


2 0 1 1 A N N U A L R E P O R T




LEDYARD

FINANCIAL GROUP

Plan well. Live well.

A photograph of a pond with a duck swimming in the distance. The water is calm, reflecting the surrounding green foliage. A stylized, semi-transparent graphic of a bridge with two arches is overlaid on the water. The text is centered in the lower half of the image.

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 returns.

On the cover: The Ledyard Bridge bears the name of adventurer, John Ledyard, and crosses the Connecticut River to connect Hanover, NH to Norwich, VT. (Jon Fox photo)

Interior photography: Tom McNeill and Jon Fox



LETTER FROM THE CEO & BOARD CHAIR



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



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

To our many constituents, including shareholders, valued clients and other community members: Last year's annual report highlighted Ledyard's 20th anniversary, giving us an opportunity to proudly look back on our founding and to share key milestones that shaped our institution over two decades. Now, as we review 2011, we recognize it as having been yet another significant year for Ledyard in which we continued to deliver strong value to our many constituents.

PERFORMANCE HIGHLIGHTS

LEDYARD FINANCIAL GROUP

Ledyard Financial Group, Inc., the holding company for Ledyard National Bank, remains true to the bank's founding principles established in 1991. Those principles include delivering unparalleled personal service on every level, developing and maintaining strong relationships with clients, increasing value for our shareholders and empowering employees to fulfill their potential. In spite of the challenging economic environment and volatility in the equity markets, 2011 was another successful year for our organization.

Some of the key highlights were:

- Grew revenue to over \$20.2 million – a new high
- Increased net income to \$2.6 million
- Increased earnings per share by \$.07 to \$2.54 per share
- Paid \$1.24 per share in dividends to our shareholders – a 49% payout ratio
- Noted improvement in all of the company's capital ratios

Ledyard Financial Group's full year results reflect the strength of our two basic businesses: community banking and wealth advisory services. Both are discussed here.

PERSONAL AND BUSINESS BANKING

Ledyard provides individuals and families with meaningful and relevant personal financial advice, particularly in tough economic times. Our clients look to us for their checking and savings accounts, mortgages, home equity loans, business loans and other banking solutions. Similarly, local businesses partner with us for the financial services and loans they need to thrive and create jobs, allowing us to put money back to work in our communities, in keeping with our longstanding lending practices. In 2011, we updated and enhanced our Personal Checking & Savings Account portfolio to create more distinguishable value between products, add certain benefits and simplify the communication of account features.



*Daniel P. Emanuele,
Vice President &
Commercial
Relationship Officer*



Gail Broughton, *Vice President & Banking Office Manager, Norwich*

We improved, as well, on the benefits associated with the Ledyard Plan, our relationship banking program, making deeper connections with Ledyard more attractive to clients. We also added Identity Theft Protection to the many benefits that come with our rewards program, Generations Gold®. Finally, we added Business Bill Pay to our online suite of products for commercial clients, allowing them greater convenience, customization and control of their finances.

Financial highlights of 2011 include:

- Grew transaction accounts by more than \$6.9 million, an increase of 6.21%
- Increased home equity loans by \$2.3 million, for growth of 18.15%

WEALTH MANAGEMENT

Ledyard Financial Advisors is the premier firm providing integrated investment, tax and other vital wealth management services to families throughout the Dartmouth and Lake Sunapee Region, with the mission of preserving and enhancing our clients' wealth. Possessing the area's largest and most experienced staff of financial advisors and

portfolio managers, we utilize a framework of 13 potential wealth management issues that includes a plan to preserve and grow wealth that extends far beyond customized investment management into issues such as retirement planning, titling of assets, tax strategies and wealth distribution.

Our positive reputation continues to grow, as we are hired by over 80% of the prospects who meet with us. In 2011, we introduced a Private Banking option for Ledyard Financial Advisors clientele, deepening those overall relationships with an unmatched level of care by offering exclusive services that create a one-stop shop for all financial needs. In its first full year of operation, all Private Banking targets were exceeded, growing deposit balances by \$2.5 million and generating new loan balances of \$2.1 million.

Ledyard Financial Advisors 2011 highlights include:

- Added 30 clients, representing 90 new accounts and \$102 million in additional assets
- Generated \$6.9 million in revenue, a new high that is a 13.3% increase over 2010



Larry Draper, *Senior Financial Advisor & Fiduciary Officer*



Valerie Nevel,
Senior Financial
Advisor

- Grew assets under management and custody to \$895 million
- Maintained a 99% client retention rate

BUILDING LONG-TERM VALUE

As we emerge from an environment of slow economic recovery, record-low interest rates and significant new regulatory demands, we have reaffirmed our commitment to building long-term value for our shareholders and clients, even in the most difficult times. By that measure, we were successful in 2011, with achievements that resulted in part from making multiple changes that improved our ability to serve clients, including:

- Rolled out Ledyard Link, our new online personal financial management tool, which allows clients to see each of their accounts from all other financial institutions in one concise online statement, with a budgeting component that allows tracking of their expenditures
- Developed new financial planning tools for our Ledyard Financial Advisors clients that contain a full range of capabilities, allow clients to better understand their own financial needs and help Ledyard advisors engage them in more productive planning discussions

- Provided risk & fraud analytics for our commercial clients with online ACH (Automated Clearing House) capabilities; the tool enables Ledyard to mitigate fraud risk by monitoring transactions for atypical behavior and proactively responding to them in real time, with the ability to suspend suspicious transactions pending further investigation

We have reaffirmed our commitment to building long-term value for our shareholders and clients, even in the most difficult times.

- Introduced time-saving and convenient services such as interbank transfers that enable clients to initiate transfers between their Ledyard accounts and accounts at other financial institutions for which they have the authority to conduct transactions



Karen Zurheide, Regional President, New London;
John O'Dowd, Senior Vice President & Senior Wealth Consultant



- Offered “tokens” to commercial clients with online banking capabilities, creating additional security and verification procedures pertaining to fund transfers into or out of Ledyard

Even with these many important technological advancements, the strides we made in 2011 reminded us once again that our highly trained and engaged workforce remains our most important asset. Ultimately, Ledyard’s success hinges on our people, which is why we continue to hire and develop exceptional talent that we believe will make a difference in delivering financial products of today in an efficient and profitable manner.

Our highly trained and engaged workforce remains our most important asset.

For example, in July we welcomed Karen Zurheide as our New London/Lake Sunapee area Regional President. In this newly created position, Karen leads our efforts to strengthen our profile and to develop new business for our banking and wealth management divisions. As a graduate of Dartmouth’s Tuck School of Business, a New London resident, and a former Executive Director of The Fells in nearby Newbury, Karen provides extensive insight into this market. We are confident that she will achieve much success at Ledyard in the coming years.

Our commitment to developing excellence in our staff is reflected in the fact that in 2011, employees trained in areas such as

estate planning, appraising commercial real estate and matching Small Business Administration programs to borrowers. Several Ledyard Financial Advisors employees completed the Boston University Center for Professional Education CFP (Certified Financial Planner) program, while another received an Accreditation of Trust Operations Professional designation, adding to Ledyard’s expertise in trusts, operations and audits. Another notable training effort utilized Ledyard’s new mortgage processing and underwriting software, helping our lending team more efficiently manage the loan process from origination through closing.

In addition to a focus on educating our staff, we work to make our clients more informed partners in our journey together, as we can provide the greatest value to those who are financially knowledgeable. Ledyard offers a number of public seminars each year on the critical financial issues of the day, the majority of which are crafted and presented by our own expert employees. Occasionally we present seminars in partnership with external experts that complement material covered in earlier presentations. In 2011,





we conducted nine financial seminars, reaching nearly 400 community members on topics ranging from “Talking to Your Adult Children about Money” to “Titling Assets – Why Smart People Make Big Mistakes.” Another element of our client education initiative is our monthly wealth management newsletter which is sent to Ledyard Financial Advisors clients via email and addresses topics ranging from investments and taxes to structuring wealth and retirement planning.

With up-to-date technology, top-notch highly trained people and educated clients, we at Ledyard continue to help others plan well financially so they can live well, with personalized banking, borrowing and investing services as unique as they are.

COMMUNITY SUPPORT

Ledyard’s commitment to community support encompasses all that we do as bankers and as citizens responsible for the growth and vitality of the areas we serve. Our civic involvement is built upon a well-defined ongoing charitable giving program that allows us to impact our neighbors in ways that go beyond day-to-day business activities. Through both in-kind and cash donations, we help nonprofit organizations throughout the Upper Valley and Lake Sunapee Region succeed.

As a community bank, Ledyard is aware of the hardships and challenges facing individuals, businesses and nonprofits. Thus our charitable donations support organizations that address the needs of those in the low-to-moderate income segment of our communities, as we allocate at least one-third of our total contributions budget for this purpose. For example, we give to the Upper Valley Hostel that provides temporary housing for people

being treated at Dartmouth-Hitchcock Medical Center who cannot afford other area housing.

As important as such regular monetary giving is for recipient organizations and the individuals and communities they serve, this is just part of our involvement. The following efforts further supported our communities in 2011:

SERVING THE HOMELESS

To address the needs of the hungry and homeless, Ledyard developed a new program in partnership with The Upper Valley Haven, an organization that offers food and shelter to those in dire need. Ledyard provides a line of credit to The Haven which allows them to make small loans to individuals requiring a “jump start” to cover expenses of housing, utilities or transportation. The program makes a significant difference in the lives of those trying to get back on their feet and again contribute to the community.

VOLUNTEERISM

Our people serve on many boards and are immersed in dozens of volunteer activities. A local realtor commented recently that while other financial institutions also give money, “Ledyard’s people show up” in support of the efforts of area nonprofits. These efforts by our employees and board members amount to thousands of volunteer hours each year.

For the last few years we have joined forces with the Granite United Way and Dartmouth College to offer an annual volunteer “Day of Caring” in the Upper Valley. The event promotes the spirit and value of volunteerism and increases awareness of local human service agencies. In 2011, we participated in five projects that ranged from helping area nonprofits weatherize their facilities to painting buildings and conducting fall clean-ups.



LEADING WOMEN SEMINARS

Furthering our commitment to “educate and advise,” we regularly gather women business owners and managers for education on topics that help them more effectively run their businesses. Through speaker and panelist presentations on topics pertinent to women in business, the program provides a unique forum in which to experience the Ledyard ideal of “Plan well. *Live well.*”

Topics include:

- High-Impact, Low-Cost Marketing Tips
- Important Insurance Tips for Business Owners
- Achieving Work-Life Balance
- Health Care Changes and How They Affect Your Business

ADVERTISING ASSISTANCE

In partnership with certain nonprofit organizations such as these, we created radio advertising that enhanced their community profiles:

- More Than Wheels – informing of help available to needy people to gain control of their personal finances and to obtain reliable, fuel-efficient cars
- Vermont Institute of Natural Science – educating listeners on how to better protect the environment
- Dartmouth-Hitchcock Medical Center’s “Healthy Highlights” – offering health tips for the community
- Upper Valley Humane Society – sharing tips to help listeners create safer, more enjoyable environments for their pets

Additionally, we developed public service announcements for community partners that aired on TV and radio. Our most recent effort was for an organization whose mission is to support the growth of local businesses in our area.

In addition to the ongoing programs noted above, we undertook these special 2011 community initiatives:

NATURAL DISASTER RELIEF THROUGH “FILL THE VANS” CAMPAIGN

As a community bank built upon local relationships, we were eager to help those in our area hit hardest by Hurricane Irene. So we conducted a drive to collect necessities for the many who suffered devastating losses. Commercial clients generously supplied vans to deliver thousands of donated items to two local food pantries, following a week-long collection at all of our locations of food, toiletries, cleaning supplies and more for hundreds of needy neighbors across our region.

FUNDING AND COMMUNITY AWARENESS OF NONPROFITS THROUGH CHARITABLE CONTEST


Putting our money
where our community is

A special anniversary gift
We're giving \$30,000 back to the community
in support of local non-profit organizations.

Vote for your favorite organization today at ledyardbank.com.

- Grafton County Senior Citizens Council
- Lake Sunapee Region VNA & Hospice
- Listen Community Services
- Upper Valley Haven
- Wise

VOTE today at ledyardbank.com! **LEDYARD**

PERSONAL & BUSINESS BANKING | INVESTMENTS | TAXES | WEALTH MANAGEMENT

Interest and business banking collaboration products provided by Ledyard Financial Group, Member FDIC. Investment, tax and wealth management products provided by Ledyard Financial Advisors, an SEC-registered broker-dealer. All services provided by Ledyard Financial Group, an Equal Opportunity Lender. All services provided by Ledyard Financial Group, an Equal Opportunity Lender. All services provided by Ledyard Financial Group, an Equal Opportunity Lender. All services provided by Ledyard Financial Group, an Equal Opportunity Lender.

In the spring, Ledyard kicked off a charitable giving campaign that was our thank-you to the community for allowing us to serve their financial needs. We asked the community to



LETTER FROM THE CEO & BOARD CHAIR

vote via our website among five different nonprofit organizations (each serving the low-to-moderate income segment of the population), choosing the organization they would most like to see receive a financial contribution from Ledyard. At the same time, we worked with each charity to better define its mission for communication to interested listeners and to develop a comprehensive media plan to increase its community exposure. This education-oriented effort had a positive impact on the organizations themselves and the larger community. In response to over 53,000 votes during the five-week campaign, we increased our intended donation amounts to mirror such impressive community enthusiasm.

LOOKING AHEAD TO 2012

Ledyard is well positioned for continued success in tomorrow's increasingly competitive environment. Our optimism is grounded in a mission defined by our "Plan well. *Live well.*" tagline and driven by a commitment to what we do best – help individuals and businesses in our market areas make smart financial decisions.

Going forward, the focus of our strategic plan addresses the following objectives:

- Achieve strong financial performance
- Establish ourselves as the premier relationship bank in our markets
- Continue to provide the premier wealth management services in the region
- Grow and diversify our loan portfolio
- Continually train staff for high-touch client service
- Realize excellence in electronic delivery of products and services

We will continue to enhance our retail banking business, paying special attention to developing products and services that make the banking experience easier, less time consuming and more valuable. We will focus our lending efforts on aggressively managing credit exposure and seeking new borrowers of the highest quality. We will continue to build upon our competitive advantage in wealth management as we approach a milestone of \$1 billion in assets under management and custody at Ledyard Financial Advisors.

On a final note, many readers of our annual report will notice that the number of pages in the printed version has been decreased. Our complete financial report can be found in the Investor Relations section of the Ledyard website, www.ledyardbank.com. We have chosen to reduce our output of printed material in order to establish a more eco-friendly approach to sharing our annual performance results and better aligning ourselves with efforts to sustain the environment.

We thank our shareholders, clients, employees and board members for their trust and support, and we look forward to strengthening those partnerships in 2012.

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

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



FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)

YEARS-ENDED DECEMBER 31,	2011	2010	2009	2008	2007
FINANCIAL CONDITION DATA					
Assets	\$ 390,442	\$ 394,785	\$ 393,615	\$ 363,188	\$ 325,805
Investments	140,755	144,577	152,473	94,015	53,706
Gross loans, including loans held-for-sale	216,496	209,603	203,939	231,331	232,139
Allowance for loan loss	(5,707)	(6,306)	(6,346)	(4,926)	(3,360)
Net loans, including loans held-for-sale	210,789	203,297	197,593	226,405	228,779
Deposits	312,526	308,059	320,129	295,586	276,933
Federal Home Loan Bank advances	19,859	26,915	24,718	21,868	1,551
Other borrowings and liabilities	21,088	26,279	15,685	16,451	16,668
Shareholders' equity	36,970	33,533	33,082	31,283	30,517
OPERATING DATA					
Net interest income	\$ 11,442	\$ 12,066	\$ 12,515	\$ 12,892	\$ 12,480
Ledyard Financial Advisors income	6,856	6,052	5,125	4,895	5,027
Other non-interest income	1,991	1,941	2,086	1,674	1,727
Total revenue	20,289	20,059	19,726	19,461	19,234
Provision for loan loss	675	450	2,250	3,123	705
Non-interest expense	16,260	16,143	15,130	13,270	12,306
Pre-tax income	3,354	3,466	2,346	3,068	6,223
Income taxes	745	937	565	1,040	2,361
Net income	2,609	2,529	1,780	2,028	3,862
OTHER DATA					
Earnings per share, basic	\$ 2.54	\$ 2.47	\$ 1.74	\$ 1.99	\$ 3.80
Dividends per share	1.24	1.24	1.24	1.24	1.16
Dividend payout ratio	49%	50%	71%	62%	31%
Book value per share	\$ 33.87	\$ 32.71	\$ 32.37	\$ 30.61	\$ 29.95
Shares outstanding	1,021,227	1,017,415	1,016,431	1,021,510	1,018,996
Return on average assets	0.67%	0.63%	0.45%	0.60%	1.16%
Return on average equity	7.71%	7.38%	5.53%	6.68%	13.37%
Efficiency ratio	80.14%	80.48%	76.70%	68.19%	63.98%
Stock price - high	\$ 36.00	\$ 35.00	\$ 40.99	\$ 52.00	\$ 60.00
- low	\$ 29.00	\$ 30.00	\$ 30.05	\$ 35.00	\$ 43.95
- average	\$ 31.78	\$ 32.02	\$ 32.51	\$ 44.61	\$ 50.58
Assets under management and custody (millions)	\$ 895	\$ 884	\$ 801	\$ 612	\$ 705
Equity to asset ratio	9.48%	8.56%	8.40%	8.57%	9.37%
Allowance for loan losses to total loans	2.64%	3.01%	3.11%	2.13%	1.45%
Net charge-offs	\$ 1,275,000	\$ 490,000	\$ 830,000	\$ 1,557,000	\$ 129,000
Non-performing assets	\$ 5,267,024	\$ 4,804,756	\$ 5,535,866	\$ 3,702,128	\$ 1,433,668
Allowance for loan losses to non-performing assets	108%	131%	115%	133%	234%
Texas ratio	13.08%	12.20%	15.26%	10.69%	4.45%

A complete Ledyard Financial Group 2011 audit report can be found under "Investor Relations" at ledyardbank.com.



BOARD OF DIRECTORS

As of February 18, 2012



Top row (l-r)

Richard W. Couch, Jr.

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

Adam M. Keller

Director of Education, The Dartmouth Institute for
Health Policy and Clinical Practice

Frederick A. Roesch

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

Andrew A. Samwick

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

Margaret M. Rightmire

Consultant and Community Volunteer
Board Chair, Montshire Museum of Science
Board President, Crossroads Academy

Cotton M. Cleveland

President, Mather Associates

Deirdre Sheerr-Gross, AIA

Principal, Sheerr and White Residential Architecture

Douglas G. Britton

President, Britton Lumber Company, Inc.
Secretary, Ledyard Financial Group

James W. Varnum

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

Bottom row (l-r)

Bayne Stevenson

President, Bayson Company

Kathryn G. Underwood

President and Chief Executive Officer,
Ledyard Financial Group

Dennis E. Logue

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



FINANCIAL GROUP

Plan well. Live well.

LEDYARD NATIONAL BANK

HANOVER

38 MAIN STREET 603.643.2244 LOBBY, WALK-UP & ATM
LEBANON STREET AT PARK STREET 603.643.7457 LOBBY, DRIVE-UP & ATM
DARTMOUTH COLLEGE COLLIS CENTER ATM

LEBANON

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

LYME

ON THE GREEN 603.795.2288 LOBBY & ATM

NEW LONDON

178 COUNTY ROAD 603.526.7725 LOBBY, DRIVE-UP & ATM

NORWICH, VERMONT

320 MAIN STREET 802.649.2050 LOBBY, DRIVE-UP & ATM

WEST LEBANON

67 MAIN STREET 603.298.9444 LOBBY, DRIVE-UP & ATM

INTERNET BANKING

ledyardbank.com

KWIKTEL PHONE BANKING

1.888.KWIKTEL (1.888.594.5835)

 EQUAL HOUSING LENDER  MEMBER FDIC

LEDYARD FINANCIAL ADVISORS

HANOVER

2 MAPLE STREET 603.643.0044

NEW LONDON

178 COUNTY ROAD 603.526.9251

Personal and business banking relationships within the retail bank are subject to FDIC insurance coverage limits. Investment, tax and wealth management services offered by Ledyard Financial Advisors are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by the Bank or any affiliate, and are subject to investment risk including the possible loss of principal amount invested.