

LEDYARD
FINANCIAL GROUP
ANNUAL REPORT

20
08



STRONG RELATIONSHIPS, PERSONAL SERVICE *and a* COMMITMENT *to* COMMUNITY.

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ON THE COVER:

*Photograph of the Ledyard Bridge
by John Douglas, Flying Squirrel and
the Hanover Area Chamber of Commerce.*

*All other photos by Jon Gilbert Fox,
with the exception of the courtesy photos
on page 13.*



FINANCIAL HIGHLIGHTS

YEARS-ENDED DECEMBER 31,	2008	2007	2006	2005	2004
<i>(dollars in thousands, except per share data)</i>					
Financial Condition Data					
Assets	\$ 363,345	\$ 325,803	\$ 320,230	\$285,495	\$268,869
Investments	94,014	53,706	48,278	60,601	65,467
Net Loans, including loans held for sale	226,405	228,879	218,869	194,893	175,189
Deposits	295,586	276,933	271,142	240,828	227,614
Federal Home Loan Bank Advances	21,868	1,551	3,214	8,857	11,981
Shareholders' Equity	31,283	30,517	27,271	24,391	21,849
Operating Data					
Net Interest Income	\$ 12,892	\$ 12,480	\$ 12,099	\$ 11,486	\$ 10,053
Provision for Loan Loss	3,123	705	525	780	325
Non-interest Income	6,449	6,754	6,282	5,834	5,330
Non-interest Expense	13,150	12,306	11,894	11,354	10,452
Income Taxes	1,040	2,361	2,176	1,748	1,593
Net Income	2,028	3,862	3,787	3,439	3,013
Other Data					
Earnings per Share, basic	\$ 1.99	\$ 3.80	\$ 3.75	\$ 3.43	\$ 3.03
Dividends per Share	\$ 1.24	\$ 1.16	\$ 1.08	\$ 0.98	\$ 0.91
Dividend Payout Ratio	62%	31%	29%	29%	30%
Book Value per Share	\$ 30.61	\$ 29.95	\$ 26.99	\$ 24.16	\$ 21.96
Shares Outstanding	1,021,510	1,018,996	1,010,246	1,009,746	994,895
Return on Average Assets	0.62%	1.20%	1.31%	1.25%	1.20%
Return on Average Equity	6.68%	13.37%	14.66%	14.85%	14.56%
Equity to Asset Ratio	8.61%	9.37%	8.52%	8.54%	8.13%
Allowance for Loan Losses to Total Loans	2.13%	1.45%	1.27%	1.21%	1.35%

LETTER *from the* CEO and BOARD CHAIR

TO OUR FELLOW OWNERS, OUR LOYAL CUSTOMERS
AND MEMBERS OF OUR COMMUNITY:

Against the challenging backdrop of 2008's economic troubles, we're pleased to report that Ledyard Financial Group performed well. Ledyard's total revenue was at an all-time high and we paid a record dividend to our shareholders. Additionally, Ledyard Financial Advisors' investment results outperformed all relative national equity indexes for the year – one reason why we added new accounts with an aggregate market value of nearly \$80 million.

We demonstrated strength and resilience as the year progressed and economic conditions worsened. Our regulatory capital ratios remained well in excess of the amount needed to be considered well-capitalized, the highest designation possible. Ledyard proactively took steps to mitigate the effects of rising delinquencies and foreclosures on borrowers and others. Additionally, we took part in new FDIC programs that were designed to promote liquidity and contain other forms of turmoil that threatened all aspects of our economy. One such program was the Transaction Account Guarantee Program that federally secured certain types of accounts for their entire amount. Other important aspects of our work are shared in the following pages of this annual report.

Ledyard's true distinction continues to be its position in the community, which ultimately defines its place in the banking landscape. Ledyard truly incorporates its employees into the community. It encourages all employees to play an active role in developing and guiding the bank's future.

The niche we occupy is even more visible in today's economic environment. As larger banks continue to merge and turn themselves into financial conglomerates, members of our communities perceive us still as a personal, neighborhood organization. We are small enough to hear all of our customers' needs and expectations, practically in real-time – and we are strong enough to respond to those needs with appropriate solutions. Our culture may best be defined by the notion of "leadership every day." It influences our training, job development and hiring practices.

In all of these activities, and many others that we do not have the space to mention, we worked towards our vision of being the financial services institution of choice in each community we serve. In our daily work, we are focused more than ever on making a difference in the lives of our customers, shareholders, employees and neighbors.

LETTER *from the CEO and BOARD CHAIR (concluded)*

We also welcomed our new Senior Vice President and Senior Loan Officer, Dan Stannard. In this position, Dan is responsible for managing the bank's lending efforts, including commercial, residential mortgage and consumer lending. The importance of a strong Commercial Banking Team and loan department has never been more important and we're confident that Dan will achieve much success in his new role.

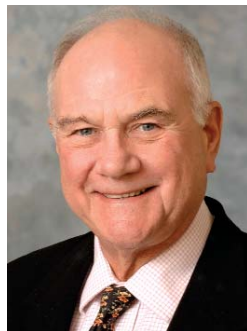
On a final note pertaining to 2008, it comes as no surprise that it was a challenging year – for the US and global economy, the financial sector, and for banks, in particular. As we reflect on the developments of the last 12 months and on our successes, we recognize the importance of striking the right balance between solving immediate challenges and looking to the future for long term opportunities. We have truly created that balance and believe that we will emerge from these difficult times stronger than ever.

Going forward, Ledyard has a clear and focused strategy. Strict management of capital, costs and risks will continue to be a top priority. We will continue to enhance our banking businesses and build upon our competitive advantage in Investment, Tax & Wealth Management.

We thank you for your support and look forward to strengthening the partnerships we've built with you, our shareholders and customers, in 2009. 

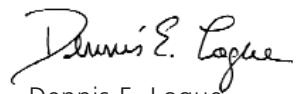


Kathryn G. Underwood
*President and Chief Executive
Officer,
Ledyard Financial Group/
Ledyard National Bank*



Dennis E. Logue
*Chair,
Ledyard Financial Group/
Ledyard National Bank*


Kathryn Underwood
*President & CEO,
Ledyard Financial Group/
Ledyard National Bank*


Dennis E. Logue
*Chair, Ledyard Financial Group/
Ledyard National Bank*

BOARD of DIRECTORS



FRONT ROW, SEATED LEFT TO RIGHT:

Frederick A. Roesch

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

James W. Varnum

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

L. Joyce Hampers

*Attorney, Former U.S. Assistant Secretary
of Commerce and President, Joymark, Inc.*

Dennis E. Logue

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

Andrew A. Samwick

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

BACK ROW, LEFT TO RIGHT:

Douglas G. Britton

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

Adam M. Keller

*Executive Vice President,
Finance and Administration, Dartmouth College*

Cotton M. Cleveland

President, Mather Associates

Kathryn G. Underwood

*President and Chief Executive Officer,
Ledyard Financial Group/
Ledyard National Bank*

Richard W. Couch, Jr.

*Chairman, President and Chief Executive
Officer, Hypertherm, Inc.*

NOT PICTURED:

Bayne Stevenson

President, Bayson Company

Deirdre Sheerr-Gross

*Principal, Sheerr and White
Residential Architecture*

LEDYARD FINANCIAL GROUP

Strong relationships, personal service and commitment to community.

Ledyard Financial Group, the holding company for Ledyard National Bank, remains true to the bank's founding principles established in 1991. Those principles include delivering unparalleled personal service on every level, developing and maintaining strong relationships with customers and shareholders, as well as empowering employees to fulfill their potential. In essence, we strive to exceed our commitment to the communities we serve.

In the years since our founding, Ledyard has evolved from a small local bank to become a more sophisticated community-based financial organization that offers a relationship based experience to individuals and businesses. We achieve superior results by coordinating all aspects of our clients' finances and providing comprehensive financial advice. Our updated structure and focus puts Ledyard in the best possible position to deliver satisfying returns to our shareholders.

Over the years, we have nurtured our commitment to community, expanding our presence and involvement within the region so that our future has become mutually entwined with that of the broader community. We have a vested interest in contributing to the economic wellness and vibrancy of our communities, so we have consistently worked hard to strengthen that bond. In truth, Ledyard employees see themselves as far more than just "bank employees" performing a job. We truly strive to become life-long financial partners with our customers and provide the expertise that will positively impact them and our communities.

"Our KEY BUSINESS IMPERATIVE is simple:

If we make our clients HAPPY,


shareholder EXPECTATIONS

and REWARDS will follow."

LEDYARD FINANCIAL GROUP *(concluded)*

We believe deeply in our mission statement and refer to it often in our decision-making processes. At Ledyard, we experience much satisfaction from the knowledge that our work impacts so many different constituents. For example,

- *As a community bank for personal banking customers, we have long committed to helping people make the most important purchase of their lives – their homes – in ways that are in their best interest.*
- *As a resource for local small businesses – the lifeblood of our New Hampshire economy – we partner with each one to deliver customized solutions. We believe in sharing the ups and downs that are inherent in running these types of ventures.*
- *As wealth managers and advisors, we collaborate with our clients to create financial strategies that best suit their needs and aspirations.*
- *As an employer, we provide employees a work environment that is challenging, nurturing, educational and rewarding.*
- *As an investment for our shareholders, we deliver consistent and superior returns even in difficult economic times.*

Ledyard is financially sound and remains a strong, stable and loyal financial partner to our colleagues, friends and neighbors. Using local deposits, we continue to invest in our clients' futures by helping them with milestones such as buying a new home or funding an area business. Further, our active involvement in community service is an integral part of our investment strategy and helps to make the Upper Valley/Lake Sunapee region a better place to live. Ledyard exemplifies true community based banking. We believe that by helping our customers plan well, they'll live well, too. 

SENIOR MANAGEMENT TEAM



SEATED LEFT TO RIGHT:

Gregory D. Steverson
*Executive Vice President & Chief Financial Officer,
Ledyard Financial Group/Ledyard National Bank*

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

Jeffrey H. Marks
*Senior Vice President,
Marketing & Client Experience,
Ledyard National Bank*

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

STANDING LEFT TO RIGHT:

D. Rodman Thomas
*Senior Vice President & Chief Compliance Officer,
Ledyard Financial Advisors, Ledyard National Bank*

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

Kathryn G. Underwood
*President & Chief Executive Officer,
Ledyard Financial Group/Ledyard National Bank*

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

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

“We strive to establish ourselves as

KEY FINANCIAL PARTNERS

in the growth of our communities.”

LEDYARD NATIONAL BANK

Strength, stability, community-focused banking.

Building relationships. Investing in local families and businesses. Making a difference in the communities where we live and work. That's what Ledyard National Bank is all about.

Individuals and families alike have come to rely on us to provide the most relevant financial advice, or even to coordinate the overall management of their finances. This is particularly important in tough economic times. Others rely on us for their mortgages, home equity loans, checking and savings accounts, investments and other banking solutions. Local businesses look to us for the loans and financial services they need to thrive and create jobs. We offer the latest in banking technology for greater convenience. And we continually improve upon these offerings to maximize the client experience.

Ledyard's key business philosophy is to develop meaningful client relationships that grow through the years. This has provided us with the financial strength to maintain our momentum and adjust our priorities to match the ever-changing economic landscape. In the last year Ledyard, once again, partnered with Toby and Patty Fried, owner's of Lou's Restaurant in downtown Hanover to help them realize a long-standing vision – to own, in addition to the restaurant, the property upon which it was built. Lou's Restaurant, an institution on Main Street since the 1950's, has been a Ledyard Bank customer since we opened our doors nearly 20 years ago. Our strong relationship with the Fried's as well as our understanding of the dynamics in our community, made us well suited to finance the purchase of the condominium unit occupied by Lou's Restaurant and help grow their business. This transaction, defined by our focus on relationships and results, enabled the Fried's to reduce, as well as better control, their expenses simply by taking ownership of the

PICTURED AT RIGHT:
Daniel Emanuele,
Vice President & Commercial Banker,
and Alison Pearsons,
Loan Credit Administration Officer,
*sharing commercial loan terms
with a business banking client.*



PICTURED AT LEFT:
Gail Trottier,
Assistant Vice President
& Personal Banking Officer,
*reviewing investment options
with a bank client.*

STRONG
relationships

LEDYARD NATIONAL BANK *(concluded)*

property. We viewed the purchase as a logical next step for Lou's ownership after their 2001 renovation of the restaurant, for which we provided the line of credit and acted as consultative partners as the work progressed. And because the restaurant also keeps its deposit account with Ledyard, we are best positioned to reference a more holistic picture of Lou's and offer our services based on that information.

Today's environment calls for providing our customers with a safe haven for their money through a range of federally insured accounts. It also requires adhering to our longstanding lending practices and putting money back to work in our communities. Regardless of the challenges before us, we are flexible enough to make critical and timely adjustments that ensure our clients' best interests.

Ledyard's experienced Commercial Banking Team is expert at guiding its clients through financial booms as well as through struggling economies. Because we work and reside in the same community as our customers, we share and understand their needs. This type of background knowledge is a valuable ingredient in providing solutions that work best for both parties. It helps us assess the challenges and opportunities that the partnership will bring and strategize ways to achieve success. One such example is Ledyard's collaboration with North Branch Construction, a local, well-known general contractor and construction management company that was founded in 1958. Looking to move from one facility to another and, in the process, expand their physical footprint, North Branch Construction chose Ledyard to finance the venture. With our financial support and guidance, they purchased and renovated an existing building, making it more energy efficient as well as LEED certified. Once the move was complete Ledyard, together with North Branch, reviewed their business processes to improve efficiencies. Our first recommendation, based on their location, was the implementation of our Remote Deposit Capture product. It allowed them to deposit checks at Ledyard without ever leaving their new facility. In essence, we helped them save the time previously needed to physically take the checks to the branch for deposit. As 2008 progressed, we offered a variety of relevant financial products and now look forward to serving North Branch Construction's needs for years to come.

We also realize that sometimes the greatest value we deliver to our clients is often not by providing a loan, but by being a non-credit resource. We act, in effect, as a sounding board and we're honored that so many clients depend upon us for practical advice and counsel.

We work diligently to expand our financial knowledge base so that we may be an even stronger resource for our business clients. Addressing issues such as business succession planning or advising business owners on their other financial needs is all in a days work.

We also believe in constantly expanding our network of business owners and professional contacts. Often times, simply making a client aware of a new resource or making an introduction to someone with a particular area of expertise can make a real difference.

We are more than simply a team of commercial bankers. We are a true partner in growth. 

LEDYARD FINANCIAL ADVISORS

Global experience, expert advice and local service.

Ledyard Financial Advisors has evolved into a premier wealth management firm providing integrated investment, tax and wealth management services to affluent individuals and families throughout the Dartmouth-Lake Sunapee Region. These services are provided by the area's largest and most experienced staff of advisors, accountants and portfolio managers utilizing a framework of potential wealth management issues.

At Ledyard Financial Advisors our sole mission is that of preserving and enhancing our client's wealth.



PICTURED AT LEFT:
Dennis Mitchell, CFP®
*discussing comprehensive
financial planning with a
prospective client.*

PICTURED AT RIGHT:
Valerie J. Nevel,
Vice President & Financial Advisor,
working closely with a client.



personal
SERVICE

LEDYARD FINANCIAL ADVISORS *(concluded)*

Our approach to providing investment, tax, and wealth management services is driven by the needs of our clients and their families. It is our only focus, and we dedicate the time necessary to evaluate each clients' current situation and family dynamics. Only then do we develop a comprehensive program to meet their needs appropriately.


As fiduciaries we are required to give primacy to clients' interests and adhere to standards of loyalty and prudence in administering their affairs. In other words, we are duty bound to consider our clients' interests before our own and this, combined with regular internal and external examinations, ensures the highest levels of accountability and trust.

We experienced many extraordinary events in 2008. Navigating through one of the most difficult market and economic periods in modern times presented our investment strategy team and portfolio managers with unprecedented challenges. Their experience, research and focus enabled us to deliver results well above market indexes. Some of the team's strategic decisions contributing to this outcome were as follows:

- *Underweighted the financial sector for over a year with levels of only 3-10% versus S&P at 16% or higher*
- *Lowered allocations to Europe and emerging markets to less than 8% during the year*
- *Increased cash allocation to 15-20%, or twice normal levels*

Additionally, Ledyard Financial Advisors completed its first year at our new office building on Maple Street in Hanover and achieved the following milestones during 2008:

- *Opened 107 new accounts with \$79 million in assets*
- *Welcomed 7 new associates that increased staffing to 26 advisors, planners, analysts, portfolio managers, lawyers, accountants and technical support*
- *Prepared personal income tax returns for over 20% of our clients*
- *Introduced Financial Planning and Insurance Reviews as new services*
- *Initiated weekly Market Update and monthly Stock Talk newsletters*

We are confident in our 2009 investment strategies and will continue to maintain higher than normal "cash" levels until other clear opportunities emerge. We are equally confident in our focus on planning, advice and personal conversations as factors that clearly contribute to client success and satisfaction. Simply put, no other investment firm matches our array of wealth management services, depth of experience and local presence. 


COMMUNITY SUPPORT

Now, more than ever, our commitment remains strong.

Through ongoing, prioritized reinvestment and active participation, Ledyard supports community organizations throughout the Upper Valley/Lake Sunapee region that make a difference in a wide spectrum of people's lives. We understand that our work in this area reflects the values that our bank was built upon and that we perpetuate to this day.

We are proud to help organizations that support the causes of education, contribute to improving human services such as the health and well-being of children and adults, provide community development resources, or advance the arts and humanities.

But our support is not only monetary. As a community bank, we have first hand knowledge of the difficulties and challenges facing individuals, businesses and, non-profit organizations. Specific to non-profits, the monetary donations that sustained them in years past have, in large part, disappeared. Now, more than ever, these local groups need our support. To this end, many Ledyard employees and board members serve on community boards or donate their time to a wide variety of area organizations. In 2008, these efforts amounted to over 3,000 volunteer hours. To further advance these efforts we participated in last year's *Make a Difference Day*, an all-encompassing annual event and national day of helping others. After rigorous research, we chose seven projects, and more than fifty Ledyard employees and their families participated. Projects included painting, cleaning, cooking meals for the sick, trail-cutting, community outreach and preservation of an historic site.

Such community involvement is an integral part of Ledyard's success. We are proud to give back to those we serve. 

COMMUNITY SUPPORT *(concluded)*

PICTURED AT RIGHT:
Ledyard Senior Vice President of Marketing, Jeff Marks, right, and Dartmouth College Executive Associate AD for Varsity Sports, Brian Austin, left, present tournament championship trophy to Dartmouth hockey team captain, Rob Pritchard.
(Photo courtesy of Mark Washburn.)



PICTURED AT LEFT:
Ledyard Senior Vice President of Retail Banking, Marty Candon, right, presents the Innovator of the Year Award to Marc and Patty Milowsky, founders of Blue Sky Restaurant Group at the Hanover Area Chamber of Commerce Leadership Awards ceremony.
(Photo courtesy of Kawakahi Amina.)

PICTURED AT RIGHT:
Ledyard employees and their family members volunteer to paint at Hannah House, a local non-profit organization, on Make a Difference Day.
(Photo courtesy of Jennifer Engle.)



PICTURED AT LEFT:
At David's House, a local non-profit organization, Ledyard employees volunteer to cook for guests on Make a Difference Day.
(Photo courtesy of Bob Murch.)

a COMMITMENT
to community

MANAGEMENT'S FINANCIAL DISCUSSION

Review of Financial Statements

The discussion and analysis which follows focuses on the factors affecting the Company's financial condition at December 31, 2008 and 2007 and its results of operations for the years ended December 31, 2008 and 2007. The Financial Statements and Notes to the Financial Statements should be read in conjunction with this review.

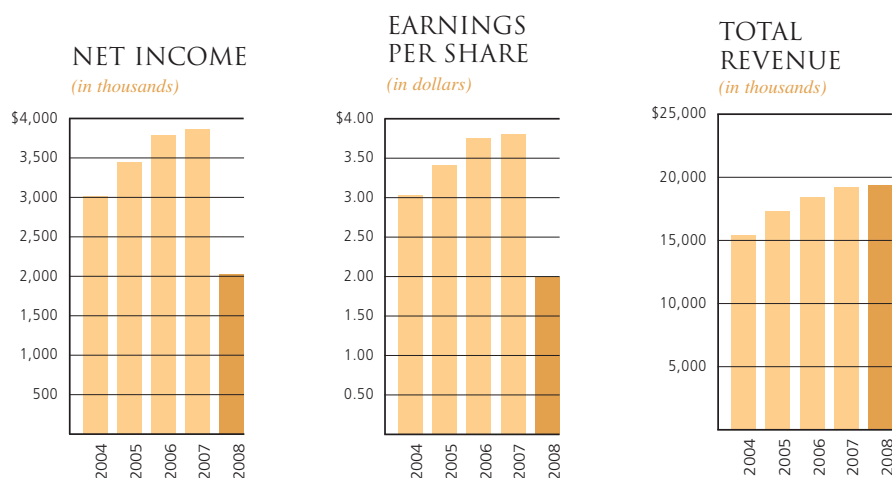
Statement of Income

Our results for the year reflect the strength in our two basic businesses, community banking and wealth advisory services. We continued to invest in both during 2008 in terms of people, facilities and systems. Total revenue for the year ended December 31, 2008 was a record high of \$19,340,889, compared to \$19,234,820 for the same period in 2007. Net interest income for the year ended December 31, 2008 was at an all-time high of \$12,891,820, compared to \$12,479,924 for the same period in 2007. Net income was \$2,027,744, or \$1.99 per share for the twelve months ended 2008 as compared to \$3,861,653, or \$3.80 per share for 2007, a decrease of \$1,833,909, or 47.49%. The increase in our allowance for loan losses combined with the increased costs associated with the new headquarters for Ledyard Financial Advisors were the primary contributors to our income being down for the year.

Interest and fees on loans totaled \$14,818,873 for the year ended December 31, 2008, as compared to \$16,079,947 for 2007. This decrease of \$1,261,074, or 7.84%, was due to a decrease in interest rates that occurred during 2008. Investment income for the year ended December 31, 2008, totaled \$3,688,423 as compared to \$3,870,930 for 2007, a decrease of \$182,507, or 4.72%.

The Company's interest expense on deposits was \$4,868,601 for the year ended December 31, 2008, as compared to \$6,782,369 for the year ended December 31, 2007, a decrease of \$1,913,768, or 28.22%. Deposit rates were lowered through out the year to reflect the changes in interest rates resulting in lower interest paid. Interest expense on borrowed funds increased \$58,291, or 8.47% for the year ended December 31, 2008 totaling \$746,875 as compared to \$688,584 at December 31, 2007. The increase was primarily due to the increase in borrowings from the Federal Home Loan Bank.

During 2008, the Company added \$3,123,000 to the allowance for loan losses and realized net charge-offs of \$1,557,503 resulting in an allowance for loan losses totaling \$4,925,500, or 2.13% of total loans. Like most community banks Ledyard saw an increase in charge-offs and non-performing loans during 2008, resulting in an increase in the allowance. The determination of an appropriate level of allowance for loan losses (the "allowance"), is based on management's judgment of the adequacy of the allowance based on various factors and a review of the Company's loan portfolio. An evaluation



MANAGEMENT'S FINANCIAL DISCUSSION (continued)

of the adequacy of the allowance is performed each quarter by management. Management believes that the allowance at December 31, 2008 was appropriate given the current economic conditions in the Company's service area.

Non-interest income totaled \$6,449,069 in 2008 as compared to \$6,754,146 in 2007, a decrease of \$305,077, or 4.52%. Income from the Company's Ledyard Financial Advisors Division totaled \$4,895,381, down from \$5,026,952 in 2007, a decrease of \$131,571, or 2.62%. This decrease in revenue was a result of market conditions during 2008. Service fees and other non-interest income decreased slightly by \$173,506 during 2008. Non-interest expense totaled \$13,149,945 for 2008 as compared to \$12,305,817 in 2007, an increase of \$844,128, or 6.86%.

Financial Condition

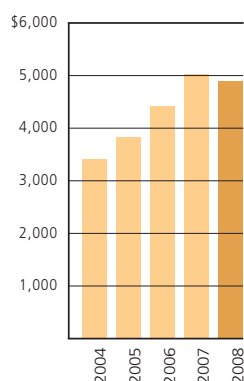
At year-end, total assets were \$363,345,236 compared to \$325,805,353 at December 31, 2007, an increase of \$37,539,883, or 11.52%. The change in assets consisted primarily of a decrease of \$2,373,882 in net loans, including loans held for sale and an increase of \$33,391,673 in cash and cash equivalents, securities available-for-sale and held-to-maturity ("investments").

The Company maintains investments in fed funds sold 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 \$33,391,673, or 39.72%. This increase consisted of a decrease to cash and cash equivalents of \$5,998,156 and increases in securities available for sale of \$21,646,610 and securities held to maturity of \$17,743,219. During 2008, the Company purchased \$56,620,331 of available-for-sale and held-to-maturity securities and realized proceeds from maturities and paydowns of available for sale and held to maturity securities totaling \$17,355,996.

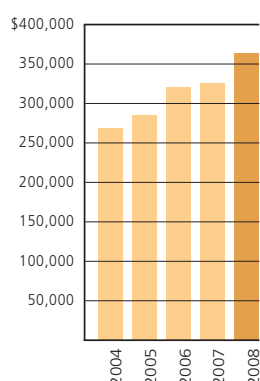
The Company provides loans to customers primarily located within its geographic market area. Net loans, including loans held for sale, totaled \$226,405,155 at December 31, 2008, a \$2,373,882, or 1.04% decrease from a year ago. This decrease reflects the general slow down in lending activity due to economic conditions.

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 Company focuses on lending to financially-sound small and medium-sized business customers within its geographic marketplace. Total commercial loans decreased by \$6,634,758, or 4.57%, during 2008.

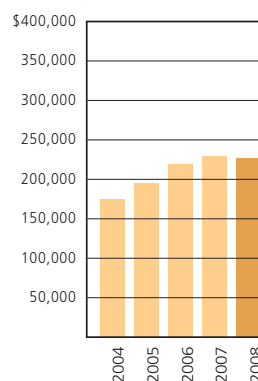
Ledyard Financial Advisors
GROSS INCOME
(in thousands)



TOTAL ASSETS
(in thousands)



NET LOANS
including loans held for sale
(in thousands)



MANAGEMENT'S FINANCIAL DISCUSSION *(concluded)*


Residential real estate loans consist of loans secured by one-to-four family residences. The Company usually retains adjustable-rate mortgages in its portfolio and will generally sell fixed-rate mortgages. Residential real estate loans increased by \$4,190,296, or 5.15%, in 2008.

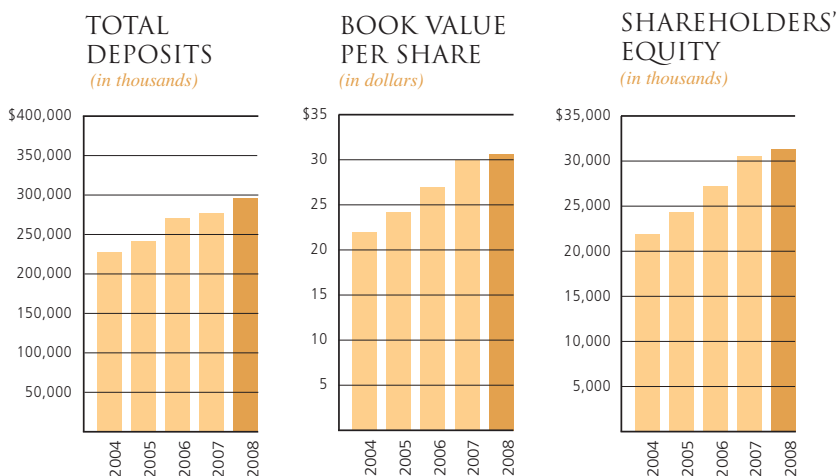
Consumer loans are originated by the Company for a wide variety of purposes designed to meet the needs of its customers. Consumer loans include overdraft protection, automobile, boat, recreation vehicles, home equity, and secured and unsecured personal loans. Consumer loans increased by \$989,601, or 19.20%, in 2008.

Other assets totaled \$7,194,460 at December 31, 2008 as compared to \$2,227,491 at December 31, 2007. The net increase of \$4,966,969 can be attributed to bank owned life insurance purchased during 2008. This insurance is a tax-free method for funding employee benefits.

Deposits continue to represent the Company's primary source of funds. In 2008, total deposits increased by \$18,652,078, or 6.74% over 2007, ending the year at \$295,585,570. Comparing year-end balances in 2008 to 2007, demand deposits increased by \$4,510,915, NOW accounts decreased by \$1,495,800, certificates of deposit increased by \$3,256,081 and money market and savings accounts increased by \$12,380,882.

Borrowings supplement deposits as a source of liquidity. In addition to borrowings from the FHLB, the Company purchases federal funds and sells securities under agreements to repurchase. Total borrowings were \$36,295,903 at December 31, 2008 compared to \$16,310,681 at December 31, 2007, an increase of \$19,985,222. The borrowings were distributed between securities sold under agreements to repurchase and advances from the Federal Home Loan Bank. In addition to the liquidity sources discussed above, the Company believes the investment portfolio and residential loan portfolio provide a significant amount of contingent liquidity that could be accessed in a reasonable time period through sales if needed. The Company believes that the level of liquidity is sufficient to meet current and future funding requirements.

Shareholders' equity was \$31,283,345 on December 31, 2008 compared to \$30,517,338 on December 31, 2007, an increase of \$766,007. The increase was primarily attributable to net income of \$2,027,744 less \$1,267,222 in cash dividends to the Company's shareholders and a decrease of \$223,805 from the repurchase of Company stock. The Company's book value per share on December 31, 2008 was \$30.61 per share based on 1,021,510 shares outstanding, an increase of \$0.66 per share from a year earlier. 



Gregory D. Steverson
Executive Vice President,
Chief Financial Officer,
Ledyard Financial Group/
Ledyard National Bank

INDEPENDENT AUDITORS' REPORT

BOARD of DIRECTORS and SHAREHOLDERS
LEDYARD FINANCIAL GROUP, INC. and SUBSIDIARY

We have audited the accompanying consolidated balance sheets of Ledyard Financial Group, Inc. and Subsidiary (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ledyard Financial Group, Inc. and Subsidiary as of December 31, 2008 and 2007, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Berry, Dunn, McNeil & Parker

Berry, Dunn, McNeil & Parker

Portland, Maine

February 18, 2009

BERRY.DUNN.MCNEIL & PARKER



CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

	2008	2007
ASSETS		
Cash and due from banks	\$ 25,428,627	\$ 7,931,388
Federal funds sold	29,596	23,524,991
Total cash and cash equivalents	25,458,223	31,456,379
Securities available-for-sale	52,127,162	30,480,552
Securities held-to-maturity	39,877,414	22,134,195
Nonmarketable equity securities	2,010,900	1,091,100
Loans held for sale	832,000	200,000
Loans receivable, net of allowance for loan losses of \$4,925,500 in 2008 and \$3,360,003 in 2007	225,573,155	228,579,037
Accrued interest receivable	1,325,024	1,295,380
Bank premises and equipment, net	8,946,898	8,341,219
Other assets	7,194,460	2,227,491
	\$ 363,345,236	\$ 325,805,353
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Demand	\$ 51,383,486	\$ 46,872,571
NOW accounts	46,278,989	47,774,789
Money market accounts	110,456,277	99,230,628
Savings	14,154,479	12,999,246
Time, \$100,000 and over	24,500,517	31,947,282
Other time	48,811,822	38,108,976
Total deposits	295,585,570	276,933,492
Securities sold under agreements to repurchase	14,427,836	14,759,226
Advances from Federal Home Loan Bank	21,868,067	1,551,455
Accrued expenses and other liabilities	180,418	2,043,842
Total liabilities	332,061,891	295,288,015
Commitments and contingencies (Notes 5, 11, 12, 13, 14 and 15)		
Shareholders' equity		
Common stock, \$1.00 par value; 5,500,000 shares authorized; 1,021,510 and 1,018,996 shares issued at December 31, 2008 and 2007, respectively	1,021,510	1,018,996
Additional paid-in capital	9,733,765	9,577,926
Treasury stock, at cost; 5,500 shares at December 31, 2008	(223,805)	-
Retained earnings	20,508,054	19,747,532
Accumulated other comprehensive income	243,821	172,884
Total shareholders' equity	31,283,345	30,517,338
	\$ 363,345,236	\$ 325,805,353

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

CONSOLIDATED STATEMENTS *of* INCOME

Years Ended December 31, 2008 and 2007

	2008	2007
Interest and dividend income		
Interest and fees on loans	\$ 14,818,873	\$ 16,079,947
Investment securities	3,376,241	2,246,570
Other interest-earning assets	312,182	1,624,360
Total interest and dividend income	<u>18,507,296</u>	<u>19,950,877</u>
Interest expense		
Deposits	4,868,601	6,782,369
Borrowed funds	746,875	688,584
Total interest expense	<u>5,615,476</u>	<u>7,470,953</u>
Net interest income	<u>12,891,820</u>	<u>12,479,924</u>
Provision for loan losses	3,123,000	705,000
Net interest income after provision for loan losses	<u>9,768,820</u>	<u>11,774,924</u>
Noninterest income		
Ledyard Financial Advisors division income	4,895,381	5,026,952
Service fees	912,925	1,122,831
Other	640,763	604,363
Total noninterest income	<u>6,449,069</u>	<u>6,754,146</u>
Noninterest expense		
Salaries and employee benefits	7,212,227	6,852,143
Occupancy and equipment	2,732,058	2,060,396
Other general and administrative	3,205,660	3,393,278
Total noninterest expense	<u>13,149,945</u>	<u>12,305,817</u>
Income before income taxes	<u>3,067,944</u>	<u>6,223,253</u>
Income tax expense	1,040,200	2,361,600
Net income	<u>\$ 2,027,744</u>	<u>\$ 3,861,653</u>
Basic earnings per share	\$ 1.99	\$ 3.80
Diluted earnings per share	\$ 1.98	\$ 3.77
Weighted average numbers of shares outstanding	1,020,926	1,016,331

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

CONSOLIDATED STATEMENTS *of* CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2008 and 2007

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, December 31, 2006	\$ 1,010,246	\$ 9,279,378	\$ –	\$ 17,066,764	\$ (85,393)	\$27,270,995
Comprehensive income						
Net income	–	–	–	3,861,653	–	3,861,653
Change in net unrealized depreciation on securities available-for-sale, net of tax of \$133,000	–	–	–	–	258,277	258,277
Total comprehensive income	–	–	–	3,861,653	258,277	4,119,930
Cash dividends paid, \$1.16 per share	–	–	–	(1,180,885)	–	(1,180,885)
Fair value of stock warrants vested during the year	–	92,000	–	–	–	92,000
Stock warrants exercised, 8,750 shares	8,750	206,548	–	–	–	215,298
Balance, December 31, 2007	\$ 1,018,996	9,577,926	–	19,747,532	172,884	30,517,338
Comprehensive income						
Net income	–	–	–	2,027,744	–	2,027,744
Change in net unrealized appreciation on securities available-for-sale, net of tax of \$36,543	–	–	–	–	70,937	70,937
Total comprehensive income	–	–	–	2,027,744	70,937	2,098,681
Cash dividends paid, \$1.24 per share	–	–	–	(1,267,222)	–	(1,267,222)
Stock repurchase (5,500 shares)	–	–	(223,805)	–	–	(223,805)
Fair value of stock warrants vested during the year	–	80,960	–	–	–	80,960
Stock warrants exercised, 2,514 shares	2,514	74,879	–	–	–	77,393
Balance, December 31, 2008	\$ 1,021,510	\$ 9,733,765	\$ (223,805)	\$ 20,508,054	\$ 243,821	\$31,283,345

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

CONSOLIDATED STATEMENTS *of* CASH FLOWS

Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Net income	\$ 2,027,744	\$ 3,861,653
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization or accretion	662,687	643,772
Provision for loan losses	3,123,000	705,000
Deferred income tax benefit	(741,600)	(353,100)
Fair value of stock warrants vested during the year	80,960	92,000
Increase in accrued interest receivable	(29,644)	(213,423)
(Decrease) increase in accrued expenses and other liabilities	(1,863,424)	982,897
(Decrease) increase in other assets	538,088	(403,132)
Net (increase) decrease in loans held for sale	(632,000)	1,602,750
Net cash provided by operating activities	<u>3,165,811</u>	<u>6,918,417</u>
Cash flows from investing activities		
Proceeds from maturities of securities available-for-sale	10,070,870	6,891,222
Proceeds from maturities and paydowns of securities held-to-maturity	7,285,126	5,270,647
Net (purchase) redemption of FHLB stock	(919,800)	1,550
Purchase of securities available-for-sale	(31,539,751)	(17,277,463)
Purchase of securities held-to-maturity	(25,080,580)	-
Purchase of bank owned life insurance	(5,000,000)	-
Net decrease (increase) in loans to customers	82,882	(12,218,256)
Purchase of premises and equipment	(1,286,380)	(307,522)
Net cash used by investing activities	<u>(46,387,633)</u>	<u>(17,639,822)</u>
Cash flows from financing activities		
Net increase in deposits	18,652,078	5,791,298
Proceeds from long-term FHLB borrowings	21,500,000	-
Repayment of long-term FHLB borrowings	(1,183,388)	(1,662,630)
Net decrease in securities sold under agreements to repurchase	(331,390)	(2,630,313)
Purchase of treasury stock	(223,805)	-
Proceeds from exercise of stock warrants	77,393	215,298
Cash dividends paid on common stock	(1,267,222)	(1,180,885)
Net cash provided by financing activities	<u>37,223,666</u>	<u>532,768</u>
Net decrease in cash and cash equivalents	<u>(5,998,156)</u>	<u>(10,188,637)</u>
Cash and cash equivalents, beginning of year	31,456,379	41,645,016
Cash and cash equivalents, end of year	<u>\$ 25,458,223</u>	<u>\$ 31,456,379</u>
Supplementary cash flow information:		
Interest paid on deposits and borrowed funds	<u>\$ 5,579,872</u>	<u>\$ 7,451,246</u>
Income taxes paid	<u>\$ 1,875,000</u>	<u>\$ 2,391,836</u>
Non-cash transaction: Loan transferred to OREO	<u>\$ 200,000</u>	<u>\$ -</u>

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

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

NATURE OF BUSINESS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned bank subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. With the required regulatory approval, the Company became the bank holding company of Ledyard National Bank effective in October 2007.

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 collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in local market conditions.

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

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and due from banks, and federal funds sold.

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

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Securities

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

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

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

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

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

Credit Related Financial Instruments

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

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of the 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.

Premises and Equipment

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

Income Taxes

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

Adjustments to the Company's deferred tax assets are recognized as deferred income tax expense or benefit based on management's judgment relating to the realizability of such assets.

Earnings Per Share

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

Stock Warrant Plans

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 Company 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.

Ledyard Financial Advisors Assets and Fees

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

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

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

Comprehensive Income

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

Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*, and prescribes a minimum recognition threshold and measurement attributed for the financial statement recognition and measurement of a tax provision taken or expected to be taken in a tax return. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2007. The Company implemented FIN 48 during 2008 and it did not have a material impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement was effective for the Company on January 1, 2008, and it did not have a material impact on the Company's financial statements. In February 2008, FASB issued FASB Staff Position (FSP) No. 157-2 which delays by one year the effective date of SFAS No. 157 for certain types of nonfinancial assets and nonfinancial liabilities. In October 2008, FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

Business Segments

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, requires public companies to report (i) certain financial and descriptive information about "reportable operating segments", as defined, and (ii) certain enterprise-wide financial information. Operating segment information is reported using a "management approach" that is based on the way management organizes the segments for purposes of making operating decisions and assessing performance.

The Company's two primary business segments are banking and wealth advisory services.

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

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

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

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

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

	BANKING	WEALTH ADVISORY SERVICES	TOTAL CONSOLIDATED
Year ended December 31, 2008:			
Net interest income	\$ 12,891,820	\$ -	\$ 12,891,820
Provision for loan losses	3,123,000	-	3,123,000
Noninterest income	1,553,688	4,895,381	6,449,069
Noninterest expense	9,454,327	3,695,617	13,149,945
Income before income taxes	1,868,181	1,199,764	3,067,944
Income tax expense	633,415	406,785	1,040,200
Net income	1,234,765	792,980	2,027,744
Year ended December 31, 2007:			
Net interest income	\$ 12,479,924	\$ -	\$ 12,479,924
Provision for loan losses	705,000	-	705,000
Noninterest income	1,727,194	5,026,952	6,754,146
Noninterest expense	9,087,410	3,218,407	12,305,817
Income before income taxes	4,414,708	1,808,545	6,223,253
Income tax expense	1,675,293	686,307	2,361,600
Net income	2,739,415	1,122,238	3,861,653

2. CASH AND DUE FROM BANKS

The Bank is required to maintain certain reserves of vault cash or deposits with the Federal Reserve Bank (FRB). The amount of this reserve requirement, included in cash and due from banks, was approximately \$96,000 and \$679,000 as of December 31, 2008 and 2007, respectively.

3. SECURITIES

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

	2008			FAIR VALUE
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	
Securities Available-for-Sale				
U.S. Government sponsored enterprises	\$ 4,499,448	\$ 60,870	\$ -	\$ 4,560,318
State and municipal	12,621,106	48,591	(560,019)	12,109,678
Collateralized mortgage obligations	1,502,335	48,657	-	1,550,992
Mortgage-backed securities	33,134,848	826,294	(54,968)	33,906,174
Total securities available-for-sale	<u>\$ 51,757,737</u>	<u>\$ 984,412</u>	<u>\$ (614,987)</u>	<u>\$ 52,127,162</u>
Securities Held-to-Maturity				
U.S. Government sponsored enterprises	\$ 992,146	\$ 47,931	\$ -	\$ 1,040,077
State and municipal	2,559,875	13,377	(40,174)	2,533,078
Collateralized mortgage obligations	786,365	-	(15,246)	771,119
Mortgage-backed securities	35,539,028	956,801	(88,167)	36,407,662
Total securities held-to-maturity	<u>\$ 39,877,414</u>	<u>\$ 1,018,109</u>	<u>\$ (143,587)</u>	<u>\$ 40,751,936</u>

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

3. SECURITIES (continued)

	2007			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Securities Available-for-Sale				
U.S. Government sponsored enterprises	\$ 5,117,527	\$ 62,653	\$ (499)	\$ 5,179,681
State and municipal	6,921,159	43,325	(36,413)	6,928,071
Collateralized mortgage obligations	1,809,959	43,260	-	1,853,219
Mortgage-backed securities	16,369,960	197,647	(48,026)	16,519,581
Total securities available-for-sale	<u>\$ 30,218,605</u>	<u>\$ 346,885</u>	<u>\$ (84,938)</u>	<u>\$ 30,480,552</u>
Securities Held-to-Maturity				
U.S. Government sponsored enterprises	\$ 1,987,287	\$ 22,476	\$ (1,082)	\$ 2,008,681
State and municipal	2,060,744	15,691	-	2,076,435
Collateralized mortgage obligations	785,909	-	(12,132)	773,777
Mortgage-backed securities	17,300,255	29,306	(183,548)	17,146,013
Total securities held-to-maturity	<u>\$ 22,134,195</u>	<u>\$ 67,473</u>	<u>\$ (196,762)</u>	<u>\$ 22,004,906</u>

At December 31, 2008 and 2007, securities with a carrying value of \$44,332,360 and \$28,269,949, 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, 2008 follow:

	AVAILABLE-FOR-SALE		HELD-TO-MATURITY	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Within one year	\$ 5,435,059	\$ 5,497,440	\$ 1,820,569	\$ 1,833,946
Over one year through five years	1,035,919	1,071,749	992,146	1,040,077
Over five years through ten years	943,764	938,313	501,297	472,205
Over ten years	9,705,812	9,162,494	238,009	226,927
	17,120,554	16,669,996	3,552,021	3,573,155
Collateralized mortgage obligations and mortgage-backed securities	34,637,183	35,457,166	36,325,393	37,178,781
Total	<u>\$ 51,757,737</u>	<u>\$ 52,127,162</u>	<u>\$ 39,877,414</u>	<u>\$ 40,751,936</u>

There were no sales of securities available-for-sale or securities held-to-maturity during 2008 and 2007.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

3. SECURITIES (concluded)

Information pertaining to securities with gross unrealized losses at December 31, 2008 and 2007 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

December 31, 2008

	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 sponsored enterprises	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State and municipal	9,224,486	(511,148)	774,252	(89,045)	9,998,738	(600,193)
Collateralized mortgage obligations	-	-	771,119	(15,246)	771,119	(15,246)
Mortgage-backed securities	10,748,153	(100,936)	1,068,901	(42,199)	11,817,054	(143,135)
Total	<u>\$ 19,972,639</u>	<u>\$ (612,084)</u>	<u>\$ 2,614,272</u>	<u>\$ (146,490)</u>	<u>\$ 22,586,911</u>	<u>\$ (758,574)</u>

December 31, 2007

	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 sponsored enterprises	\$ -	\$ -	\$ 1,997,675	\$ (1,581)	\$ 1,997,675	\$ (1,581)
State and municipal	3,261,976	(36,413)	-	-	3,261,976	(36,413)
Collateralized mortgage obligations	-	-	773,777	(12,132)	773,777	(12,132)
Mortgage-backed securities	-	-	16,204,699	(231,574)	16,204,699	(231,574)
Total	<u>\$ 3,261,976</u>	<u>\$ (36,413)</u>	<u>\$ 18,976,151</u>	<u>\$ (245,287)</u>	<u>\$ 22,238,127</u>	<u>\$ (281,700)</u>

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

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

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

4. LOANS

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

	2008	2007
Commercial	\$ 53,586,089	\$ 69,948,886
Commercial real estate	85,134,729	75,406,690
Residential real estate	85,563,589	81,373,293
Consumer	6,143,308	5,153,707
Loans held for sale	832,000	200,000
Subtotal	231,259,715	232,082,576
Allowance for loan losses	(4,925,500)	(3,360,003)
Net deferred loan costs	70,940	56,464
Loans, net	<u>\$ 226,405,155</u>	<u>\$ 228,779,037</u>

At December 31, 2008 and 2007, nonaccrual loans were \$3,502,128 and \$1,433,668, respectively. There were no loans 90 days past due and still accruing interest at December 31, 2008 and 2007.

An analysis of the allowance for loan losses follows:

YEARS ENDED DECEMBER 31,	2008	2007
Balance at beginning of year	\$ 3,360,003	\$ 2,784,125
Provision for loan losses	3,123,000	705,000
Loans charged off	(1,605,706)	(142,113)
Recoveries of loans previously charged off	48,203	12,991
Balance at end of year	<u>\$ 4,925,500</u>	<u>\$ 3,360,003</u>

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

YEARS ENDED DECEMBER 31,	2008	2007
Impaired loans without a valuation allowance	\$ 795,923	\$ -
Impaired loans with a valuation allowance	3,371,989	2,594,417
Total impaired loans	<u>\$ 4,167,912</u>	<u>\$ 2,594,417</u>
Valuation allowance related to impaired loans	<u>\$ 919,927</u>	<u>\$ 750,480</u>
Average investment in impaired loans	<u>\$ 3,381,165</u>	<u>\$ 1,557,473</u>

Interest income recognized on impaired loans during 2008 and 2007 amounted to \$43,099 and \$123,592, respectively. No additional funds are committed to be advanced in connection with impaired loans.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

5. PREMISES AND EQUIPMENT

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

	2008	2007
Land and improvements	\$ 1,922,993	\$ 1,922,993
Buildings and improvements	7,753,992	7,224,331
Equipment	4,758,643	4,001,924
	<u>14,435,628</u>	<u>13,149,248</u>
Accumulated depreciation	(5,488,730)	(4,808,029)
	<u>\$ 8,946,898</u>	<u>\$ 8,341,219</u>

Depreciation, included in occupancy and equipment expense, amounted to \$680,701 and \$610,611 for the years ended December 31, 2008 and 2007, respectively

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2008, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

2009	\$ 473,033
2010	464,233
2011	420,233
2012	376,402
2013	319,986
Thereafter	1,244,821
	<u>\$ 3,298,708</u>

The leases contain options to extend for periods from three to ten years. The cost of such extensions is not included above. Total rent expense for the years ended December 31, 2008 and 2007 amounted to \$449,397 and \$169,505, respectively.

6. DEPOSITS

At December 31, 2008, the scheduled maturities of time deposits are as follows:

2009	\$ 61,634,234
2010	11,085,956
2011	334,809
2012	126,848
2013	130,492
	<u>\$ 73,312,339</u>

Deposit accounts with related parties were \$7,348,263 and \$4,663,033 at December 31, 2008 and 2007, 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. All securities collateralizing the repurchase agreements are under the Bank's control. The maximum amount of repurchase agreements outstanding at any month-end during 2008 and 2007 was \$15,286,776 and \$25,599,539, respectively. The average amount of repurchase agreements outstanding during 2008 and 2007 was \$13,278,500 and \$16,702,183, respectively. The weighted average interest rate on repurchase agreements outstanding at December 31, 2008 and 2007 was 1.60% and 3.59%, respectively.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

8. ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank's fixed-rate advances with the Federal Home Loan Bank (FHLB) of \$21,868,067 at December 31, 2008 mature through 2013. At December 31, 2008 and 2007, interest rates of fixed-rate advances ranged from 2.67% 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:

	2008	2007
2009	\$ 6,599,037	\$ -
2010	4,750,000	500,000
2011	5,000,000	733,489
2012	2,750,000	-
2013	2,769,030	317,966
Total	<u>\$ 21,868,067</u>	<u>\$ 1,551,455</u>

9. INCOME TAXES

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

	2008	2007
Current tax expense		
Federal	\$ 1,383,300	\$ 2,422,000
State	398,500	292,700
	<u>1,781,800</u>	<u>2,714,700</u>
Deferred tax benefit		
Federal	(601,100)	(318,400)
State	(140,500)	(34,700)
	<u>(741,600)</u>	<u>(353,100)</u>
	<u>\$ 1,040,200</u>	<u>\$ 2,361,600</u>

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

	2008	2007
Computed tax expense	\$ 1,043,101	\$ 2,115,906
Increase (reduction) in income taxes resulting from:		
Tax exempt income	(171,210)	(80,169)
State taxes, net of federal benefit	170,281	197,386
Income from life insurance	(77,933)	(8,226)
Incentive stock options	27,528	31,280
Other	48,433	105,423
	<u>\$ 1,040,200</u>	<u>\$ 2,361,600</u>

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

9. INCOME TAXES (concluded)

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

	2008	2007
Deferred tax assets		
Allowance for loan losses	\$ 1,681,000	\$ 1,175,700
Employee benefit plans	325,800	261,500
Other	131,200	35,400
	<u>2,138,000</u>	<u>1,472,600</u>
Deferred tax liabilities		
Net unrealized gain on securities available-for-sale	125,600	89,000
Depreciation	134,100	225,200
Other	134,500	126,300
	<u>394,200</u>	<u>440,500</u>
Net deferred tax asset	<u>\$ 1,743,800</u>	<u>\$ 1,032,100</u>

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

10. EARNINGS PER SHARE

The following sets forth the computation of basic and diluted earnings per share for 2008 and 2007:

	2008	2007
Net income, as reported	<u>\$ 2,027,744</u>	<u>\$ 3,861,653</u>
Weighted-average shares outstanding	1,020,926	1,016,331
Effect of dilutive employee stock options	–	6,574
Effect of unvested stock grant	1,150	450
Adjusted weighted-average shares and assumed conversion	<u>1,022,076</u>	<u>1,023,355</u>
Basic earnings per share	\$ 1.99	\$ 3.80
Diluted earnings per share	\$ 1.98	\$ 3.77

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

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

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

At December 31, 2008 and 2007, the following financial instruments were outstanding whose contract amounts represent credit risk:

	CONTRACT AMOUNT	
	2008	2007
Commitments to grant loans	\$ 50,685,785	\$ 52,963,883
Commercial and standby letters-of-credit	\$ 3,298,627	\$ 3,858,605

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 Company, is based on management's credit evaluation of the customer.

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

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

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

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

12. LEGAL CONTINGENCIES

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

13. SHAREHOLDERS' EQUITY AND REGULATORY MATTERS

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital to average assets (as defined). Management believes that, as of December 31, 2008, the Company and its bank subsidiary meet all capital requirements to which they are subject. As of December 31, 2008, the most recent notification from the OCC categorized the banking subsidiary as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, a financial institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. Prompt corrective action provisions are not applicable to bank holding companies.

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

	ACTUAL		MINIMUM CAPITAL REQUIREMENT		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
December 31, 2008			<i>(dollars in thousands)</i>			
Total Capital to						
Risk-Weighted Assets	\$ 33,691	14.5%	\$ 18,601	8.0%	\$ 23,252	10.0%
Tier 1 Capital to						
Risk-Weighted Assets	\$ 30,753	13.2%	\$ 9,301	4.0%	\$ 13,951	6.0%
Tier 1 Capital to						
Average Assets	\$ 30,753	8.9%	\$ 13,823	4.0%	\$ 17,279	5.0%
December 31, 2007						
Total Capital to						
Risk-Weighted Assets	\$ 32,804	14.1%	\$ 18,580	8.0%	\$ 23,225	10.0%
Tier 1 Capital to						
Risk-Weighted Assets	\$ 29,895	12.9%	\$ 9,290	4.0%	\$ 13,935	6.0%
Tier 1 Capital to						
Average Assets	\$ 29,895	9.3%	\$ 12,912	4.0%	\$ 16,141	5.0%

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

13. MINIMUM REGULATORY CAPITAL REQUIREMENTS *(concluded)*

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

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

14. EMPLOYEE BENEFITS

The Company sponsors a 401(k) profit sharing plan which covers all employees who are at least 21 years of age and who have completed one year of employment. Eligible employees contribute a percentage of their annual compensation to the 401(k) plan and the Company matches a certain portion of employee contributions. In addition, the Company may make discretionary contributions on behalf of employees under the plan. For the years ended December 31, 2008 and 2007, expense attributable to the plan amounted to \$322,556 and \$580,082, respectively.

Included in accrued expenses and other liabilities in the balance sheets at December 31, 2008 and 2007 are liabilities established pursuant to deferred compensation agreements with certain officers of the Company of \$822,487 and \$660,272, respectively. Deferred compensation expense related to these plans amounted to \$179,316 and \$121,896 for the years ended December 31, 2008 and 2007, respectively.

15. WARRANTS

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

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

On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) for the incentive stock option and restricted stock grants relating to the current plan and previous plans. In accordance with the provisions of SFAS No. 123(R), the Company recorded \$80,960 and \$92,000 of compensation expense during the years ended December 31, 2008 and 2007, respectively. Total compensation expense related to nonvested awards not yet recognized is \$98,361 as of December 31, 2008 and is expected to be recognized over a weighted average period of 1.4 years.

Under the current plan, the Company granted 850 shares of restricted stock in 2008 with a fair value of \$49.19 at grant date. This grant vests over three years and, combined with 300 shares from 2007, comprises the Company's nonvested restricted stock awards at December 31, 2008. The Company granted 450 shares of restricted stock in 2007 with a fair value of \$43.95 at grant date of which 150 shares vested during 2008. The grant vests over three years. At the closing price on December 31, 2008 of \$37.05, the total fair value of restricted stock awards vested during 2008 was \$5,557. The weighted-average grant date fair value of the 1,150 nonvested restricted stock awards at December 31, 2008 was \$47.82.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

15. WARRANTS (concluded)

The fair value of warrants granted during 2008 and 2007 was \$4.02 and \$7.22, 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:

	2008	2007
Dividend yield	3.35%	2.30%
Risk-free interest rate	3.77%	4.05%
Expected life	10 Years	10 Years
Expected volatility	10.62%	6.49%

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

A summary of warrant activity as of December 31, 2008 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	40,225	\$ 43.28		
Granted	1,000	37.00		
Exercised	(2,364)	34.78		\$ 33,130
Forfeited or expired	(561)	34.68		
Outstanding at December 31, 2008	38,300	\$ 43.77	6.3 years	\$ -
Exercisable at December 31, 2008	28,600	\$ 41.53		\$ -

The aggregate intrinsic value of warrants exercised during 2008 and 2007 was \$33,130 and \$140,306, respectively.

Information pertaining to warrants outstanding at December 31, 2008 is as follows:

RANGE OF EXERCISE PRICES	WARRANTS OUTSTANDING			WARRANTS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$32.00 - \$41.84	26,000	5.1 years	\$ 39.74	24,500	\$ 39.73
\$43.95 - \$53.52	12,300	8.7 years	52.28	4,100	52.28
Outstanding at end of year	38,300	6.3 years	\$ 43.77	28,600	\$ 41.53

The remaining number of warrants available to be granted was 51,911 and 53,200 at December 31, 2008 and 2007, respectively.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

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:

	2008	2007
Income		
Gain on sale of loans	\$ 158,754	\$ 286,184
Expenses		
Credit card charges	\$ –	\$ 288,797
Advertising	374,153	319,481
	\$ 374,153	\$ 608,278

17. RELATED PARTY TRANSACTIONS

The Company has had, and may be expected to have in the future, transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans granted to related parties amounted to \$1,187,307 and \$1,348,200 at December 31, 2008 and 2007, respectively.

During January 2007, the banking subsidiary entered into a long-term lease with a company whose sole owner is a director and shareholder of the Company. This lease is for space that is the new headquarters for the Bank's Ledyard Financial Advisors division. The lease has an initial term of 10 years and calls for initial annual payments of \$320,000. The lease has three five-year options to renew.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. The Statement defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2008, USING		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
DECEMBER 31, 2008			
Assets:			
Securities available for sale (market approach)	\$ 52,127,162	\$ 5,226,319	\$ 46,900,843
			\$ -

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

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2008, USING		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
DECEMBER 31, 2008			
Assets:			
Impaired loans (market approach)	\$ 3,247,185	\$ -	\$ 3,247,185
Loans held for sale (market approach)	\$ 832,000	\$ -	\$ 832,000
			\$ -

Impaired loans were written down to their fair value of \$3,247,185, resulting in an impairment charge through the provision for loan losses, which was included in earnings for the period. Loans held for sale are recorded at the lower of cost or fair value with any resulting adjustment to fair value included in earnings for the period.

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

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 Company.

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

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

Securities: Fair values for securities, excluding Federal Home Loan Bank stock and Federal Reserve Bank stock, are determined by obtaining quoted market prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

18. FAIR VALUE OF FINANCIAL INSTRUMENTS *(concluded)*

by relying on the securities' relationship to other benchmark quoted securities. The carrying value of Federal Home Loan Bank Stock and Federal Reserve Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank and Federal Reserve Bank.

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

Loans receivable: For variable-rate loans that 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.

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

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

Accrued interest: The carrying amounts of accrued interest approximate fair value.

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

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

	2008		2007	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets				
Cash and cash equivalents	\$ 25,458,223	\$ 25,458,223	\$ 31,456,379	\$ 31,456,379
Securities available-for-sale	52,127,162	52,127,162	30,480,552	30,480,552
Securities held-to-maturity	39,877,414	40,751,936	22,134,195	22,004,906
Federal Home Loan Bank and Federal Reserve Bank stock	2,010,900	2,010,900	1,091,100	1,091,100
Loans and loans held for sale, net	226,405,155	227,973,766	228,779,037	229,196,631
Accrued interest receivable	1,325,024	1,325,024	1,295,380	1,295,380
Financial liabilities				
Deposits	295,585,570	295,768,990	276,933,492	278,223,037
Repurchase agreements	14,427,836	14,427,836	14,759,226	14,759,226
Advances from Federal Home Loan Bank	21,868,067	21,590,165	1,551,455	1,550,825
Accrued interest payable	264,532	264,532	228,928	228,928

BOARD of DIRECTORS and SENIOR MANAGEMENT

BOARD OF DIRECTORS

Douglas G. Britton

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

Cotton M. Cleveland

President, Mather Associates

Richard W. Couch, Jr.

*Chairman, President and Chief Executive Officer,
Hypertherm, Inc.*

L. Joyce Hampers

*Attorney, Former U.S. Assistant Secretary
of Commerce and President, Joymark, Inc.;
Retiring – May, 2009*

Adam M. Keller

*Executive Vice President, Finance and Administration,
Dartmouth College*

Dennis E. Logue

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

Frederick A. Roesch

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

Andrew A. Samwick

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

Deirdre Sheerr-Gross, AIA

*Principal, Sheerr and White,
Residential Architecture*

Bayne Stevenson

President, Bayson Company

Kathryn G. Underwood

*President and Chief Executive Officer,
Ledyard Financial Group/Ledyard National Bank*

James W. Varnum

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

SENIOR MANAGEMENT

Kathryn G. Underwood

*President and Chief Executive Officer,
Ledyard Financial Group/Ledyard National Bank*

Gregory D. Steverson

*Executive Vice President and Chief Financial Officer,
Ledyard Financial Group/Ledyard National Bank*

Robert T. Boon

*Executive Vice President and Managing Director,
Ledyard Financial Advisors/Ledyard National Bank*

Martha P. Candon

*Senior Vice President and Senior Retail
Banking Officer, Ledyard National Bank*

Jeffrey H. Marks

*Senior Vice President, Marketing and
Client Experience Officer, Ledyard National Bank*

Darcy D. Rogers

*Senior Vice President and Chief Operations Officer,
Ledyard National Bank*

Darlene E. Romano

*Senior Vice President, Human Resources and Finance,
Ledyard National Bank*

Daniel X. Stannard, Jr.

*Senior Vice President and Senior Loan Officer,
Ledyard National Bank*

D. Rodman Thomas

*Senior Vice President and Director of Client Relations,
Ledyard Financial Advisors/Ledyard National Bank*

As of March 6, 2009

*For a current listing of Boards, Senior
Management and Officers, please visit the
“About Us” section of our website at
www.ledyardbank.com.*

MISSION STATEMENT

Ledyard National Bank is committed to being the Financial Services institution of choice by combining innovation with unparalleled personalized customer service. We offer our employees a challenging and rewarding work experience. As a result of our efforts, Ledyard customers receive superlative financial services and our shareholders experience consistent and superior returns.



LEDYARD NATIONAL BANK

HANOVER:

38 Main Street | 603-643-2244 | Lobby, Walk-Up and ATM
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

NORWICH, VERMONT:

320 Main Street | 802-649-2050 | Lobby, Drive-Up and ATM

WEST LEBANON:

67 Main Street | 603-298-9444 | Lobby, Drive-Up and ATM
Powerhouse Mall ATM

WHITE RIVER JUNCTION, VERMONT:

Gateway Motors | Sykes Avenue ATM

INTERNET BANKING: www.ledyardbank.com

KWIKTEL PHONE BANKING: 1-888-KWIKTEL (1-888-594-5835)

MEMBER FDIC



LEDYARD FINANCIAL ADVISORS

HANOVER:

2 Maple Street | 603-643-0044

NEW LONDON:

178 County Road | 603-526-7725

Non-deposit investment products are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by the Bank or any affiliate, and are subject to investment risk including the possible loss of principal amount invested.



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