up and ATM

WEST LEBANON
67 Main Street | 603-298-9444

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