2010 ANNUAL REPORT

Celebrating 20 years

MISSION STATEMENT

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

FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)

YEARS-ENDED DECEMBER 31,	**2010**	2009	2008	2007	2006
FINANCIAL CONDITION DATA					
Assets	$ 394,785	$ 393,690	$ 363,188	$ 325,803	$ 320,230
Investments	144,577	152,473	94,015	53,706	48,278
Net loans, including loans held-for-sale	203,297	197,593	226,405	228,879	218,869
Deposits	308,059	320,129	295,586	276,933	271,142
Federal Home Loan Bank advances	26,915	24,718	21,868	1,551	3,214
Shareholders' equity	33,533	33,082	31,283	30,517	27,271
OPERATING DATA					
Net interest income	$ 12,066	$ 12,515	$ 12,892	$ 12,480	$ 12,099
Provision for loan loss	450	2,250	3,123	705	525
Non-interest income	7,993	7,211	6,569	6,754	6,282
Non-interest expense	16,143	15,130	13,270	12,306	11,894
Income taxes	937	565	1,040	2,361	2,176
Net income	2,529	1,780	2,028	3,862	3,787
OTHER DATA					
Earnings per share, basic	$ 2.47	$ 1.74	$ 1.99	$ 3.80	$ 3.75
Dividends per share	$ 1.24	$ 1.24	$ 1.24	$ 1.16	$ 1.08
Dividend payout ratio	50%	71%	62%	31%	29%
Book value per share	$ 32.71	$ 32.37	$ 30.61	$ 29.95	$ 26.99
Shares outstanding	1,025,165	1,021,931	1,021,510	1,018,996	1,010,246
Return on average assets	0.63%	0.47%	0.62%	1.20%	1.31%
Return on average equity	7.38%	5.53%	6.68%	13.37%	14.66%
Equity to asset ratio	8.56%	8.40%	8.61%	9.37%	8.52%
Allowance for loan losses to total loans	3.01%	3.11%	2.13%	1.45%	1.27%

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

As we celebrate our twentieth anniversary in 2011, it is helpful to look back at how we got here and ahead to what the future has in store for our bank and our clients. We have come a long way from our humble beginnings in the basement of McLaughry's Real Estate. We now have eight locations and over one hundred employees throughout the Upper Valley and Lake Sunapee Region. We no longer have to sort checks manually – machines and computers have automated and simplified much of the banking process. But our philosophy of personal, professional service is still the cornerstone of our business.

A NEW KIND OF UPPER VALLEY BANK

Twenty years ago, banking in the Upper Valley was very different than it is today. Long-established community banks were being sold and merged into larger financial institutions. Consumers in the region had few options as to where they conducted their banking. The landscape was dominated by large banks, which were too restrictive and didn't offer the kind of flexibility most individuals and small businesses required. A small, entrepreneurial group of local business leaders, including current Directors Dennis Logue, Bayne Stevenson and Dick Couch, thought their community deserved a better choice. They founded Ledyard National Bank as the premier independent resource for accessible and highly personalized banking, owned and operated by committed citizens of the community. "Banking the Way It Should Be" was the motto on which they founded Ledyard National Bank and that principle of delivering the best products, services and advice to meet our clients short term and long term needs still guides us today. To that end, our culture is still about relationships, partnerships and client education. Our culture is even evident in our quest to attract, train and retain the best people to deliver on promises we make to our clients and prospects each and every day.

As we look back nostalgically on the last twenty years, we find great inspiration in our founding ideals. At the same time, we recognize and embrace the notion that we've evolved to become a premier financial institution in the Upper Valley and Lake Sunapee Region. That evolution led us in 2010 to refine our brand promise. In effect, we better defined, articulated and formalized the way we conduct business in order to best meet the needs of our clients and the community. In the process, we updated our logo and tagline to succinctly convey the essence of our mission – "Plan well. Live well." We believe that educating, advising and guiding our clients to plan their financial futures will ultimately put them in positions to enjoy the rewards of that careful planning. In the end, our goal is to help each client fulfill the life that he or she envisions. We strive to fulfill this promise by focusing our efforts on developing and deepening our client relationships – truly learning about them in a way that allows us to coordinate all aspects of their finances and provide comprehensive financial services. It is our relationship-based, consultative approach that truly sets us apart. Expanding upon this concept, Ledyard is uniquely positioned to work with clients at all stages of their financial progression, beginning with basic banking products, extending to brokerage services and then elevating to full wealth management.

RELATIONSHIPS ARE WHAT MAKE US STRONG

As we stated earlier, the "Ledyard experience" is rooted in the client relationship, with the hope and expectation that we will be viewed as partners in achieving our clients' goals and dreams. We also deeply believe in the relationship we have with our broader community and have taken steps to improve the economic health of the area. Specific to that mission, in the summer of 2010, we established a $50 million lending goal to help local businesses, families and communities grow and prosper during these challenging times. As we sit down to write this letter, we are more than 90% of the way to our goal, having injected more than $45 million back into the local economy in the form of business loans, mortgages and more.

While we take great pride in allocating money across the region, we also know that to create sustained growth, we must provide other local decision-makers with the knowledge, tools and skills to make their own powerful contributions locally. Therefore, we created the Leading Women initiative, which brings local women business owners and managers together six

times a year to provide education on topics that will help them more effectively run their businesses. The program provides a unique forum for women in business to experience the Ledyard ideal of "Plan well. Live well." through speaker and panelist presentations that focus on topics most pertinent to business women in our community. For example, our seminar on the importance of a business plan addressed key issues related to preparing and following a plan to achieve their goals, and our session on Human Resources issues highlighted the legal and financial implications of key HR decisions. Similarly, our seminar on achieving work-life balance created a forum for discussing the many ways our panelists and guests can achieve balance in their busy lives.

In 2010, we took important steps to demonstrate the value of our "Plan well. Live well." motto. We recently introduced our Personal Financial Management tool, an account aggregation product that allows clients to see each of their accounts from all other financial institutions in one concise online statement. It offers a budgeting component that allows them to manage their accounts and, from a financial planning standpoint, it even provides users with the ability to categorize, track and forecast expenses. By empowering clients to see their own "big picture," and combining that with Ledyard's ability to propose creative, sound solutions, we've developed a recipe that maximizes the client relationship. It puts the individuals and businesses that place their trust in Ledyard in the best possible positions to reach their goals.

POSITIONED FOR THE FUTURE

Our success is also apparent in our financial results. We are reporting record revenue of $20,059,289 for Ledyard Financial Group, Inc. in 2010. These results were, in part, due to substantial growth from Ledyard Financial Advisors which, as of year-end, had clients in 29 states and 5 foreign countries. The Financial Advisors' 2010 revenue of $6,051,900 was a new high and represents an 18% increase over 2009. Additionally, the Financial Advisors division maintained an exceedingly high retention rate, which further supported its reputation as a valued financial partner and was a factor in its profitability. In fact, 99% of those who trusted us with their wealth remain loyal clients and continue to offer the most positive feedback to their friends and neighbors as well as to our employees. That feedback is a result of Ledyard's true commitment to delivering comprehensive financial services. One example is the Financial Advisors' tax preparation services, which are growing steadily. Those who take advantage of the service note the convenience of allowing the financial partners who know them best to handle such an important and strategic element of their finances.

Entering our twentieth year, we are looking forward to building upon the vision established by the organization's founders by finding new and innovative ways to provide our neighbors with the attention, care and personalized service that only a true community bank can provide. We are excited about our ability to deliver sustainable growth to our shareholders and a rewarding work experience for our employees.

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

Kathryn Underwood

KATHRYN G. UNDERWOOD

PRESIDENT & CEO
LEDYARD FINANCIAL GROUP/
LEDYARD NATIONAL BANK

Dennis E. Logue

DENNIS E. LOGUE

CHAIR
LEDYARD FINANCIAL GROUP/
LEDYARD NATIONAL BANK

Originators/Founding Board of Directors, Ledyard National Bank, First Anniversary, May 1992

Nine-year-old Allison Rogers opened the very first Ledyard account

WHERE WE BEGAN

A lot has changed since February 1991 (three months before Ledyard opened to the public), when five employees started in the basement of McLaughry's Real Estate. The employees we hired were hand picked from other area banks, with an emphasis on knowledge, experience and quality service. On our opening day in May, we had twelve employees. Those employees worked tirelessly, and during the first three months, Ledyard brought in $1 million per week in deposits – exceptionally fast growth for a small community bank in those days.

The influx of deposits began with Allison Rogers, the daughter of Chief Operations Officer, Darcy Rogers. She opened the very first Ledyard account – a Passbook Savings Account which was a popular product back then. She was nine years old at the time. In 2010, at the age of 28, she came back to the bank to refinance her mortgage and to open an account for her daughter. These types of generational relationships have been a cornerstone of Ledyard's business and will be for years to come.

Another key milestone occurred in 1994 when we opened the Investment & Trust Division. This entity became a true wealth management group in 2008, taking the name Ledyard Financial Advisors, and providing services ranging from investment management and retirement planning to charitable gifting and tax planning and preparation.

Our growth has been met with wide praise and we are proud of the relationships we've built and maintained over the years. Marcia Stone and her family are a great example of how our long standing client relationships have developed over time. "We've been with Ledyard Financial Advisors since 1998," said Marcia. "Starting with investment advice and estate planning, we soon accessed Ledyard's charitable gifting and tax preparation services. Over the years we have developed a close relationship with our account manager and the financial advisory team, who really know us. Ledyard has become indispensable to us. The financial results have been good through thick and thin. We feel we are in very good hands, compared to other large firms where we would be just a number."

As our capabilities grew, our staff steadily increased, reaching 50 employees in 1996 and then doubling to over 100 in 2010. Our intent to become the premier independent resource for accessible and highly personalized banking, owned and operated by committed citizens of the community has been realized. Today, we have seven locally managed branches, serve five communities in the Upper Valley and Lake Sunapee Region and have expanded our services to assist our clients at any stage in their financial growth. In essence, Ledyard's vision for superior client service is measured against our clients' goals. By focusing on relationships rather than transactions, we've built a service model that truly puts us in a position to help clients achieve their life aspirations.

CONNECTED TO THE COMMUNITY

Our bank and its staff have been honored with numerous community and industry awards over the past year:

Kathy Underwood, President and CEO, was named one of New Hampshire's Outstanding Women in Business for 2010.

Ledyard Financial Group, Inc., the holding company for Ledyard National Bank, was ranked among *U.S. Banker* magazine's Top 200 Community Banks in the United States for the fourth consecutive year.

Kathy Underwood (left), President and CEO, was named one of New Hampshire's Outstanding Women in Business for 2010; pictured with presenter, Sharron McCarthy, president of McLean Communications, Inc.

Ledyard's Leading Women seminars are well attended by influential community businesswomen

Ledyard employees joined with their community for a Day of Caring, volunteering at several local non-profit organizations

Kathy Underwood accepting the HACC Business Leadership Award from presenter, Bayne Stevenson

Ledyard was presented with the Hanover Area Chamber of Commerce's Business Leadership Award. We were the first bank to win this award and we were acknowledged for helping to invigorate the economic health of the area we serve, while contributing to the well-being of the Upper Valley.

These awards serve as reminders of the many ways we have helped the individuals, businesses and non-profit organizations that rely on us for prudent advice, guidance and financial support. Taking it a step further, they also provide the motivation to surpass our previous successes and set the bar higher as we seek to further impact the communities we serve. For example, in 2010 we joined forces in a newly created partnership with the United Way's local chapter, as well as Dartmouth College and three other highly respected businesses to kick off the Upper Valley's first Day of Caring event. Our employees volunteered their time at more than a dozen local non-profit organizations and helped less fortunate members of the community.

Assistant Vice President and Banking Office Manager, Sandy Clavelle, consults with a client on her personal banking needs

Deb Johnson, Vice President and Commercial Relationship Officer, discusses a business opportunity with a client

Here are a few examples of how we have been able to help the people and businesses of our region:

Gateway Motors, Inc.

Ledyard's partnership with brothers, Allen and Charlie Hall of Gateway Motors, an Upper Valley car dealership, began as a simple banking relationship for deposit services. But when crisis struck their industry in 2008, Gateway realized that they needed help, and they reached out to the bank they trusted. We worked closely with them over the next two years, helping them map out a business plan, and helping to secure loans that would help them weather the financial storm that was affecting their industry. Ledyard collaborated with the company and their accountant on specific financial strategies and plans, and provided the guidance and working capital necessary to ensure the business could continue its operations. The mix of advice, planning and financial support enabled the company to move forward and positively impacted the lives of Gateway's 50+ employees.

As Allen and Charlie note, "Representatives from Ledyard met with us and our team once a month for those two years. They were there for us at the key moments. When the auto industry was in crisis, they had the ability to see the challenges we faced and still believed in us. They stayed with us, saw us through it and helped us to plan well, which is why we are still here."

New England Dermatology, PLC

For Dr. Dan McGinley-Smith, relationship banking meant that the same bank helping him secure financing to start his own practice could also help him plan for his family's future. Dr. McGinley-Smith developed a strong partnership with his Commercial Relationship Officer Dan Emanuele, which he said changed his view of bankers. "He had my best interests in mind from the start, driving 35 minutes to my office simply to meet me and set up my deposit account. And since that time three years ago, he has literally travelled the road to my dream practice alongside me," said the doctor. Ledyard

was able to provide Dr. McGinley-Smith with a series of loans for the purchase and renovation of his practice, and a credit line to support short-term working capital needs. But more importantly, Dan and the Ledyard team provided their expertise to help Dr. McGinley-Smith make the right strategic decisions at the right time. As the doctor pointed out, "When I was researching commercial real estate opportunities, he drove with me to help evaluate them personally. When the economy crashed, he spoke with me at night from home to reassure me that he would find a way to make my upcoming real estate closing happen. When it came time to place an order for medical equipment, he secured the large purchase by personally communicating with the medical supply company."

The exceptional client service he received from Ledyard was not just about one Relationship Manager. Ledyard's integrated banking services also came in handy as Dr. McGinley-Smith's local branch manager worked late to help him set up automatic transfers. He even mentioned that our tellers know his name, even though he rarely makes deposits in person.

Dr. McGinley-Smith went on to say, "This past fall, having completed my Dermatology practice expansion, I wrote a letter of appreciation to Kathryn Underwood, President and CEO of Ledyard National Bank. Ms. Underwood promptly came to my office to thank me for my letter, to honor her employee, and to share her vision of a bank that is proud to build lifelong relationships. Her feeling is that exceptional customer service, based on meaningful personal relationships is exactly what she strives for within her organization."

"Without Ledyard National Bank, I'm not sure I would have my dream medical practice today. If you told me three years ago that I would have a banker at my kitchen table, or share a meal with a bank president, I wouldn't have believed you."

When all is said and done, Ledyard is about helping its clients, neighbors and friends put their children through college, take care of their aging parents, pass down their businesses to the next generation or perhaps even travel the world.

Plan well. *Live well.*

Grady George, Senior Financial Advisor, checks in with a client

John O'Dowd, Senior Financial Advisor, reviews an investment strategy with clients

REVIEW OF FINANCIAL STATEMENTS

The discussion and analysis which follows focuses on the factors affecting the Company's financial condition at December 31, 2010, and 2009 and its results of operations for the years ended December 31, 2010, and 2009. The Financial Statements and Notes to the Financial Statements should be read in conjunction with this review.

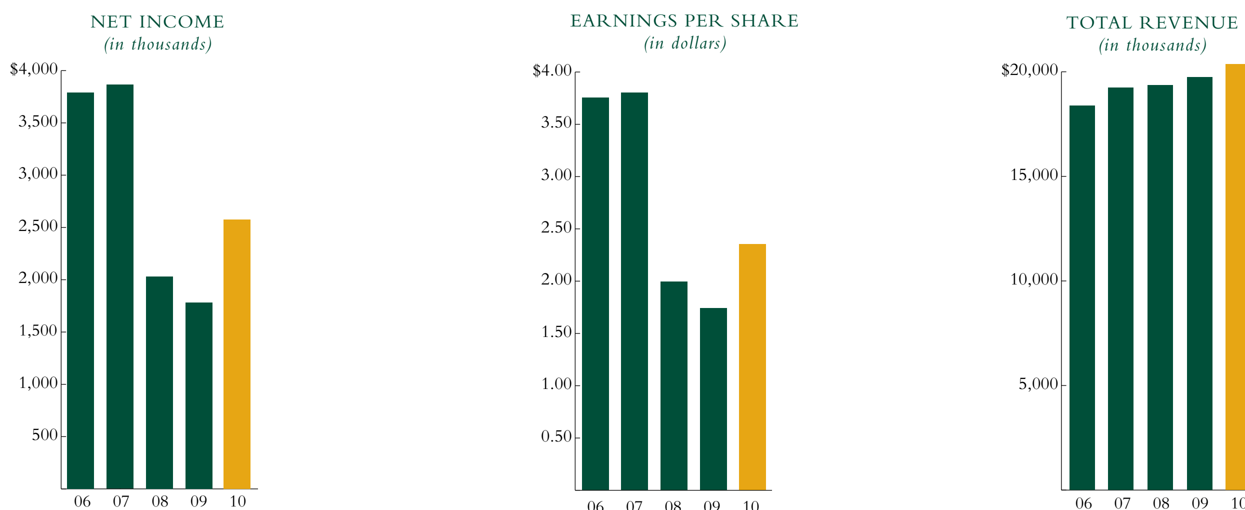
STATEMENT OF INCOME

Net income was $2,528,888, or $2.47 per share for the twelve months ended 2010 as compared to $1,780,381, or $1.74 per share for 2009, an increase of $748,507, or 42.04%. Total revenue for the year ended December 31, 2010, was a record high of $20,059,289, compared to $19,725,953 for the same period in 2009. Net interest income for the year ended December 31, 2010, was $12,066,368 compared to $12,515,349 for the same period in 2009. The primary contributors to our income being up for the year were the decrease of funds being added to our allowance for loan losses and the increase in revenue from Ledyard Financial Advisors.

Interest and fees on loans totaled $10,310,982 for the year ended December 31, 2010, as compared to $12,046,519 for 2009. This decrease of $1,735,537, or 14.41%, was due to a decrease in interest rates that occurred during 2010. Investment income for the year ended December 31, 2010, totaled $4,662,233 as compared to $4,762,210 for 2009, a decrease of $99,977, or 2.10%.

The Company's interest expense on deposits was $1,953,949 for the year ended December 31, 2010, as compared to $3,472,489 for the year ended December 31, 2009, a decrease of $1,518,540, or 43.73%. Deposit rates were lowered throughout the year to reflect the changes in interest rates resulting in lower interest paid. Interest expense on borrowed funds increased $132,007, or 16.08% for the year ended December 31, 2010, totaling $952,898 as compared to $820,891 at December 31, 2009. The increase was primarily due to the increase in borrowings from the Federal Home Loan Bank.

During 2010, the Company added $450,000 to the allowance for loan losses (the "allowance") and realized net charge-offs of $489,467 resulting in a net decrease in the allowance of $39,467 and a total allowance of $6,306,122, or 3.01% of total loans. The determination of an appropriate level of 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 of the adequacy of the allowance is performed each quarter by management. Management believes that the allowance at December 31, 2010, was appropriate given the current economic conditions in the Company's service area.



Non-interest income totaled a record high of $7,992,921 in 2010 as compared to $7,210,604 in 2009, an increase of $782,317, or 10.85%. Income from the Company's Ledyard Financial Advisors Division totaled an all-time high of $6,051,900, up from $5,124,844 in 2009, an increase of $927,056, or 18.09%. This increase in revenue was a result of new business activity and market conditions during 2010. Service fees and other non-interest income decreased by $144,739 during 2010. Non-interest expense totaled $16,143,151 for 2010 as compared to $15,130,330 in 2009, an increase of $1,012,821, or 6.69%.

FINANCIAL CONDITION

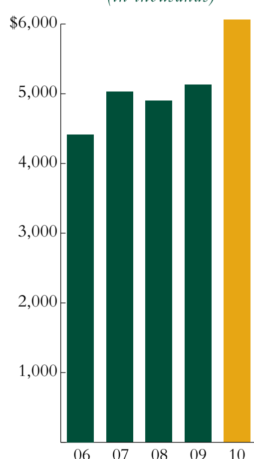
At year-end, total assets were $394,784,563 compared to $393,690,123 at December 31, 2009, an increase of $1,094,440, or .28%. The change in assets consisted primarily of an increase in net loans, including loans held-for-sale, offset by a decrease in investment securities.

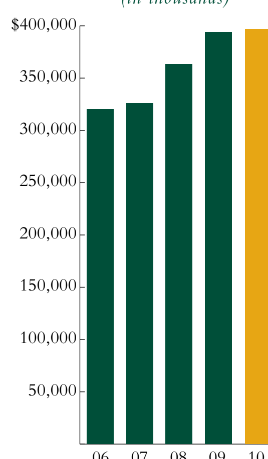
The Company maintains investments in interest bearing deposits and investment securities in order to diversify its revenue, as well as to provide interest rate and credit risk diversification. These investments also provide for liquidity and funding needs. Total investments decreased $6,950,491, or 4.03%. This decrease consisted of an increase in securities available-for-sale of $3,503,259, an increase in cash and cash equivalents of $944,793 and a decrease in securities held-to-maturity of $11,779,943. During 2010, the Company purchased $62,267,026 of available-for-sale and held-to-maturity securities and realized proceeds from sales, maturities and pay downs of available-for-sale and held-to-maturity securities totaling $71,744,707.

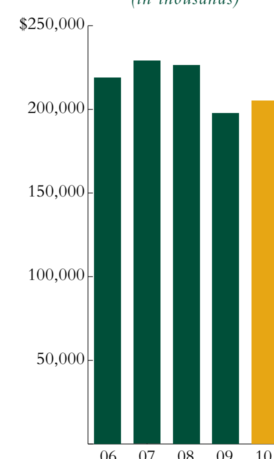
The Company provides loans primarily to customers located within its geographic market area. Net loans, including loans held-for-sale, totaled $203,296,635 at December 31, 2010, a $5,703,388, or 2.89% increase from a year ago.

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 business customers within its geographic marketplace. Total commercial loans decreased by $11,751,445, or 11.61%, during 2010.

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 may retain ten and fifteen year fixed-rate mortgages. Residential real estate loans increased by $16,047,367, or 16.74% in 2010.







Consumer loans are originated by the Company for a wide variety of purposes designed to meet the needs of its customers. Consumer loans include overdraft protection, automobile, boat, recreation vehicles, home equity, and secured and unsecured personal loans. Consumer loans increased by $1,406,756, or 20.87%, in 2010.

Deposits continue to represent the Company's primary source of funds. In 2010, total deposits decreased by $12,070,635, or 3.77% over 2009, ending the year at $308,058,793. Comparing year-end balances in 2010 to 2009, NOW accounts increased by $6,446,597, time deposits decreased by $19,508,310, money market and savings accounts decreased by $3,311,066 and demand deposits increased by $4,302,144.

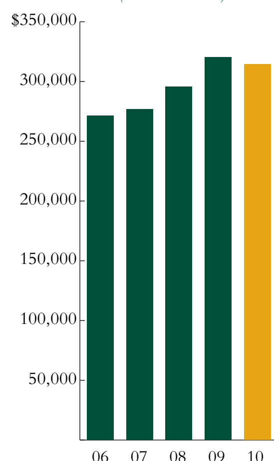
Borrowings supplement deposits as a source of liquidity. In addition to borrowings from the Federal Home Loan Bank, the Company purchases federal funds and sells securities under agreements to repurchase. Total borrowings were $48,790,380 at December 31, 2010, compared to $38,431,680 at December 31, 2009, an increase of $10,358,700. The borrowings were distributed between securities sold under agreements to repurchase and advances from the Federal Home Loan Bank. In addition to the liquidity sources discussed above, the Company believes the investment portfolio and residential loan portfolio provide a significant amount of contingent liquidity that could be accessed in a reasonable time period through sales or pledging, if needed. The Company believes that the level of liquidity is sufficient to meet current and future funding requirements.

Shareholders' equity was $33,533,011 on December 31, 2010, compared to $33,081,984 on December 31, 2009, an increase of $451,027. The increase was primarily attributable to net income of $2,528,888 less $1,272,669 in cash dividends to the Company's shareholders and a decrease in accumulated other comprehensive income of $957,297. The Company's book value per share on December 31, 2010, was $32.71 per share based on 1,025,165 shares outstanding, an increase of $0.34 per share from a year earlier.

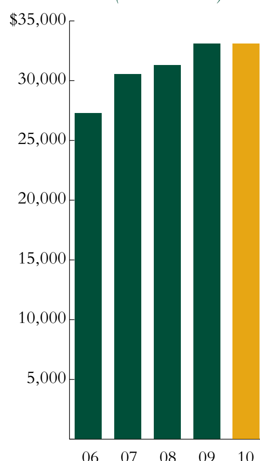
GREGORY D. STEVERSON

EXECUTIVE VICE PRESIDENT, CHIEF FINANCIAL OFFICER,
LEDYARD FINANCIAL GROUP/LEDYARD NATIONAL BANK

TOTAL DEPOSITS
(in thousands)



SHAREHOLDERS' EQUITY
(in thousands)



BOOK VALUE PER SHARE
(in dollars)

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

We have audited the accompanying consolidated balance sheets of Ledyard Financial Group, Inc. and Subsidiary (the Company) as of December 31, 2010 and 2009, 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, 2010 and 2009, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Berry, Dunn, McNeil & Parker

Portland, Maine
February 14, 2011

BERRY.DUNN.MCNEIL & PARKER
BDMP
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

December 31, 2010 and 2009

	2010	*2009*
ASSETS		
Cash and due from banks	$ 15,792,334	$ 8,887,901
Interest bearing deposits	5,215,612	11,175,252
Total cash and cash equivalents	**21,007,946**	20,063,153
Securities available-for-sale	117,784,676	114,281,417
Securities held-to-maturity	24,397,902	36,177,845
Nonmarketable equity securities	2,394,700	2,013,300
Loans held-for-sale	2,387,700	112,500
Loans receivable, net of allowance for loan losses of $6,306,122 in 2010 and $6,345,589 in 2009	200,908,935	197,480,747
Other real estate owned	-	265,865
Accrued interest receivable	1,567,150	1,564,322
Premises and equipment, net	8,260,544	8,534,250
Bank owned life insurance	8,697,817	8,347,073
Prepaid FDIC insurance	1,373,335	1,826,655
Other assets	6,003,858	3,022,996
	$ 394,784,563	$ 393,690,123
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Demand	$52,888,258	$48,586,114
NOW accounts	58,704,823	52,258,226
Money market accounts	114,851,231	120,334,539
Savings	16,932,514	14,760,272
Time, $100,000 and over	31,648,108	44,210,203
Other time	33,033,859	39,980,074
Total deposits	**308,058,793**	320,129,428
Securities sold under agreements to repurchase	21,875,815	13,713,739
Advances from Federal Home Loan Bank	26,914,565	24,717,941
Accrued expenses and other liabilities	4,402,379	2,047,031
Total liabilities	**361,251,552**	360,608,139
Commitments and contingencies (Notes 5, 11, 12, 13, 14 and 15)		
Shareholders' equity		
Common stock, $1.00 par value; 5,500,000 shares authorized, 1,025,165 and 1,021,931 shares issued at December 31, 2010 and 2009, respectively	1,025,165	1,021,931
Additional paid-in capital	10,079,813	9,870,192
Treasury stock, at cost; 7,750 and 5,500 shares at December 31, 2010 and 2009, respectively	(284,555)	(223,805)
Retained earnings	22,268,475	21,012,256
Accumulated other comprehensive income	444,113	1,401,410
Total shareholders' equity	**33,533,011**	33,081,984
	$ 394,784,563	$ 393,690,123

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

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2010 and 2009

	2010	2009
Interest and dividend income		
Interest and fees on loans	$ 10,310,982	$ 12,046,519
Investment securities	4,606,392	4,699,435
Other interest-earning assets	55,841	62,775
Total interest and dividend income	**14,973,215**	16,808,729
Interest expense		
Deposits	1,953,949	3,472,489
Borrowed funds	952,898	820,891
Total interest expense	**2,906,847**	4,293,380
Net interest income	**12,066,368**	12,515,349
Provision for loan losses	450,000	2,250,000
Net interest income after provision for loan losses	**11,616,368**	10,265,349
Noninterest income		
Ledyard Financial Advisors division income	6,051,900	5,124,844
Service fees	969,900	1,059,022
Other	971,121	1,026,738
Total noninterest income	**7,992,921**	7,210,604
Noninterest expense		
Salaries and employee benefits	9,446,797	8,441,840
Occupancy and equipment	2,978,365	2,869,476
FDIC insurance fees	490,197	753,760
Other general and administrative	3,227,792	3,065,254
Total noninterest expense	**16,143,151**	15,130,330
Income before income taxes	**3,466,138**	2,345,623
Income tax expense	937,250	565,242
Net income	**$ 2,528,888**	$ 1,780,381
Basic earnings per share	$ 2.47	$ 1.74
Diluted earnings per share	$ 2.44	$ 1.73
Weighted average numbers of shares outstanding	1,023,548	1,021,721

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

Years Ended December 31, 2010 and 2009

	Common Stock	*Additional Paid-in Capital*	*Treasury Stock*	*Retained Earnings*	*Accumulated Other Comprehensive Income*	*Total*
BALANCE, DECEMBER 31, 2008	$ 1,021,510	$ 9,733,765	$ (223,805)	$ 20,508,054	$ 243,821	$ 31,283,345
Net income	–	–	–	1,780,381	–	1,780,381
Change in net unrealized appreciation on securities available-for-sale, net of deferred income taxes of $596,334	–	–	–	–	1,157,589	1,157,589
Total comprehensive income	–	–	–	1,780,381	1,157,589	2,937,970
Cash dividends paid, $1.24 per share	–	–	–	(1,276,179)	–	(1,276,179)
Stock-based compensation expense	–	136,848	–	–	–	136,848
Restricted stock issued (421 shares)	421	(421)	–	–	–	–
BALANCE, DECEMBER 31, 2009	1,021,931	9,870,192	(223,805)	21,012,256	1,401,410	33,081,984
Net income	–	–	–	2,528,888	–	2,528,888
Change in net unrealized appreciation on securities available-for-sale, net of deferred income taxes of $(493,153)	–	–	–	–	(957,297)	(957,297)
Total comprehensive income	–	–	–	2,528,888	(957,297)	1,571,591
Cash dividends paid, $1.24 per share	–	–	–	(1,272,669)	–	(1,272,669)
Stock repurchase (2,250 shares)	–	–	(60,750)	–	–	(60,750)
Stock-based compensation expense	–	212,855	–	–	–	212,855
Restricted stock issued (3,234 shares)	3,234	(3,234)	–	–	–	–
BALANCE, DECEMBER 31, 2010	**$ 1,025,165**	**$10,079,813**	**$ (284,555)**	**$22,268,475**	**$ 444,113**	**$33,533,011**

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

Years Ended December 31, 2010 and 2009

	2010	*2009*
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,528,888	$ 1,780,381
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization or accretion	1,106,100	727,925
Provision for loan losses	450,000	2,250,000
Net gain on sale of securities	(11,169)	-
Deferred income tax benefit	(303,200)	(634,900)
Fair value of stock awards vested during the year	212,855	136,848
(Gain) loss on sale of other real estate owned, net	(78,146)	57,149
Increase in accrued interest receivable	(2,828)	(239,298)
Increase in other assets	(541,934)	(1,799,438)
Net (increase) decrease in loans held-for-sale	(2,275,200)	719,500
Increase in accrued expenses and other liabilities	815,348	23,541
Net cash provided by operating activities	**1,900,714**	3,021,708
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales, calls, and maturities of securities available-for-sale	58,739,950	19,140,578
Proceeds from sales, calls, maturities and paydowns of securities held-to-maturity	12,708,811	10,601,816
Net purchase of FHLB stock	(381,400)	(2,400)
Purchase of securities available-for-sale	(64,183,178)	(79,634,199)
Purchase of securities held-to-maturity	(963,389)	(6,937,531)
Purchase of bank owned life insurance	-	(2,521,188)
Net (increase) decrease in loans to customers	(3,878,188)	25,326,313
Proceeds from sale of other real estate owned	344,011	393,081
Purchase of premises and equipment	(297,184)	(186,704)
Net cash provided (used) by investing activities	**2,089,433**	(33,820,234)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(12,070,635)	24,543,858
Proceeds from long-term FHLB borrowings	5,000,000	7,500,000
Repayment of long-term FHLB borrowings	(2,803,376)	(4,650,126)
Net increase (decrease) in securities sold under agreements to repurchase	8,162,076	(714,097)
Purchase of treasury stock	(60,750)	-
Cash dividends paid on common stock	(1,272,669)	(1,276,179)
Net cash (used) provided by financing activities	**(3,045,354)**	25,403,456
Net increase (decrease) in cash and cash equivalents	**944,793**	(5,395,070)
Cash and cash equivalents, beginning of year	20,063,153	25,458,223
Cash and cash equivalents, end of year	$ **21,007,946**	$ 20,063,153
SUPPLEMENTARY CASH FLOW INFORMATION:		
Interest paid on deposits and borrowed funds	**$ 2,977,117**	$ 4,349,355
Income taxes paid	**$ 1,750,000**	$ 1,050,000
Non-cash transactions:		
Commitment for low income housing investment	**$1,545,000**	$ -
Loans transferred to other real estate owned	$ **-**	$ 516,100

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

NATURE OF BUSINESS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The Company follows accounting standards as set by the Financial Accounting Standards Board (FASB). The FASB sets GAAP that management follows to consistently report the Company's financial condition, results of operations and cash flows.

Principles of Consolidation

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

Use of Estimates

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

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

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Cash and Cash Equivalents

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

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

Investment Securities

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

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

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

Loans Held-for-Sale

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Loans

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

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

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

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

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

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, construction, commercial and consumer. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and changes in lending policies, experience, ability, depth of lending management and staff; and national and local economic conditions. There were no changes in the Company's policies or methodology pertaining to the general component for loan losses during 2010. Management follows a similar process to estimate its liability for off-balance-sheet commitments to extend credit.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate – All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Commercial real estate – Loans in this segment are primarily income-producing properties or properties occupied by businesses. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates or a general slow down in business which, in turn, will have an effect on the credit quality of this segment. Management obtains rent rolls and business financial statements on an annual basis at least and continually monitors the cash flows of these loans.

Construction – Loans in this segment include real estate development loans for which payment is derived from sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Commercial – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer – Repayment of loans in this segment is generally dependent on the credit quality of the individual borrower.

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for commercial, commercial real estate and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogenous loans are collectively evaluated for impairment, and the allowance resulting therefrom is reported as the general component, as described above.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDR's are initially classified as impaired.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Unallocated Component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Credit Related Financial Instruments

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

Other Real Estate Owned

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

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

Premises and Equipment

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

Income Taxes

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

FASB Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and State tax authorities for the years ended December 31, 2007 through 2009.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Earnings Per Share

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

Stock Warrant Plans

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

Ledyard Financial Advisors Assets and Fees

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

Comprehensive Income

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

Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued guidance (incorporated in the FASB ASC via Accounting Standards Update (ASU) 2009-16, *Transfers and Servicing: Accounting for Transfers of Financial Assets*, in December 2009) which provides amended guidance relating to transfers of financial assets that eliminates the concept of a qualifying special-purpose entity. This guidance must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. This guidance must be applied to transfers occurring on or after its effective date. On and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. The new guidance also changed the requirements which must be satisfied in order for an entity to treat a loan participation as a sale. The disclosure provisions were also amended and apply to transfers that occurred both before and after the effective date of this guidance. The adoption of this update did not have a material impact on the Company's financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

In June 2009, the FASB issued a change to ASC Topic 810, *Consolidation*, to amend certain requirements of consolidation of variable interest entities, to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The ASC became effective for the Company on January 1, 2010. Adoption of this Statement did not have a material impact on the Company's financial statements.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements*, to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures regarding transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities, separately reporting purchases, sales, issuance, and settlements, for assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance is effective for annual reporting periods that begin after December 15, 2009, except for the changes to the disclosure of rollforward activities for any Level 3 fair value measurements, which are effective for annual reporting periods that begin after December 15, 2010. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on the Company's financial statements.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The guidance is effective for annual reporting periods ending after December 15, 2010. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on the Company's financial statements.

Business Segments

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

The Company's two primary business segments are Banking and Wealth 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 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.

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, 2010			
Net interest income	$ 12,066,368	$ –	$ 12,066,368
Provision for loan losses	450,000	–	450,000
Noninterest income	1,941,021	6,051,900	7,992,921
Noninterest expense	11,092,273	5,050,878	16,143,151
Income before income taxes	2,465,116	1,001,022	3,466,138
Income tax expense	666,572	270,678	937,250
Net income	1,798,544	730,344	2,528,888

	Banking	Wealth Advisory Services	Total Consolidated
YEAR ENDED DECEMBER 31, 2009			
Net interest income	$ 12,515,349	$ –	$ 12,515,349
Provision for loan losses	2,250,000	–	2,250,000
Noninterest income	2,085,760	5,124,844	7,210,604
Noninterest expense	10,648,699	4,481,631	15,130,330
Income before income taxes	1,702,410	643,213	2,345,623
Income tax expense	410,242	155,000	565,242
Net income	1,292,168	488,213	1,780,381

Subsequent Events

For the purposes of the presentation of these financial statements in conformity with GAAP, management has considered transactions or events occurring through February 14, 2011 which is the date that the financial statements are available to be issued. Management has not evaluated subsequent events after that date for inclusion in the financial statements.

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 $190,000 and $163,000 as of December 31, 2010 and 2009, respectively.

3. SECURITIES

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

2010	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
SECURITIES AVAILABLE-FOR-SALE				
U.S. Government sponsored enterprises	$ 52,307,992	$ 294,525	$ (310,062)	$ 52,292,455
Mortgage-backed securities	21,819,248	1,182,941	–	23,002,189
Collateralized mortgage obligations	3,037,749	114,029	–	3,151,778
State and municipal	23,307,724	114,555	(817,173)	22,605,106
Corporate bonds	16,639,064	233,994	(139,910)	16,733,148
Total securities available-for-sale	**$ 117,111,777**	**$ 1,940,044**	**$ (1,267,145)**	**$ 117,784,676**
SECURITIES HELD-TO-MATURITY				
Mortgage-backed securities	$ 22,444,521	$ 1,221,943	$ –	$ 23,666,464
Collateralized mortgage obligations	787,287	24,667	–	811,954
State and municipal	1,166,094	7,699	–	1,173,793
Total securities held-to-maturity	**$ 24,397,902**	**$ 1,254,309**	**$ –**	**$ 25,652,211**

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

At December 31, 2010 and 2009, securities with a carrying value of $55,712,314 and $49,595,867, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

3. SECURITIES *continued*

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2010 follow:

	AVAILABLE-FOR-SALE		HELD-TO-MATURITY	
	Amortized Cost	*Fair Value*	*Amortized Cost*	*Fair Value*
Within 1 year	$ 3,896,475	$ 3,929,061	$ –	$ –
Over 1 year through 5 years	64,528,306	64,666,975	–	–
After 5 years through 10 years	9,920,980	9,860,274	1,166,094	1,173,793
Over 10 years	13,909,019	13,174,399	–	–
	92,254,780	**91,630,709**	**1,166,094**	**1,173,793**
Collateralized mortgage obligations and mortgage-backed securities	24,856,997	26,153,967	23,231,808	24,478,418
Total	**$ 117,111,777**	**$ 117,784,676**	**$ 24,397,902**	**$ 25,652,211**

During 2010, proceeds from sales of securities available-for-sale and held-to-maturity were $7,894,928 and $1,195,394, respectively. Gross gains and gross losses on sales of available-for-sale and held-to-maturity securities in 2010 were $78,707 and $67,538, respectively. There were no sales of securities available-for-sale or securities held-to-maturity during 2009. The sales of securities held-to-maturity met the exemption for holding securities to maturity under FASB ASC Topic 320, *Investments – Debt and Equity Securities*. The remaining principal balance of the securities was less than 15% of the principal balance at acquisition.

Information pertaining to securities with gross unrealized losses at December 31, 2010 and 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

2010	LESS THAN 12 MONTHS		TOTAL	
	Fair Value	*Gross Unrealized Losses*	*Fair Value*	*Gross Unrealized Losses*
U.S. Government sponsored enterprises	$ 16,397,178	$ (310,062)	$ 16,397,178	$ (310,062)
State and municipal	15,558,717	(817,173)	15,558,717	(817,173)
Corporate bonds	9,719,366	(139,910)	9,719,366	(139,910)
Total	**$ 41,675,261**	**$ (1,267,145)**	**$ 41,675,261**	**$ (1,267,145)**

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

3. SECURITIES *concluded*

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.

4. LOANS

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

	2010	2009
Commercial	$ 24,686,197	$ 27,117,069
Commercial real estate	64,822,307	74,142,880
Residential real estate	109,514,789	95,742,622
Consumer	8,145,921	6,739,165
Loans held-for-sale	2,387,700	112,500
Subtotal	209,556,914	203,854,236
Allowance for loan losses	(6,306,122)	(6,345,589)
Net deferred loan costs	45,843	84,600
Loans, net	**$ 203,296,635**	$ 197,593,247

The Company has transferred a portion of its originated commercial and commercial real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers and remits payments (net of servicing fees) to participating lenders. At December 31, 2010 and 2009, the Company was servicing loans for participants aggregating $51,381,554 and $63,156,657, respectively.

An analysis of the allowance for loan losses follows:

YEARS ENDED DECEMBER 31,	**2010**	2009
Balance at beginning of year	$ 6,345,589	$ 4,925,500
Provision for loan losses	450,000	2,250,000
Loans charged off	(897,964)	(1,087,757)
Recoveries of loans previously charged off	408,497	257,846
Balance at end of year	**$ 6,306,122**	$ 6,345,589

4. LOANS *continued*

The following table presents the allowance for loan losses and select loan information for the year ended December 31, 2010.

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
ALLOWANCE FOR LOAN LOSSES						
Ending balance	$ 1,324,526	$ 2,053,591	$ 2,327,306	$ 88,950	$ 511,749	$ 6,306,122
Individually evaluated for impairment	$ 193,276	$ 50,000	$ 170,000	$ -	$ -	$ 413,276
Collectively evaluated for impairment	$ 1,131,250	$ 2,003,591	$ 2,157,306	$ 88,950	$ 511,749	$ 5,892,846
LOANS						
Ending balance	$ 24,686,197	$ 64,822,307	$111,902,489	$ 8,145,921		$209,556,914
Individually evaluated for impairment	$ 769,859	$ 1,727,391	$ 2,968,958	$ -		$ 5,466,208
Collectively evaluated for impairment	$ 23,916,338	$ 63,094,916	$108,933,531	$ 8,145,921		$204,090,706

The Bank categorizes each loan category by credit risk exposure. The following tables present the credit risk profile by creditworthiness category as of December 31, 2010.

Loans rated 1–3 and 8: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 4: Loans in this category are considered "special mention". These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 5: Loans in this category are considered "substandard". Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the borrowers and/or the collateral pledged. There is an increased possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 6: Loans in this category are considered "doubtful". Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 7: Loans in this category are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate, commercial, and residential loans. Semi-annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

	Commercial	Commercial Real Estate	Residential Real Estate
1 - 3, 8	$ 19,385,915	$ 54,477,873	$ 104,753,293
4	2,136,941	3,487,007	2,572,244
5	3,133,952	6,857,427	4,576,952
6	29,389	-	-
Total	$ 24,686,197	$ 64,822,307	$ 111,902,489

4. LOANS *concluded*

The following table presents an aging analysis of past due loans as of December 31, 2010.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Loans on Nonaccrual
Commercial	$ 270,988	$ 44,144	$ 58,530	$ 373,662	$ 24,312,535	$ 24,686,197	$ 523,487
Commercial real estate	191,983	–	1,339,306	1,531,289	63,291,018	64,822,307	1,727,391
Residential real estate	3,548,030	1,116,962	702,817	5,367,809	106,534,680	111,902,489	2,553,878
Consumer	6,462	–	–	6,462	8,139,459	8,145,921	–
Total	$ 4,017,463	$ 1,161,106	$ 2,100,653	$ 7,279,222	$ 202,277,692	$ 209,556,914	$ 4,804,756

At December 31, 2009, total nonaccrual loans were $5,535,866. There were no loans 90 days past due and still accruing interest at December 31, 2010 and 2009.

The following table presents a summary of information pertaining to impaired loans by loan category as of December 31, 2010.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
WITH NO RELATED ALLOWANCE				
Commercial	$ 481,606	$ 481,606	$ –	$ 1,148
Commercial real estate	1,587,497	1,587,497	–	17,759
Residential real estate	1,981,244	2,002,082	–	41,511
WITH AN ALLOWANCE RECORDED				
Commercial	$ 288,253	$ 288,253	$ 193,276	$ –
Commercial real estate	139,894	139,894	50,000	–
Residential real estate	966,876	966,876	170,000	19,519
TOTAL				
Commercial	$ 769,859	$ 769,859	$ 193,276	$ 1,148
Commercial real estate	1,727,391	1,727,391	50,000	17,759
Residential real estate	2,948,120	2,968,958	170,000	61,030

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

	2010	2009
Impaired loans without a valuation allowance	$ 4,071,185	$ 4,426,329
Impaired loans with a valuation allowance	1,395,023	1,434,938
Total impaired loans	**$ 5,466,208**	$ 5,861,267
Valuation allowance related to impaired loans	**$ 413,276**	$ 411,345
Average investment in impaired loans	**$ 5,663,738**	$ 5,014,589

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

5. PREMISES AND EQUIPMENT

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

	2010	2009
Land and improvements	$ 1,922,993	$ 1,922,993
Buildings and improvements	7,786,427	7,765,037
Equipment	5,210,253	4,934,459
	14,919,673	14,622,489
Accumulated depreciation	(6,659,129)	(6,088,239)
	$ 8,260,544	$ 8,534,250

Depreciation, included in occupancy and equipment expense, amounted to $570,890 and $599,352 for the years ended December 31, 2010 and 2009, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2010, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

2011	$ 659,706
2012	659,706
2013	625,206
2014	623,706
2015	613,995
Thereafter	1,042,229
	$ 4,224,548

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, 2010 and 2009 amounted to $515,358 and $496,945, respectively.

6. DEPOSITS

At December 31, 2010, the scheduled maturities of time deposits are as follows:

2011	$ 51,212,600
2012	8,168,250
2013	1,529,277
2014	3,140,280
2015	631,560
	$ 64,681,967

Deposit accounts with related parties were $6,221,311 and $6,981,370 at December 31, 2010 and 2009, respectively.

7. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under repurchase agreements mature within twelve months and are collateralized by securities in the Company's investment portfolio. All securities collateralizing the repurchase agreements are under the Company's control. The maximum amount of repurchase agreements outstanding at any month-end during 2010 and 2009 was $24,966,181 and $30,231,605, respectively. The average amount of repurchase agreements outstanding during 2010 and 2009 was $17,220,817 and $16,749,313, respectively. The weighted-average interest rate on repurchase agreements outstanding at December 31, 2010 and 2009 was 0.44% and 0.42%, respectively.

8. ADVANCES FROM FEDERAL HOME LOAN BANK

The Company's fixed-rate advances with the Federal Home Loan Bank (FHLB) of $26,914,565 and $24,717,941 at December 31, 2010 and 2009, respectively, mature through 2015. At December 31, 2010 and 2009, interest rates of fixed-rate advances ranged from 1.75% to 4.33% and from 2.54% to 4.33%, respectively.

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:

	2010	*2009*
2010	$ –	$ 2,750,000
2011	9,000,000	7,000,000
2012	2,750,000	2,750,000
2013	5,164,565	4,717,941
2014	5,000,000	5,000,000
2015	5,000,000	2,500,000
Total	**$ 26,914,565**	$ 24,717,941

The Bank has a long term line of credit with the FHLB that does not expire, in the amount of $2.8 million. There were no amounts outstanding at December 31, 2010 or 2009.

9. INCOME TAXES

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

	2010	*2009*
CURRENT TAX PROVISION		
Federal	$ 1,200,750	$ 1,005,780
State	39,700	194,362
	1,240,450	1,200,142
DEFERRED TAX EXPENSE (BENEFIT)		
Federal	(368,700)	(513,900)
State	65,500	(121,000)
	(303,200)	(634,900)
	$ 937,250	$ 565,242

9. INCOME TAXES *continued*

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

	2010	2009
Computed tax expense	$ 1,178,487	$ 797,512
INCREASE (REDUCTION) IN INCOME TAXES RESULTING FROM:		
Tax exempt income	(281,676)	(186,880)
State tax expense, net of federal benefit	69,432	48,419
Income from life insurance	(138,895)	(92,692)
Incentive stock options	9,293	46,528
Other	100,609	(47,645)
	$ 937,250	$ 565,242

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

	2010	2009
DEFERRED TAX ASSETS		
Allowance for loan losses	$ 2,176,050	$ 2,273,339
Employee benefit plan	612,722	397,085
Other	275,124	198,286
	3,063,896	2,868,710
DEFERRED TAX LIABILITIES		
Net unrealized gain on securities available-for-sale	228,785	721,939
Depreciation	213,976	179,844
Deferred rent	42,461	49,918
Other	-	134,689
	485,222	1,086,390
Net deferred tax asset	**$ 2,578,674**	$ 1,782,320

No valuation allowance is deemed necessary for the deferred income tax asset. The net deferred tax assets is included with other assets in the consolidated balance sheet.

10. EARNINGS PER SHARE

	2010	2009
Net income, as reported	**$ 2,528,888**	$ 1,780,381
Weighted-average shares outstanding	1,023,548	1,021,721
Effect of unvested stock grants	14,788	9,418
Adjusted weighted-average shares and assumed conversion	**$ 1,038,336**	$ 1,031,139
Basic earnings per share	$ 2.47	$ 1.74
Diluted earnings per share	$ 2.44	$ 1.73

The following sets forth the computation of basic and diluted earnings per share for 2010 and 2009.

There are 34,300 employee stock options excluded from the computation of dilutive earnings per share for 2010 and 2009, since inclusion of these common stock equivalents would be anti-dilutive.

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

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

At December 31, 2010 and 2009, the following financial instruments were outstanding whose contract amounts represent credit risk:

CONTRACT AMOUNT	***2010***	*2009*
Commitments to grant loans	**$ 47,578,611**	$ 43,130,754
Commercial and standby letters-of-credit	**$ 2,197,124**	$ 2,524,597

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.

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, 2010, the Company and its bank subsidiary meet all capital requirements to which they are subject. As of December 31, 2010, 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 to follow. The capital ratios for the Company are not materially different from those presented that follow.

	ACTUAL		MINIMUM CAPITAL REQUIREMENT		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
DECEMBER 31, 2010						
Total Capital to Risk-Weighted Assets	$ 35,420	15.8%	$ 17,967	8.0%	$ 22,459	10.0%
Tier 1 Capital to Risk-Weighted Assets	$ 32,568	14.5%	$ 8,984	4.0%	$ 13,475	6.0%
Tier 1 Capital to Average Assets	$ 32,568	8.3%	$ 15,721	4.0%	$ 19,651	5.0%
DECEMBER 31, 2009						
Total Capital to Risk-Weighted Assets	$ 34,227	15.8%	$ 17,331	8.0%	$ 21,667	10.0%
Tier 1 Capital to Risk-Weighted Assets	$ 31,474	14.5%	$ 8,665	4.0%	$ 12,998	6.0%
Tier 1 Capital to Average Assets	$ 31,474	8.2%	$ 15,330	4.0%	$ 19,162	5.0%

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.

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, 2010 and 2009, expense attributable to the plan amounted to $395,089 and $268,485, respectively.

Included in accrued expenses and other liabilities in the balance sheets at December 31, 2010 and 2009 are liabilities established pursuant to deferred compensation agreements with certain officers of the Company of $1,239,848 and $984,976, respectively. Deferred compensation expense related to these plans amounted to $270,000 and $180,000 for the years ended December 31, 2010 and 2009, respectively.

15. STOCK-BASED COMPENSATION

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

On April 19, 2006, the shareholders of the Company approved the 2006 Stock Option and Incentive Plan (the "current plan"). The maximum number of shares of stock reserved and available for issuance under this Plan is 50,000 shares. Awards may be granted in the form of incentive stock options and restricted stock, or any combinations of the preceding, and the exercise price shall not be less than 100% of the fair market value on the date of grant. No stock options are exercisable more than ten years after the date the stock option is granted. The stock options vest over a three-year period. The restricted stock awards granted through December 31, 2010 each vest over a three-year period.

On January 1, 2006, the Company adopted FASB guidance for the incentive stock option and restricted stock grants relating to the current plan and previous plans. In accordance with that guidance, the Company recorded $212,855 and $136,848 of compensation expense during the years ended December 31, 2010 and 2009, respectively. Total compensation expense related to nonvested awards not yet recognized is $351,839 as of December 31, 2010 and is expected to be recognized over a weighted-average period of 1.5 years.

A summary of nonvested restricted stock awards as of December 31, 2010, and changes during the year ended December 31, 2010 is presented below:

	Shares	*Weighted-Average Grant-Date Fair Value*
Nonvested shares at December 31, 2009	9,418	$ 36.00
Granted	8,700	34.00
Vested	(3,330)	36.60
Nonvested shares at December 31, 2010	14,788	34.69

The weighted-average grant-date fair value of restricted stock awards granted in 2009 was $35. Fair value is based on closing price of the stock.

The fair value of warrants granted during 2009 was $4.01. No warrants were granted, exercised or forfeited during 2010.

15. STOCK-BASED COMPENSATION *concluded*

The fair value of each warrant granted is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted-average assumptions:

	2009
Dividend yield	3.54%
Risk-free interest rate	3.02%
Expected life	10 Years
Expected volatility	11.45%

	Shares	*Weighted-Average Exercise Price*	*Weighted-Average Remaining Contractual Life*	*Aggregate Intrinsic Value*
Outstanding at December 31, 2010	**34,300**	$ **44.24**	5.4	$ –
Exercisable December 31, 2010	**33,633**	$ **44.40**	5.3	$ –

The remaining number of warrants and shares of restricted stock available to be granted was 38,511 and 47,211 at December 31, 2010 and 2009, respectively.

16. OTHER NONINTEREST INCOME AND EXPENSES

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

	2010	*2009*
NONINTEREST INCOME		
Bank owned life insurance	$ 350,744	$ 275,033
Gain on sale of loans	250,794	442,689
	$ 601,538	$ 717,722
NONINTEREST EXPENSES		
Professional fees	$ 338,002	$ 331,823
Loan collection and workout expenses	125,490	298,293
Printing, postage and stationery	492,064	381,879
Advertising	496,500	396,089
	$ **1,452,056**	$ 1,408,084

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 $541,700 and $771,400 at December 31, 2010 and 2009, 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

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

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

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

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

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

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

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2010, USING		
	Total	*Quoted Prices In Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
ASSETS (MARKET APPROACH)			
Securities available-for-sale			
U.S. Government sponsored enterprises	$ 52,292,455	$ 2,500,000	$ 49,792,455
Mortgage-backed securities	23,002,189	–	23,002,189
Collateralized mortgage obligations	3,151,778	–	3,151,778
State and municipal	22,605,106	–	22,605,106
Corporate bonds	16,733,148	–	16,733,148
	$ 117,784,676	**$ 2,500,000**	**$ 115,284,676**

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009, USING		
	Total	*Quoted Prices In Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
ASSETS (MARKET APPROACH)			
Securities available-for-sale			
U.S. Government sponsored enterprises	$ 56,430,769	$ 2,500,000	$ 53,930,769
Mortgage-backed securities	35,736,740	–	35,736,740
Collateralized mortgage obligations	1,321,621	–	1,321,621
State and municipal	15,601,016	–	15,601,016
Corporate bonds	5,191,271	–	5,191,271
	$ 114,281,417	$ 2,500,000	$ 111,781,417

18. FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

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

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2010, USING		
	Total	*Quoted Prices In Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
ASSETS			
Impaired loans (market approach)	**$ 981,747**	$ –	**$ 981,747**

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009, USING		
	Total	*Quoted Prices In Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
ASSETS			
Impaired loans (market approach)	$ 1,023,593	$ –	$ 1,023,593
Other real estate owned (market approach)	265,865	–	265,865

Certain impaired loans were written down to their fair value of $981,747 and $1,023,593 at December 31, 2010 and 2009, respectively, resulting in an impairment charge through the provision for loan losses, which was included in earnings for the period. Other real estate owned is initially recorded at fair value, then carried at the lower of the new cost basis or fair value through a provision charge to earnings.

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

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

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

Cash and Cash Equivalents

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

Securities

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

18. FAIR VALUE OF FINANCIAL INSTRUMENTS *concluded*

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 noninterest 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 amounts, of the Company's financial instruments are as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and due from banks	$ 15,792,334	$ 15,792,334	$ 8,887,901	$ 8,887,901
Interest-bearing deposits in banks	5,215,612	5,215,612	11,175,252	11,175,252
Securities available-for-sale	117,784,676	117,784,676	114,281,417	114,281,417
Securities held-to-maturity	24,397,902	25,652,211	36,177,845	37,633,670
Nonmarketable equity securities	2,394,700	2,394,700	2,013,300	2,013,300
Loans and loans held-for-sale, net	203,296,635	202,737,435	197,593,247	197,577,403
Accrued interest receivable	1,567,150	1,567,150	1,564,322	1,564,322
FINANCIAL LIABILITIES				
Deposits	308,058,793	307,715,473	320,129,428	319,661,357
Repurchase agreements	21,875,815	21,875,815	13,713,739	13,713,739
Advances from Federal Home Loan Bank	26,914,565	26,405,880	24,717,941	24,338,502
Accrued interest payable	138,286	138,286	208,556	208,556

SENIOR MANAGEMENT TEAM

As of February 18, 2011

Seated (l-r):

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

Kathryn G. Underwood
President & Chief Executive Officer

Martha P. Candon
Senior Vice President & Manager of Business Development

Standing (l-r):

Christopher J. Taylor
Senior Vice President & Chief Retail Banking Officer

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

Gregory D. Steverson
Executive Vice President & Chief Financial Officer

Jeffrey H. Marks
Senior Vice President & Chief Marketing Officer

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

Darcy D. Rogers
Senior Vice President & Chief Operations Officer

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

BOARD OF DIRECTORS

As of February 18, 2011

Seated (l-r):

Bayne Stevenson
President, Bayson Company

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

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

Standing (l-r):

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Mary Hitchcock Memorial Hospital & Co-Vice Chair,
Ledyard Financial Group/Ledyard National Bank

Adam M. Keller
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The Dartmouth Institute for Health Policy & Clinical Practice

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