A partnership in growth.

2006
two thousand six

annual report

LEDYARD
NATIONAL BANK

Banking the way it should be.

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Photography by Jon Gilbert Fox

LEDYARD NATIONAL BANK'S SENIOR MANAGEMENT TEAM

Seated, from left:

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

Kathryn G. Underwood, *President & CEO*

Back, from left:

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

Martha P. Candon, *Senior Vice President & Senior Retail Banking Officer*

D. Rodman Thomas, *Senior Vice President & Senior Trust Officer*

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

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

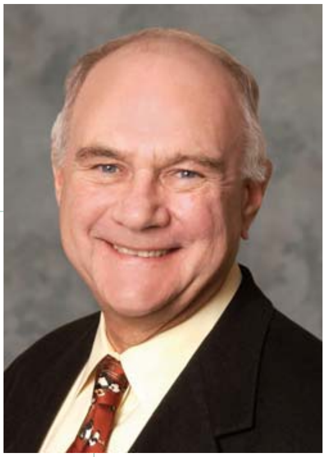
Mark S. Clough, *Senior Vice President & Senior Loan Officer*

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.

FINANCIAL HIGHLIGHTS

Years-ended December 31,	**2006**	2005	2004	2003	2002
(dollars in thousands, except per share data)					
Financial Condition Data					
Assets	**$ 320,230**	$ 285,495	$ 268,869	$ 242,761	$ 233,203
Investments	**48,278**	60,601	65,467	61,005	43,030
Net Loans, including loans held for sale	**218,869**	194,893	175,189	157,406	157,047
Deposits	**271,142**	240,828	227,614	205,710	203,008
Federal Home Loan Bank Advances	**3,214**	8,857	11,981	10,493	5,000
Shareholders' Equity	**27,271**	24,391	21,849	19,716	17,840
Operating Data					
Net Interest Income	**$ 12,099**	$ 11,486	$ 10,053	$ 9,631	$ 9,409
Provision for Loan Loss	**525**	780	325	340	525
Non-interest Income	**6,282**	5,834	5,330	4,864	4,067
Non-interest Expense	**11,894**	11,354	10,452	9,767	9,237
Income Taxes	**2,176**	1,748	1,593	1,578	1,384
Net Income	**3,787**	3,439	3,013	2,810	2,330
Other Data					
Earnings per Share, basic	**$ 3.75**	$ 3.43	$ 3.03	$ 2.84	$ 2.37
Dividends per Share	**$ 1.08**	$ 0.98	$ 0.91	$ 0.85	$ 0.73
Dividend Payout Ratio	**29%**	29%	30%	30%	31%
Book Value per Share	**$ 26.99**	$ 24.16	$ 21.96	$ 19.92	$ 18.15
Shares Outstanding	**1,010,246**	1,009,746	994,895	990,679	983,519
Return on Average Assets	**1.31%**	1.25%	1.20%	1.17%	1.06%
Return on Average Equity	**14.66%**	14.85%	14.56%	14.90%	13.58%
Equity to Asset Ratio	**8.52%**	8.54%	8.13%	8.12%	7.66%
Allowance for Loan Losses to Total Loans	**1.27%**	1.21%	1.35%	1.31%	1.53%



Kathryn G. Underwood
President & CEO, Ledyard National Bank

Dennis E. Logue
Chair, Ledyard National Bank

TO OUR FELLOW OWNERS, OUR LOYAL CUSTOMERS and MEMBERS OF OUR COMMUNITIES:

We are pleased to report that 2006 was another record-breaking year for Ledyard National Bank. We achieved all-time highs in total net income, earnings per share, total assets, and book value per share. In addition, our Investment & Trust Services Division set new highs in assets under management, revenue, profit margin, and profits. These and other positive results – many of which are detailed elsewhere in this report – were achieved in spite of an uncertain environment for the banking industry.

Our goal continues to be to build shareholder value by providing superior services in all the communities we serve now and in the future. We are placing our emphasis on both growing our businesses organically in our existing markets and seeking opportunities to expand into places not yet served by us.

Our strategic plan calls for continuing emphasis on providing awe-inspiring service to our clients. This will include enhancing our technology to provide greater customer security and convenience and expanding our product offerings so as to meet all our customers' banking needs. We will also focus on increased employee training to ensure that, in assisting and advising our clients, we are providing them with the best solutions to their planning needs in an increasingly complex financial environment.

A significant step in 2006 toward meeting those goals was the planning and groundbreaking for the new headquarters for our Investment & Trust Services Division. This new facility in downtown Hanover will greatly enhance our efforts to expand our product and service offerings for existing clients and gain the business of many more individuals and organizations in and beyond our current markets. The grand opening for this wonderful new building is scheduled to occur in the fourth quarter of 2007.

This major step is a key part of our effort to continue double-digit growth in our financial services business through our current investment and trust programs and new products and services. These and other activities will ensure we remain innovative in the businesses and markets we deem critical to our future success.

As we have previously reported, we arranged in 2006 for Ledyard National Bank stock to be bought and sold through the NASD-sanctioned "Pink Sheets" (www.pinksheets.com) under ticker symbol LYNA. The national market for our stock will result in increased liquidity for our present and future shareholders.

During 2006, Gregory D. Steverson rejoined our senior management team as Executive Vice President and Chief Financial Officer. In addition to applying his considerable financial talents to the operation of our bank, Greg will be coordinating our efforts to enhance our shareholder communications in a number of ways, including increasing the information available to shareholders and others on Ledyard's website. If you would like to be added to our periodic e-mail communications, e-mail Greg at Greg.Steverson@Ledyardbank.com. Greg is also playing an active role in our efforts to raise our visibility and market share in the New London area where he and his family reside.

We want to thank you for placing your trust in all of us here at your bank as we move forward to address future challenges and opportunities. We will do all in our power to continue to be deserving of that trust. While circumstances change, our goal remains as always: to build value for our shareholders by providing our present and future customers with "banking the way it should be."

We look forward to seeing many of you at our Annual Meeting on April 13th and answering any questions you may have for us at that time.

Kathryn G. Underwood

KATHRYN G. UNDERWOOD
President & Chief Executive Officer

Dennis E. Logue

DENNIS E. LOGUE
Chair

LEDYARD NATIONAL BANK: PARTNERSHIP, GROWTH and COMMUNITY

We have a saying at Ledyard: "It's not just banking. It's banking the way it should be." As we celebrate our sixteenth anniversary in 2007, these words have even greater meaning with all they imply. They are an embodiment of our mission to deliver community banking that far exceeds what is expected.

We firmly believe that our growth is a direct result of staying true to that mission. By building trusted relationships. By offering exceptional products that evolve based on the needs of our customers and the community. By delivering the kind of extraordinary personalized service that we, as customers, would want.

Our goal is to develop further partnerships with more people who will discover the benefits of working with Ledyard. This means that we will work even harder for our existing customers. We will always strive to "raise the bar" to ensure that expectations are continually exceeded and that new, higher standards are consistently set.

We think that the people and accompanying photographs featured in this report will illustrate that Ledyard is more than just a bank. We are partners within the community who share the same hopes and dreams for success. That is, after all, banking the way it should be.

"Our mission is to deliver the extraordinary personalized service that we, as customers, would want."

PICTURED ABOVE:
(from left to right) Martha Richardson of Stave Puzzles; Gail Broughton, Assistant Vice President and Regional Manager of Ledyard's Lyme and Norwich offices; and Steve Richardson, aka Stave's "Owner and Chief Tormentor" surrounded by busy "elves" in the Stave Puzzles workshop.

“*Ledyard is working hard to make sure that all the financial pieces fit perfectly together...*”

STAVE PUZZLES COUNTS on LEDYARD to FIT the PIECES TOGETHER

Steve Richardson's official title is "Owner and Chief Tormentor" at **Stave Puzzles** *in Wilder, Vermont. He and his wife and business partner, Martha Richardson, have been handcrafting delightful and diabolically clever wooden puzzles since 1974. They have gained a fan base around the world, including such luminaries as Her Majesty Queen Elizabeth and Bill Gates.*

Stave Puzzles has grown over the years as a result of staying true to their craft and by never compromising on quality. Their designs are developed with hand-drawn illustrations, and each piece is meticulously hand-cut from fine hardwoods on a saw with delicate blades. Stave's web site describes their profession as "world class service from down-home people," a sentiment with which many of their customers agree.

According to Steve and Martha, this is the same philosophy they had hoped to find in a bank. When Ledyard opened an office in Norwich, Vermont, they were definitely intrigued. "A small business like ours needs a bank that understands who we are," says Steve. Ultimately, when they began working with Gail Broughton and her knowledgeable staff in Norwich, this is exactly the kind of bank they discovered. Gail coordinates a team of experts who work together to deliver financial solutions tailored specifically to their customers.

Today, the Richardsons count on Ledyard for all their business and personal banking needs, including investment and retirement planning. It's a true partnership between local, community-based people. Ledyard is working hard to make sure that all the financial pieces fit perfectly together for them and for their business – and that the solution is always easy.

PICTURED ABOVE:
Terry Appleby, General Manager of the Co-op Food Stores in Hanover and Lebanon, surrounded by his favorite produce.

“It’s all about working together.
It’s all about community.”

THE CO-OP and LEDYARD: IT’S ALL ABOUT COMMUNITY

The Hanover Consumer Co-operative Society *dates back to 1936. Then a small group of community residents pooled their orders for produce and arranged for discounts on gasoline and fuel oil with local suppliers for the benefit of the entire group. Seventy years later, the Co-op has grown to over 30,000 members and operates the Co-op Food Stores in Hanover and Lebanon, as well as an automotive service center in Hanover.*

According to General Manager Terry Appleby, the Co-op maintains strong relationships with its members, customers, local vendors and the community. “Our strong ties to the local community fit so well with Ledyard’s role as a community bank. Doing business with them was a natural,” says Terry. The Co-op has been banking with Ledyard almost since the Bank’s founding for everything from checking, money market and overnight investment accounts to business loans and lines of credit.

Since the Co-op generates a high volume of sales, they also require a loan officer who understands their needs and takes a proactive approach. Mike Sandoe, Vice President and Commercial Loan Officer for Ledyard, works closely with Terry and his team to deliver just that. Terry adds, “Mike regularly checks in to see how Ledyard can help our business and is quick to follow up when we have questions or requests.”

Mike believes that Ledyard is uniquely suited to help the Co-op achieve its goals because both organizations are deeply committed to the communities and the people they serve. It’s a symbiotic relationship that goes beyond “bottom-line” success. It’s all about working together. It’s all about community.

PICTURED ABOVE ON THE FRONT PORCH
OF THE NORWICH INN:
(Seated on the rocking chairs in front) Former Owners Tim Wilson and Sally Wilson;
(In back, from left to right) Innkeepers Jason Gershon and Tiffany Gershon; Current Owners Jill Lavin and Joe Lavin. Also posing nicely for the camera are furry friends Porter & Mason.

> "A lot of hard work was involved to grow the Inn to 27 rooms, a fine restaurant and a renowned brewpub. Ledyard was there for them every step of the way."

THE NORWICH INN and LEDYARD WELCOME NEW OWNERS to the NEIGHBORHOOD

When Tim and Sally Wilson, then the owners of **The Norwich Inn** *in Norwich, Vermont, contacted Kevin Raleigh, they knew a good banker when they met one. Tim was a former banker, and he and Sally had known Kevin, now Senior Vice President and Senior Commercial Loan Officer at Ledyard, for years. The couple needed a bank that could help them grow their business into one of Vermont's most popular historic inns. That Ledyard's Norwich office is located directly across the street was just icing on the cake.*

Unlike a hotel, an inn is more personal, and Tim and Sally made every guest feel like family. A lot of hard work was involved to grow the Inn to 27 rooms in three historic buildings (the main building dates back to 1890), a fine restaurant and a renowned brewpub. Ledyard was there for them every step of the way.

Joe Lavin had been a guest many times at The Norwich Inn when he visited his son, a Dartmouth student. He and wife Jill loved staying at the Inn – so much so, that Joe, a former Marriott International Executive Vice President, made an offer to buy the business from Tim and Sally. It took a bit of convincing, and after much thought, the Wilsons agreed.

Joe, along with partner Steve Barrett, wanted to maintain the high standards and fine reputation of the Inn. They also wanted a knowledgeable, full-service bank that thoroughly understood the nuances of their business. Whom did they turn to for financing? Kevin Raleigh and Ledyard. Joe recognized the importance of Ledyard's ties to the Inn and to the community and found that the entire financing process couldn't have been easier.

Today, innkeepers Jason and Tiffany Gershon are carrying on The Norwich Inn tradition of fine hospitality, making their guests feel at home. They, in turn, feel quite at home at their bank right across Main Street where their dog, Mason, always gets a treat.

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

INVESTMENT & TRUST SERVICES

To Our Shareholders:

Ledyard's Investment & Trust Services Division had an outstanding year in 2006. Our growth and financial performance have been extraordinary. As of December 31, 2006, the Division held assets with an aggregate market value of $665 million. This represents an increase of $80 million, or 13.7%, since the end of 2005. This growth was due to a strong flow of new accounts and stock market appreciation. The Division's revenue was 15.4% greater than in 2005, and our net pre-tax profit in 2006 exceeded our 2005 result by an impressive 37.9%.

I believe our growth can be attributed to several key factors:

1. We have had very strong investment results.
2. We provide individualized investment planning with a careful eye toward future income needs, including retirement.
3. We help our clients coordinate their financial, tax and estate planning.
4. We build warm, long-term relationships with our clients – relationships that can be especially important to surviving spouses, children and grandchildren.

In late 2006, we announced that our Division will be relocating its headquarters in the fourth quarter of 2007 to a beautiful new building currently under construction at 2 Maple Street in downtown Hanover. Our new facility will include expanded client meeting areas, safe deposit boxes, an ATM, and ample on-site parking. We believe that our new headquarters will be further confirmation of our dedication to our present and future clients and our commitment to the communities we have the pleasure and privilege to serve.

We in the Investment & Trust Services Division are very proud of our strong performance in 2006, and we look forward to contributing to Ledyard's continued success.

Thank you for your support.

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

LEDYARD INVESTMENT and TRUST SERVICES

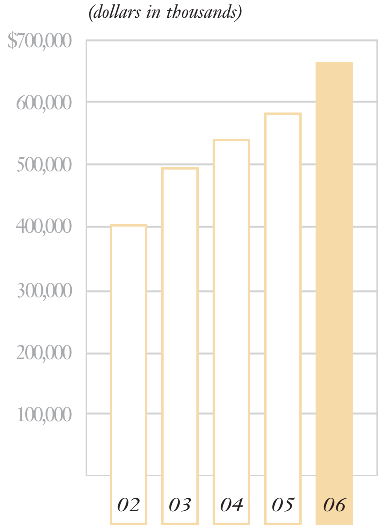
Ledyard's Investment & Trust Services Division offers a full complement of investment management, fiduciary and custody services.

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 also provide continuing portfolio management, including periodic meetings with account officers.

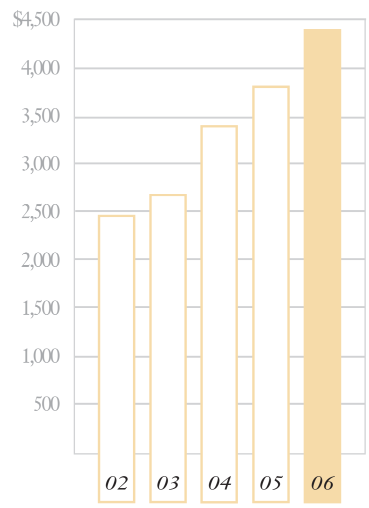
As corporate fiduciary, we serve as trustee or co-trustee for revocable trusts, irrevocable trusts and Individual Retirement Accounts. As custodian, we provide securities safekeeping, accurate and comprehensive record keeping, periodic statements, and a comprehensive annual summary of tax information.

We offer both prospective and current clients an unusual and powerful investment tool: a comprehensive review of a prospective or current client's total investment picture. For the prospective client, this review represents an excellent first step toward 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.

ASSETS UNDER MANAGEMENT or CUSTODY
(dollars in thousands)



GROSS REVENUE
(dollars in thousands)



PICTURED ABOVE:

Chandler and Debra Perkins enjoying the peaceful tranquility of their New London home along with their trusty companion, Tucker.

"The trust that brings peace of mind over the long term is the most important benefit we can provide at Ledyard."

CHANDLER and DEBRA PERKINS PLACE THEIR TRUST in LEDYARD

To say that **Debra and Chandler Perkins** *and their extended family are connected to their community is an understatement. The property where the Perkins have their home in New London, New Hampshire, has been in the family since 1907. A cottage was built on the spot in 1935. Chandler and Debra also founded the New London Agency, now the town's largest and best-known real estate and insurance agency, celebrating its 50th anniversary.*

The Perkins certainly understand financial matters, having grown a successful business that their children now operate. Chandler Perkins also served on the Board of New London Trust where he met Bill Hamilton, now President of Ledyard's Investment & Trust Services Division with an office in New London – another connection.

"They know our family and make the family part of the planning," says Chandler about Bill, J.T. Underwood, Jennifer Goin and the Ledyard Investment & Trust staff. That personal connection is important to them. Equally important, Ledyard has a high level of expertise along with the ability to help them understand the entire process.

Debra and Chandler say it gives them a good feeling to know that they have someone whom they can trust to manage their interests. That trust brings peace of mind over the long term, and that is the most important benefit we can provide at Ledyard.

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

MANAGEMENT'S FINANCIAL DISCUSSION

Review of Financial Statements

The discussion and analysis that follows focuses on the factors affecting the Bank's financial condition at December 31, 2006 and 2005 and its results of operations for the years ended December 31, 2006 and 2005. The Financial Statements and Notes to the Financial Statements should be read in conjunction with this review.

Statement of Income

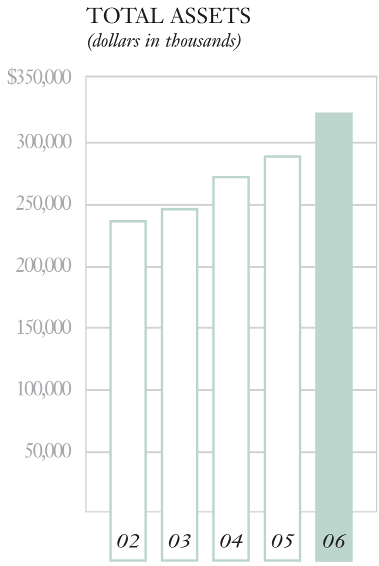
Net income was $3,786,919, or $3.75 per share for the twelve months ended 2006 as compared to $3,438,532, or $3.43 per share for 2005, an increase of $348,387, or 10.13%. Increased net interest income and higher Investment & Trust Services Division revenue accounted for the majority of the change.

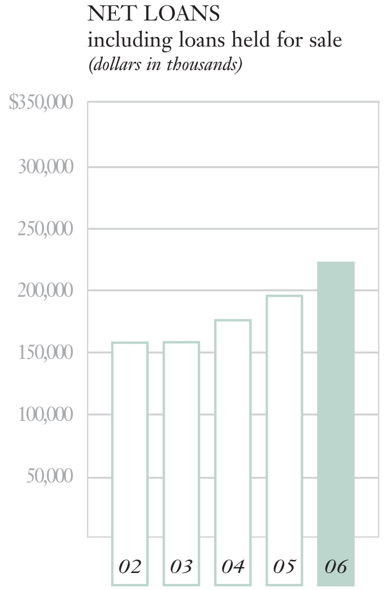
Net interest income before the provision for loan loss totaled $12,099,357 for the year ended December 31, 2006, as compared to $11,486,166 for the year ended December 31, 2005. The increase of $613,191 or 5.34% was primarily attributable to an increase in interest income on loans.

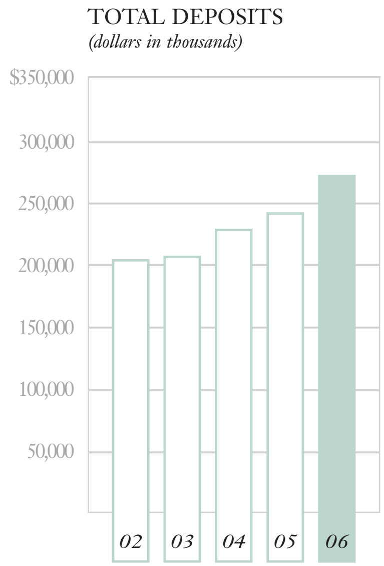
Interest and fees on loans totaled $14,185,722 for the year ended December 31, 2006, as compared to $11,523,247 for 2005. This increase of $2,662,475, or 23.11%, was due to an increase in loan balances and increases in the prime rate and other rates, which had a positive impact on adjustable rate loans and resulted in an overall increase in the yields on loans. Investment income for the year ended December 31, 2006, totaled $2,820,087 as compared to $2,580,510 for 2005, an increase of $239,577, or 9.28%. The increase was due primarily to higher average balances in fed funds sold and certificates of deposit.

The Bank's interest expense on deposits was $4,127,673 for the year ended December 31, 2006, as compared to $1,918,102 for the year ended December 31, 2005, an increase of $2,209,571. This increase was the result of rising rates, as well as increases in deposit volumes, which affected the cost of deposits, primarily money market accounts and time deposits. Interest expense on borrowed funds increased $79,290, or 11.34% for the year ended December 31, 2006 totaling $778,779 as compared to $699,489 at December 31, 2005. This difference was due primarily to the increase in borrowings from securities sold under repurchase agreements.

During 2006, the Bank added $525,000 to its provision for loan losses and realized net charge-offs of $124,234, resulting in an allowance for loan losses totaling $2,784,125 on December 31, 2006, or 1.27%, of total loans. The determination of an appropriate level of allowance for loan losses (the "allowance"), and subsequent provision for loan losses, which would affect earnings, is based on management's judgment of the adequacy of the allowance based on analysis of various economic factors and review of the Bank's loan portfolio, which may change due to numerous factors. 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. Management believes that the







allowance at December 31, 2006 was appropriate given the current economic conditions in the Bank's service area.

Non-interest income totaled $6,282,237 in 2006 as compared to $5,834,064 in 2005, an increase of $448,173, or 7.68%. Income from the Bank's Investment & Trust Services Division totaled $4,410,810, up from $3,821,071 in 2005, an increase of $589,739, or 15.43%. This increase was primarily attributable to increases in assets under management and market conditions. Service fees decreased slightly by $38,454 as the Bank continued to see growth in its free checking NOW account product.

Non-interest expense totaled $11,894,164 for 2006 as compared to $11,353,708 in 2005, an increase of $540,456, or 4.76%. Salaries and benefits expense increased as the Bank continued to realize expenses associated with its management reorganization. Occupancy and equipment decreased slightly, and other general and administrative expenses increased by 3.68% due to various third-party expenses.

Financial Condition

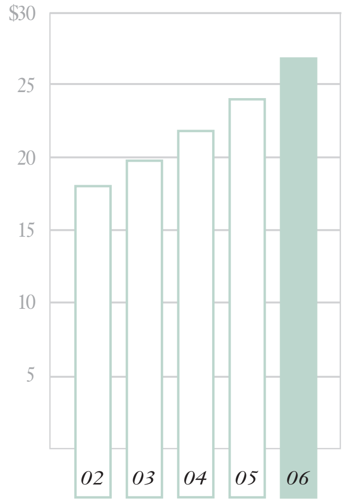
At year-end, total assets were $320,229,558 compared to $285,495,434 at December 31, 2005, an increase of $34,734,124, or 12.17%. The change in assets consisted primarily of an increase of $23,975,934 in net loans, including loans held for sale and by a $13,172,126 increase in fed funds sold, certificates of deposit and investment securities ("investments").

The Bank maintains investments in fed funds sold, certificates of deposit 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 $13,172,126, or 19.26%. This increase consisted of increases to fed funds sold of $2,870,426, certificates of deposit of $22,000,000, securities available for sale of $6,706,810 and a decrease in securities held to maturity of $18,405,110. During 2006, the Bank purchased $8,318,601 of available-for-sale securities and realized proceeds from maturities and paydowns of available-for-sale securities and held-to-maturity securities totaling $20,114,484.

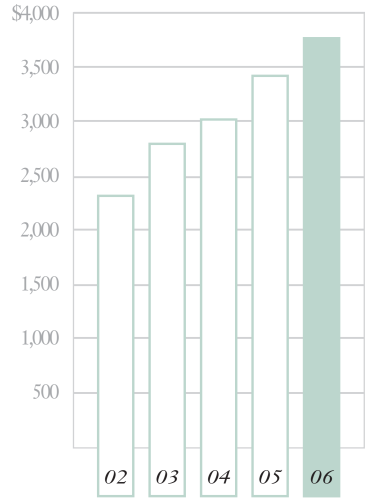
The Bank provides loans to customers primarily located within its geographic market area. Net loans, including loans held for sale, totaled $218,868,531 at December 31, 2006, a $23,975,934, or a 12.30% increase from a year ago. This reflects the strong loan growth experienced in the commercial and residential real estate loan portfolios.

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 $6,905,425, or 5.64%, during 2006.

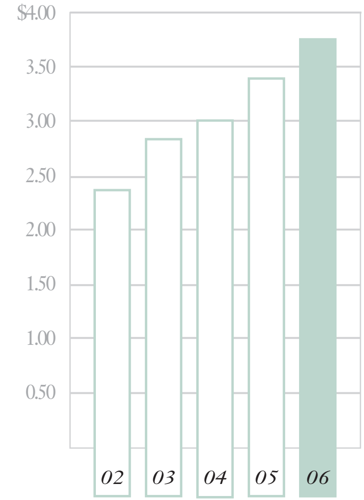
BOOK VALUE
PER SHARE
(in dollars)



NET INCOME
(dollars in thousands)



EARNINGS PER SHARE
(in dollars)



MANAGEMENT'S FINANCIAL DISCUSSION *(concluded)*

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 $14,099,819, or 20.93%, in 2006. During 2006, the Bank sold approximately $19 million of fixed-rate residential mortgage loans into the secondary market.

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, recreational vehicles, home equity, and secured and unsecured personal loans. Consumer loans increased by $2,555,065, or 38.23%, in 2006.

Premises and equipment totaled $8,644,308 at December 31, 2006 as compared to $8,878,154 at December 31, 2005. The net decrease of $233,846, or 2.63%, can be attributed to depreciation during 2006.

Deposits continue to represent the Bank's primary source of funds. In 2006, total deposits increased by $30,314,589, or 12.59% over 2005, ending the year at $271,142,194. Comparing year-end balances in 2006 to 2005, demand deposits increased by $1,663,997, certificates of deposit increased by $12,280,476, money market and savings accounts increased by $25,385,157 and NOW accounts decreased by $9,015,041.

Borrowings supplement deposits as a source of liquidity. In addition to borrowings from the Federal Home Loan Bank (FHLB), the Bank purchases federal funds, and sells securities under agreements to repurchase. Total borrowings were $20,603,624 at December 31, 2006 compared to $19,116,913 at December 31, 2005, an increase of $1,486,711. The majority of the borrowings were related to securities sold under agreements to repurchase followed by advances from the FHLB. 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. The Bank believes that the level of liquidity is sufficient to meet current and future funding requirements.

Shareholders' equity was $27,270,995 on December 31, 2006 compared to $24,391,136 on December 31, 2005, an increase of $2,879,859. The increase was primarily attributable to net income of $3,786,919 less $1,090,526 in cash dividends to the Bank's shareholders. The Bank's book value on December 31, 2006 was $26.99 per share based on 1,010,246 shares outstanding, an increase of $2.83 per share, or 11.71% from a year earlier.

BERRY.DUNN.MCNEIL & PARKER

B D M P

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors & Shareholders of Ledyard National Bank:

We have audited the accompanying balance sheets of Ledyard National Bank as of December 31, 2006 and 2005, 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, 2006 and 2005, 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

Berry, Dunn, McNeil & Parker
Portland, Maine
February 15, 2007

BALANCE SHEETS

December 31, 2006 and 2005

	2006	2005
ASSETS		
Cash and due from banks	$ 7,269,808	$ 8,735,319
Federal funds sold	12,375,208	9,504,782
Certificates of deposit	22,000,000	–
Total cash and cash equivalents	41,645,016	18,240,101
Securities available-for-sale	19,704,071	12,997,261
Securities held-to-maturity	27,480,904	45,886,014
Nonmarketable equity securities	1,092,650	1,717,850
Loans held for sale	1,602,750	862,750
Loans receivable, net of allowance for loan losses of $2,784,125 in 2006 and $2,383,359 in 2005	217,265,781	194,029,847
Accrued interest receivable	1,081,957	1,099,791
Bank premises and equipment, net	8,644,308	8,878,154
Other assets	1,712,121	1,783,666
	$ 320,229,558	$ 285,495,434
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Demand	$ 42,854,164	$ 41,190,167
NOW accounts	46,961,342	55,976,383
Money market accounts	104,629,163	76,624,027
Savings	13,562,961	16,182,940
Time, $100,000 and over	26,176,118	24,352,485
Other time	36,958,446	26,501,603
Total deposits	271,142,194	240,827,605
Securities sold under agreements to repurchase	17,389,539	10,259,834
Advances from Federal Home Loan Bank	3,214,085	8,857,079
Accrued expenses and other liabilities	1,212,745	1,159,780
Total liabilities	292,958,563	261,104,298
Commitments and contingencies (Notes 5, 11, 12, 13, 14 and 15)		
Shareholders' equity		
Common stock, $1.00 par value; 5,500,000 shares authorized; 1,010,246 and 1,009,746 shares issued and outstanding in 2006 and 2005, respectively	1,010,246	1,009,746
Additional paid-in capital	9,279,378	9,214,466
Retained earnings	17,066,764	14,370,371
Accumulated other comprehensive loss	(85,393)	(203,447)
Total shareholders' equity	27,270,995	24,391,136
	$ 320,229,558	$ 285,495,434

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

STATEMENTS of INCOME

Years Ended December 31, 2006 and 2005

	2006	2005
Interest and dividend income		
Interest and fees on loans	**$ 14,185,722**	$ 11,523,247
Investment securities	**2,049,556**	2,348,439
Other interest-earning assets	**770,531**	232,071
Total interest and dividend income	**17,005,809**	14,103,757
Interest expense		
Deposits	**4,127,673**	1,918,102
Borrowed funds	**778,779**	699,489
Total interest expense	**4,906,452**	2,617,591
Net interest income	**12,099,357**	11,486,166
Provision for loan losses	**525,000**	780,000
Net interest income after provision for loan losses	**11,574,357**	10,706,166
Noninterest income		
Trust department income	**4,410,810**	3,821,071
Service fees	**1,407,541**	1,445,995
Other	**463,886**	566,998
Total noninterest income	**6,282,237**	5,834,064
Noninterest expense		
Salaries and employee benefits	**6,385,375**	5,969,382
Occupancy and equipment	**1,884,207**	1,888,213
Other general and administrative	**3,624,582**	3,496,113
Total noninterest expense	**11,894,164**	11,353,708
Income before income taxes	**5,962,430**	5,186,522
Income tax expense	**2,175,511**	1,747,990
Net income	**$ 3,786,919**	$ 3,438,532
Basic earnings per share	**$ 3.75**	$ 3.43
Diluted earnings per share	**$ 3.73**	$ 3.41
Weighted average numbers of shares outstanding	**1,009,788**	1,002,958

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

STATEMENTS of CHANGES in SHAREHOLDERS' EQUITY

Years Ended December 31, 2006 and 2005

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL
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 appreciation on securities available-for-sale, net of tax of $107,921	–	–	–	(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
Comprehensive income					
Net income	**–**	**–**	**3,786,919**	**–**	**3,786,919**
Change in net unrealized depreciation on securities available-for-sale, net of tax of $60,815	**–**	**–**	**–**	**118,054**	**118,054**
Total comprehensive income	**–**	**–**	**3,786,919**	**118,054**	**3,904,973**
Cash dividends paid, $1.08 per share	**–**	**–**	**(1,090,526)**	**–**	**(1,090,526)**
Fair value of stock warrants vested during the year	**–**	**56,487**	**–**	**–**	**56,487**
Stock warrants exercised, 500 shares	**500**	**8,425**	**–**	**–**	**8,925**
BALANCE, DECEMBER 31, 2006	**$ 1,010,246**	**$ 9,279,378**	**$17,066,764**	**$ (85,393)**	**$27,270,995**

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

STATEMENTS of CASH FLOWS

Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Net income	**$ 3,786,919**	$ 3,438,532
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**709,015**	554,223
Provision for loan losses	**525,000**	780,000
Deferred income tax (benefit) expense	**(163,200)**	53,900
Fair value of stock warrants vested during the year	**56,487**	–
Decrease (increase) in accrued income receivable	**17,834**	(157,247)
Increase in accrued expenses and other liabilities	**52,965**	4,495
Decrease (increase) in other assets	**173,930**	(497,238)
Net (increase) decrease in loans held for sale	**(740,000)**	832,218
Net cash provided by operating activities	**4,418,950**	5,008,883
Cash flows from investing activities		
Proceeds from maturities of securities available-for-sale	**1,776,694**	2,156,552
Proceeds from maturities and paydowns of securities held-to-maturity	**18,337,790**	20,433,674
Purchase of securities held-to-maturity	**–**	(12,960,555)
Net redemption (purchase) of FHLB stock	**625,200**	(7,149)
Purchase of securities available-for-sale	**(8,318,601)**	(4,973,848)
Net increase in loans to customers	**(23,760,934)**	(21,316,049)
Purchase of bank premises and equipment	**(393,882)**	(200,024)
Net cash used by investing activities	**(11,733,733)**	(16,867,399)
Cash flows from financing activities		
Net increase in deposits	**30,314,589**	13,213,955
Proceeds from long-term FHLB borrowings	**2,000,000**	2,000,000
Repayment of long-term FHLB borrowings	**(7,642,995)**	(5,123,772)
Net increase in securities sold under agreements to repurchase	**7,129,705**	3,989,623
Proceeds from exercise of stock warrants	**8,925**	277,841
Cash dividends paid on common stock	**(1,090,526)**	(984,528)
Net cash provided by financing activities	**30,719,698**	13,373,119
Net increase in cash and cash equivalents	**23,404,915**	1,514,603
Cash and cash equivalents, beginning of year	**18,240,101**	16,725,498
Cash and cash equivalents, end of year	**$ 41,645,016**	$ 18,240,101
Supplementary cash flow information:		
Interest paid on deposits and borrowed funds	**$ 4,817,250**	$ 2,579,413
Income taxes paid	**$ 2,355,371**	$ 1,326,000

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

NATURE OF BUSINESS

Ledyard National Bank (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 principal business activity is retail and commercial banking and investment and trust services which are provided through its seven branch locations in New Hampshire and Vermont.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of 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, federal funds sold and certificates of deposit.

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,

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment Securities (concluded)

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. Unrealized gains and losses on securities available-for-sale are reported as a net amount in other comprehensive income or loss, 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.

Earnings Per Share

Basic earnings per share data is computed based on the weighted average number of the Bank'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

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123(R) 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 Bank adopted the provisions of SFAS No. 123(R) using a modified prospective application. Using this application, SFAS No. 123(R) 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. The proforma effect of expensing stock warrants in 2005 would have been to reduce net income by $30,077.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(concluded)*

Derivative Financial Instruments (concluded)

adjustment to net interest income. The cap is designated and qualifies as a cash flow hedge, and thus is recorded at fair value. Changes in fair value are recorded as a component of comprehensive income. The notional amount of the Bank's cap was $5,000,000 and the fair value was $0 at December 31, 2005. The cap matured in 2006.

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 2005 financial statements have been reclassified to conform to the 2006 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 $138,000 and $385,000 as of December 31, 2006 and 2005, respectively.

3. SECURITIES

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

	2006			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Securities Available-for-Sale				
U.S. Government agencies and corporations	$ 9,093,883	$ 23,863	$ (33,244)	$ 9,084,502
Mortgage-backed securities	10,111,278	42,454	(165,912)	9,987,820
State and municipal	628,293	3,456	–	631,749
Total securities available-for-sale	$ 19,833,454	$ 69,773	$ (199,156)	$ 19,704,071
Securities Held-to-Maturity				
U.S. Government agencies and corporations	$ 1,982,429	$ –	$ (19,506)	$ 1,962,923
State and municipal	2,629,817	8,000	(2,557)	2,635,260
Collateralized mortgage obligations	853,923	–	(27,308)	826,615
Mortgage-backed securities	22,014,735	10,589	(599,579)	21,425,745
Total securities held-to-maturity	$ 27,480,904	$ 18,589	$ (648,950)	$ 26,850,543

3. SECURITIES *(continued)*

	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

At December 31, 2006 and 2005, securities with a carrying value of $29,883,423 and $18,616,355, 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, 2006 follow:

	AVAILABLE-FOR-SALE		HELD-TO-MATURITY	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Within one year	**$ 3,996,743**	**$ 3,972,432**	**$ 550,000**	**$ 550,180**
Over one year through five years	**5,097,140**	**5,112,070**	**3,322,683**	**3,308,511**
Over five years through ten years	**628,293**	**631,749**	**237,656**	**240,142**
Over ten years	**–**	**–**	**501,907**	**499,350**
	9,722,176	**9,716,251**	**4,612,246**	**4,598,183**
Collateralized mortgage obligations and mortgage-backed securities	**10,111,278**	**9,987,820**	**22,868,658**	**22,252,360**
	$ 19,833,454	**$ 19,704,071**	**$ 27,480,904**	**$ 26,850,543**

There were no sales of securities available-for-sale or securities held-to-maturity during 2006 and 2005.

3. SECURITIES *(concluded)*

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

December 31, 2006

	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	**$ –**	**$ –**	**$ 6,921,359**	**$ (52,750)**	**$ 6,921,359**	**$ (52,750)**
State and municipal	**499,350**	**(2,557)**	**–**	**–**	**499,350**	**(2,557)**
Collateralized mortgage obligations	**–**	**–**	**826,615**	**(27,308)**	**826,615**	**(27,308)**
Mortgage-backed securities	**1,782,153**	**(12,136)**	**25,209,709**	**(753,355)**	**26,991,862**	**(765,491)**
Total	**$ 2,281,503**	**$ (14,693)**	**$ 32,957,683**	**$ (833,413)**	**$35,239,186**	**$ (848,106)**

December 31, 2005

	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)

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:

	2006	2005
Commercial	**$ 60,389,111**	$ 51,823,665
Commercial real estate	**68,908,833**	70,568,854
Residential real estate	**81,451,996**	67,352,177
Consumer	**9,238,971**	6,683,906
Subtotal	**219,988,911**	196,428,602
Allowance for loan losses	**(2,784,125)**	(2,383,359)
Net deferred loan costs (fees)	**60,995**	(15,396)
Loans, net	**$ 217,265,781**	$ 194,029,847

At December 31, 2006 and 2005, nonaccrual loans were $520,528 and $343,061, respectively. There were no loans 90 days past due and still accruing interest at December 31, 2006 and 2005.

An analysis of the allowance for loan losses follows:

Years Ended December 31,	**2006**	2005
Balance at beginning of year	**$ 2,383,359**	$ 2,391,187
Provision for loan losses	**525,000**	780,000
Loans charged off	**(128,915)**	(831,260)
Recoveries of loans previously charged off	**4,681**	43,432
Balance at end of year	**$ 2,784,125**	$ 2,383,359

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

	2006	2005
Impaired loans with a valuation allowance	**$ 520,528**	$ 343,061
Total impaired loans	**$ 520,528**	$ 343,061
Valuation allowance related to impaired loans	**$ 130,132**	$ 171,530

Years Ended December 31,	**2006**	2005
Average investment in impaired loans	**$ 595,211**	$ 304,387

No interest income was recognized on impaired loans during 2006 and 2005. 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:

	2006	2005
Land and improvements	$ 1,922,993	$ 1,922,993
Buildings and improvements	7,223,330	7,224,431
Equipment	3,695,403	4,578,202
	12,841,726	13,725,626
Accumulated depreciation	(4,197,418)	(4,847,472)
	$ 8,644,308	$ 8,878,154

Depreciation, included in occupancy and equipment expense, amounted to $627,729 and $656,469 for the years ended December 31, 2006 and 2005, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2006, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

2007	$ 154,547
2008	120,047
2009	118,547
2010	109,747
2011	21,916
	$ 524,804

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, 2006 and 2005 amounted to $160,654 and $155,741, respectively.

6. DEPOSITS

At December 31, 2006, the scheduled maturities of time deposits are as follows:

2007	$ 52,805,636
2008	10,000,979
2009	25,819
2010	23,706
2011	217,086
Thereafter	61,338
	$ 63,134,564

Deposit accounts with related parties were $4,981,000 and $4,866,000 at December 31, 2006 and 2005, 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 2006 and 2005 was $25,951,442 and $21,803,899, respectively. The average amount of repurchase agreements outstanding during 2006 and 2005 was $13,647,735 and $8,130,256, respectively. The weighted average interest rate on repurchase agreements outstanding at December 31, 2006 and 2005 was 3.94% and 2.62%, 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 $3,214,085 at December 31, 2006 mature through 2013. At December 31, 2006 and 2005, interest rates of fixed-rate advances ranged from 2.90% 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:

	2006	2005
2006	$ –	$ 5,000,000
2007	1,000,000	1,000,000
2008	500,000	500,000
2009	1,349,393	1,947,592
2013	364,692	409,487
Total	$ 3,214,085	$ 8,857,079

9. INCOME TAXES

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

	2006	2005
Current tax expense		
Federal	$ 2,025,630	$ 1,574,090
State	313,081	120,000
	2,338,711	1,694,090
Deferred tax expense (benefit)		
Federal	(123,200)	58,800
State	(40,000)	(4,900)
	(163,200)	53,900
	$ 2,175,511	$ 1,747,990

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

	2006	2005
Computed tax expense	$ 2,027,226	$ 1,763,419
Increase (reduction) in income taxes resulting from:		
Tax exempt income	(41,143)	(40,177)
State taxes, net of federal benefit	141,831	57,552
(Income) expense from life insurance	24,517	(36,690)
Incentive stock options	19,206	–
Other	3,874	3,886
	$ 2,175,511	$ 1,747,990

9. INCOME TAXES *(concluded)*

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

	2006	2005
Deferred tax assets		
Net unrealized loss on securities available-for-sale	$ 44,000	$ 104,800
Allowance for loan losses	903,100	731,000
Employee benefit plans	213,200	261,300
Other	42,700	30,200
	1,203,000	1,127,300
Deferred tax liabilities		
Depreciation	264,700	291,400
Other	126,300	126,300
	391,000	417,700
Net deferred tax asset	$ 812,000	$ 709,600

10. EARNINGS PER SHARE

The following sets forth the computation of basic and diluted earnings per share for 2006 and 2005:

	2006	2005
Net income, as reported	$ 3,786,919	$ 3,438,532
Weighted-average shares outstanding	1,009,788	1,002,958
Effect of dilutive employee stock options	4,740	4,186
Effect of unvested stock grant	1,000	–
Adjusted weighted-average shares and assumed conversion	1,015,528	1,007,144
Basic earnings per share	$ 3.75	$ 3.43
Diluted earnings per share	$ 3.73	$ 3.41

11. 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.

11. 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, 2006 and 2005, the following financial instruments were outstanding whose contract amounts represent credit risk:

	CONTRACT AMOUNT	
	2006	2005
Commitments to grant loans	**$ 53,149,638**	$ 41,462,409
Commercial and standby letters-of-credit	**$ 11,551,895**	$ 11,165,024

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.

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.

13. MINIMUM REGULATORY CAPITAL REQUIREMENTS *(concluded)*

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 to risk-weighted assets and of Tier 1 capital to average assets as these are defined in the regulations. Management believes, as of December 31, 2006 and 2005, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2006, 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, 2006 and 2005 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, 2006			*(dollars in thousands)*			
Total Capital to Risk-Weighted Assets	**$ 30,140**	**13.3%**	**$ 18,149**	**8.0%**	**$ 22,687**	**10.0%**
Tier 1 Capital to Risk-Weighted Assets	**$ 27,356**	**12.1%**	**$ 9,075**	**4.0%**	**$ 13,612**	**6.0%**
Tier 1 Capital to Average Assets	**$ 27,356**	**8.8%**	**$ 12,405**	**4.0%**	**$ 15,506**	**5.0%**
December 31, 2005						
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%

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, 2006 and 2005, expense attributable to the plan amounted to $501,738 and $427,284, respectively.

Included in accrued expenses and other liabilities in the balance sheets at December 31, 2006 and 2005 are liabilities established pursuant to deferred compensation agreements with certain officers of the Bank of $538,376 and $659,738, respectively. An adjustment was made in 2006 to reflect a reduction of benefits to a former officer. Deferred compensation expense (benefit) related to these plans amounted to $(121,362) and $95,593 for the years ended December 31, 2006 and 2005, 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 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 Bank 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.

On January 1, 2006, the Bank adopted the provisions of SFAS No. 123(R) for the incentive stock option grants relating to the current plan and previous plans. In accordance with the provisions of SFAS No. 123(R), the Bank recorded approximately $56,000 of compensation expense during 2006. Total compensation expense related to nonvested awards not yet recognized at December 31, 2006 is $63,773 and these awards vest over the next 3 years.

Under the current plan, the Bank granted 1,000 shares of restricted stock in 2006 with a fair value of $42.00 at grant date. This grant comprises the Bank's nonvested stock awards at December 31, 2006.

The fair value of warrants granted during 2006 and 2005 was $6.75 and $6.56, 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:

	2006	2005
Dividend yield	**2.70%**	2.30%
Risk-free interest rate	**4.64%**	4.50%
Expected life	**10 Years**	10 Years
Expected volatility	**9.75%**	N/A

A summary of warrant activity as of December 31, 2006, 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	**58,666**	**$ 35.98**		
Granted	**4,500**	**40.00**		
Exercised	**(500)**	**17.85**		**$ 12,575**
Forfeited or expired	**(5,000)**	**35.25**		
Outstanding at December 31, 2006	**57,666**	**$ 36.51**	**5.0 years**	**$ 547,102**
Exercisable at December 31, 2006	**40,333**	**$ 36.42**	**5.2 years**	**$ 455,382**

15. WARRANTS *(concluded)*

Information pertaining to warrants outstanding at December 31, 2006 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
$15.95 - $17.85	**2,916**	**0.4 years**	**$ 17.85**	**2,916**	**$ 17.85**
$32.00 - $41.84	**54,750**	**5.3 years**	**37.51**	**38,917**	**36.41**
Outstanding at end of year	**57,666**	**5.0 years**	**$ 36.51**	**41,833**	**$ 35.11**

The remaining number of warrants available to be granted was 44,500 and 699 at December 31, 2006 and 2005, 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:

	2006	2005
Income		
Gain on sale of loans	**$ 238,571**	$ 204,038
Expenses		
Credit card charges	**$ 767,767**	$ 678,445
Advertising	**371,532**	335,816
	$ 1,139,299	$ 1,014,261

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 $1,715,808 and $1,614,808 at December 31, 2006 and 2005, 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.

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

	2006		2005	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets				
Cash and cash equivalents	**$ 41,645,016**	**$ 41,645,016**	$ 18,240,101	$ 18,240,101
Securities available-for-sale	**19,704,071**	**19,704,071**	12,997,261	12,997,261
Securities held-to-maturity	**27,480,904**	**26,850,543**	45,886,014	45,021,933
Federal Home Loan Bank and Federal Reserve Bank stock	**1,092,650**	**1,092,650**	1,717,850	1,717,850
Loans and loans held for sale, net	**218,868,531**	**219,551,650**	194,892,597	195,709,366
Accrued interest receivable	**1,081,957**	**1,081,957**	1,099,791	1,099,791
Financial liabilities				
Deposits	**271,142,194**	**272,900,503**	240,827,605	241,301,815
Repurchase agreements	**17,389,539**	**17,389,539**	10,259,834	10,259,834
Advances from Federal Home Loan Bank	**3,214,085**	**3,373,807**	8,857,079	8,817,962
Accrued interest payable	**209,221**	**209,221**	120,019	120,019

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Ledyard National Bank

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As of February 9, 2007

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As of February 9, 2007

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