



LEDYARD
FINANCIAL GROUP



2013 ANNUAL REPORT

————— Plan well. *Live well.* —————

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.



PHOTOGRAPHY CREDITS

Cover: Sunset on the Connecticut River, Hanover, NH - Matthew Roginski

Interior: Ledyard employees and clients - Jon Gilbert 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

We are pleased to report that 2013 was a year of significant accomplishment, marked by strong performance and sustained engagement with our clients, prospects and community. Our continued growth in profitability, as well as our continued improvement in credit, capital and efficiency demonstrated Ledyard's resolve to rise to the ever-increasing challenges of the banking industry. As ever, we are focused on executing our strategic plan to position Ledyard for consistent long-term profitable growth.

Our commitment to excellence was recognized in early 2013 when *Business NH Magazine* named Ledyard National Bank as its "Business of the Year" in the financial services category. *Business NH Magazine* and the NH Association of Chamber of Commerce Executives have been celebrating the NH Businesses of the Year for 22 years. The award is based on a long and rigorous process in which a panel of judges seeks institutions that are true leaders in their community and industry. The participation is statewide and attracts significant competition each year. Our selection was based, in large part, on many of the activities that we've shared with you over the years in Ledyard's year-end report. The judges cited initiatives that ranged from funding the growth of many local critical businesses to investing in affordable housing for the community. They were equally impressed with our charitable giving programs and commitment to invigorate the economic health of the area. We are very proud of this accomplishment and owe gratitude to our employees, clients, shareholders and community.

PERFORMANCE HIGHLIGHTS

LEDYARD FINANCIAL GROUP

Ledyard's steady performance and strong financial position enabled us to further focus on strengthening relationships with the families, individuals, businesses and communities we serve. The "Ledyard experience" is built on advising and guiding our clients through all aspects of their financial well-being, and is rooted in the knowledge that we have been valuable partners in achieving our clients' goals and dreams. Our commitment to delivering that level of banking experience contributed to strong top line growth and our business gained significant financial momentum in the second half of 2013.

Ledyard Financial Group Shareholder Relevant 2013 highlights:

- Increased dividend by 11% to \$1.44 per share; due to our strong financial position, Ledyard has been able to maintain or increase the quarterly dividend since first declaring one in 1995
- Increased earnings per share by \$0.18 to \$2.98 per share
- Grew revenue to \$20.6 million – a new high
- Increased net income to \$3.0 million
- Decreased problem assets by \$4.5 million
- Our regulatory capital ratios remained well in excess of the amount needed to be considered well-capitalized, the highest designation possible



(r) Robert Gallo, *Private Banking Officer, Ledyard Financial Advisors*, meets with Elliot and Phyllis Fenander, new residents and clients of the Kendal at Hanover branch, which opened February 1, 2013.



LETTER FROM THE CEO & BOARD CHAIR

While the majority of our growth was driven by same-branch activity, we are very pleased with the performance of our newest branch, located at Kendal at Hanover, a continuing care retirement community located just a few miles from our headquarters. The branch, opened in February, serves the critical needs of the Kendal residents and is the only financial institution on the premises. Our Kendal branch employees have truly immersed themselves in the culture and have quickly become members of the Kendal family.



Ledyard Bank, Lyme Branch

In addition to opening the Kendal banking office, we also turned our attention to updating Ledyard's other facilities. In 2013, we renovated the Lyme branch, modernizing the look of the office while maintaining the warm, community-bank environment for which we're known. The new design also created an improved traffic flow and incorporated other adjustments in order to deliver a better in-branch experience for our clients and staff. In our Hanover branch, we installed a state-of-the-art ATM that takes convenience to a higher level. Its updated functionality allows clients to make multiple check deposits in a single transaction and deposit the checks without using envelopes. It also prints deposit receipts that incorporate a scanned image of the check. In the coming months and years, we will consider similar upgrades to our other locations.

Ledyard Financial Group's full-year results reflect the strength of our two basic businesses: wealth management and personal & business banking. Both are discussed on the following pages.

WEALTH MANAGEMENT

Ledyard Financial Advisors 2013 highlights:

- Grew assets under management and custody to \$1.06 billion
- Generated \$7.6 million in revenue, a record high
- Added \$90 million in additional assets



*Larry Draper, Senior Financial Advisor, Fiduciary Officer, Ledyard Financial Advisors;
Melanie Hart, Account Administrator, Ledyard Financial Advisors*

Ledyard Financial Advisors, the premier wealth management firm in the Upper Valley and Lake Sunapee Region, provides integrated investment, tax and wealth management services to families who live locally, as well as to those who reside throughout the United States and abroad. We offer a unique combination of global investment strategies, expert financial advice and personal service and support. These factors, and many others, helped us reach a new and significant milestone in the wealth management industry. In the fourth quarter of 2013, Ledyard Financial Advisors surpassed the \$1 billion mark in assets under management and administration. This achievement confirms our conviction that Ledyard's wealth management model delivers the results and experience that resonate with our clients and community, and suggests outstanding growth prospects.

Our mission of preserving and enhancing our clients' wealth is carried out by the area's largest and most experienced staff of investment managers, analysts, accountants, advisors and attorneys, located in Hanover and New London. Our 30 financial advisors, averaging 25 years of financial services industry experience, have established a strong local presence and provide our services in person. By developing deep relationships and learning about each client's distinct needs, our team can expertly create and execute individualized plans that fit that unique situation.



LETTER FROM THE CEO & BOARD CHAIR

For example, in 2013 we recognized a growing trend that was becoming more important to our clients – socially responsible investing. It is a growing trend around the globe in which individuals and institutions are being proactive in investing in companies that have strong fundamentals – environmental, social and/or governance – and can have a positive impact on society for this and future generations. Our strategy to help our clients interested in this type of investing is to seek companies that have a strong probability of generating attractive financial returns and have demonstrated strength in one or more of the factors noted above.

Our approach to providing these services is driven by our clients' needs, which we take time to understand before developing an individualized comprehensive plan based on their particular situations and family dynamics, to deliver optimal results. We utilize a framework of potential wealth management issues that focuses on 13 key areas ranging from investments and tax planning to titling of assets, retirement planning and wealth distribution.

Our team is regularly asked to speak on topics related to these 13 issues and we've developed seminars to address those requests. In June, we provided several important sessions to the visiting alumni of the Dartmouth Class of '63. It was gratifying to know that the attendees took time out of their 50th reunion festivities to hear our expert speakers discuss topics such as "Generating Income in a Low-Yield World" and "Planning Your Legacy". Other seminars we've presented throughout the year include topics such as "What to do After the Loss of a Loved One" and "2013 Federal Tax Law Changes" and "Year End Tax Planning". We believe that providing this level of education to our clients, prospects and community make for informed partners and long term relationships.

PERSONAL AND BUSINESS BANKING

Personal and Business Banking 2013 highlights:

- Grew commercial loans outstanding net of commercial construction by \$16.4 million, an increase of 14.2%.
- Closed new commercial loans totaling \$43.8 million, an increase of 24.8%
- Closed 150 mortgages, totaling \$38.3 million in loan volume
- Grew transaction accounts by \$5.9 million, an increase of 2.3%

Individuals and families choose Ledyard for their checking and savings accounts, mortgages, home equity loans and other banking solutions. Perhaps more importantly, they also choose Ledyard to provide them the most relevant personal financial advice. While we prefer the face-to-face contact that is our hallmark, we continue to build our electronic infrastructure to allow clients to bank with us as they see fit. Ease-of-use enhancements include upgrades to our mobile platform as well as new capabilities in processing mortgage applications. The mobile upgrades allow clients to conduct their online banking using tablets in addition to their cell phones, while new mortgage processing capabilities allow clients or prospects to apply for a Ledyard mortgage online. The latter also allows our mortgage team to more efficiently process the application, generate the required forms and deliver a better overall customer experience. This improvement to our mortgage capabilities builds upon the vision we established for the department in 2012. In utilizing monthly surveys to evaluate and improve our performance and adhering to the service level commitments we established for the end-to-end client experience, Ledyard is moving closer to its goal of becoming a major player in the Upper Valley and Lake Sunapee region's mortgage servicing landscape.

Our reputation in the commercial banking community is just as strong, with local businesses looking to us for the loans and financial services they need to thrive and create jobs. Adhering to our longstanding lending practices, we put money back to work in our communities. Because we work and reside in the same community as our business clients, we share and understand their needs. Further, we realize that sometimes the greatest value we deliver is not by providing a loan, but by being a non-credit resource, acting as a professional sounding board, helping them consider strategies that best address their unique situations. For example, in addition to collaborating with a client on tactics to maintain adequate working capital and manage cash flow, we can also help them with risk management issues in order to improve the business' long-term viability. We also help small business owners with often neglected concerns such as succession planning and retirement planning. The former requires that we help the owner create a vision that will endure in a way that seamlessly transitions operations to the next generation. The latter requires our expertise in developing the financial plans that clients use as roadmaps to realizing their long-term goals.



(l-r) Patty and Marc Milowsky, Owners, Blue Sky Restaurant Group;
Jason Achmoody, Vice President & Commercial Relationship Manager, Ledyard National Bank

“Our family business is proud to have served Upper Valley guests since 1976. Over the years, our partnership with Ledyard National Bank has contributed to the growth and success of our restaurants. Ledyard has helped us finance numerous projects, both business and personal. Their commitment to customer service and personal relationships has been exemplary. It means a lot to us to be partners with a local bank that really cares about its clients and their businesses.”

Marc Milowsky, President, Blue Sky Restaurant Group



LETTER FROM THE CEO & BOARD CHAIR

Expanding Services & Products to Match Community Needs

Enduring client relationships are the cornerstone of our business, and our high level of client care has always differentiated us from our competitors. With this in mind, we invested thoughtfully in projects, products and services that were designed to enhance the effectiveness, convenience and overall banking experience we deliver every day. These initiatives directly improved our ability to deliver outstanding service across all channels and allowed us to deepen client relationships.



Daniel P. Emanuele, Senior Vice President, Commercial Relationship Manager; Alicia Willette, DDS

As we mentioned in last year's report, we embarked on a mission to develop a new Private Banking division. Our first step was to conduct a series of focus groups that served to shape our vision of the division's purpose and goals. Armed with that knowledge, we then developed a business plan to guide the execution of the program with a planned launch in the second quarter of 2014. The new group will better service our largest and most complex professional clients, many of whom have atypical banking requirements specific to their profession. These doctors, dentists, professors, attorneys and other professionals will experience seamless banking with a single point of contact that is designed to holistically match their needs with the right products and services. With this concierge approach, we will be available to offer solutions outside of normal banking hours, making Private Banking the go-to resource for the professional's lifestyle expectations.

We've also taken a close look at the needs of many community members on the opposite end of the spectrum from Private Banking. We have long been a supporter of non-profit organizations that help the lower income segments of the population. So, this past year, we made the decision to develop new products that target low to middle income clients or prospects, offering them more affordable options for cash or credit. Examples of these products include:

- **KwikCash** – A loan product secured by a mortgage, with a highly competitive fixed rate, shorter term and \$10,000 maximum loan amount. KwikCash has proven to be a very effective tool for lower income clients as they address some of the unexpected or smaller expenses that they encounter from time to time
- **Manufactured Home Loan** – A loan to purchase or refinance a manufactured home, with a competitive rate and multiple terms from which to choose
- **Equity Builder** – As a participant in the Federal Home Loan Equity Builder Program, we offered first time homebuyers with low-to-moderate income up to \$15,000 in closing costs and down payment assistance

In our discussion of Wealth Management, we highlighted an initiative related to socially responsible investing – one of those factors being environmental. Over the years, Ledyard has engaged in many activities to support a clean environment, and we continued to look for ways to make an impact in 2013. One such example is our “Think Green. Save a Tree” campaign. We asked our clients to consider converting monthly paper statements and sign up for electronic statements. In return, we offered to plant a tree in the community for each new e-statement opened. The program resulted in hundreds of trees donated to our neighborhoods, as well as the knowledge that we are continuing our own conservation efforts. Another example involves our employee volunteer work, taking personal time to join projects such as the Source to Sea Cleanup, coordinated by the Connecticut River Watershed Council to help restore the Connecticut River, remove trash, catalog it and dispose of it. These cleanups removed tons of debris from the river and stream banks in our backyards.

Our partnership with the Watershed Council merely scratches the surface of Ledyard’s volunteerism. As we’ve reported for years, our employee and board member activities amount to thousands of volunteer hours each year. One of our largest efforts to date, the “adoption” of the Upper Valley Haven, has been a great success. The Haven is a non-profit organization that provides temporary shelter, food, clothing and education to anyone in need. We spent the year executing a volunteer plan that addressed a wide array of issues faced by the Haven. We donated time to perform activities that included delivering financial literacy seminars to their customers and planned giving seminars to their board members, leading food and clothing drives, cooking dinner for residents and assisting with fund raisers. While we are continuing our strong partnership with the Haven, we will have a new “adopted” partner in 2014 – the Grafton County Senior Citizens Council, an organization that has worked for the last 40 years to ensure that older adults in our community have access to programs and services that support and enhance their health, well-being, dignity and independence. The Ledyard volunteer committee is looking forward to the opportunity to help where needed and learn more about the people and organizations at the heart of our community.



LOOKING AHEAD TO 2014

As we prepare for 2014, we are confident that we are on the right path for continued success. Aligned with our broader strategic plan, the following is a sampling of a few key future goals and initiatives:

- Continue to improve key financial metrics and increase profitability
- Remain focused on growing core revenue and improving efficiency
- Grow our dividend steadily and share Ledyard's success with our shareholders
- Improve our communication capabilities to clients and prospects in order to share information, disseminate educational material and create greater awareness of Ledyard's products and services. For example, we are developing sophisticated e-newsletters for the Wealth Management division that will allow them to present material in a targeted manner, identifying the topics that are most interesting to each individual reader and customizing content to match their unique preferences
- Focus on cross-selling opportunities across the organization. By recognizing and uncovering the myriad of banking requirements sought by our clients, we can better deliver a comprehensive financial services experience, while establishing ourselves as their primary resource
- Roll out a new customer information system that will provide our organization with unprecedented insight into our clients' needs and behaviors. The system will enable us to provide better service, generate sales, improve our product pricing capabilities and support our strategic planning efforts
- Continue to leverage evolving technology to enhance client services and streamline internal processes. For example, we are investigating several exciting opportunities, including Virtual Desktop Integration. VDI will eliminate the need to continually deploy and refresh PCs as they age. Instead, we will be able to streamline maintenance and support, increase security and reliability, as well as facilitate mobility
- Continue to evaluate the banking needs in our area and develop new products that address existing gaps
- Identify new and innovative ways to provide our clients and neighbors with the attention, care and personalized service that only a true community bank can provide

We thank our shareholders, clients, employees and board members for their trust and support, and we look forward to strengthening those partnerships in 2014.

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 "OTHER DATA")

YEARS-ENDED DECEMBER 31,	2013	2012	2011	2010	2009
FINANCIAL CONDITION DATA					
Assets	\$ 409,516	\$ 401,800	\$ 390,442	\$ 394,785	\$ 393,615
Investments	137,826	143,966	140,755	144,577	152,473
Gross loans, including loans held-for-sale	245,097	231,705	216,496	209,603	203,939
Allowance for loan loss	(5,564)	(5,656)	(5,707)	(6,306)	(6,346)
Net loans, including loans held-for-sale	239,534	226,049	210,789	203,297	197,593
Deposits	342,245	337,294	312,526	308,059	320,129
Federal Home Loan Bank advances	15,029	9,551	19,859	26,915	24,718
Other borrowings and liabilities	14,072	16,928	21,088	26,279	15,685
Shareholders' equity	38,170	38,028	36,970	33,533	33,082
OPERATING DATA					
Net interest income	\$ 11,490	\$ 11,155	\$ 11,442	\$ 12,066	\$ 12,515
Ledyard Financial Advisors income	7,579	6,990	6,856	6,052	5,125
Other non-interest income	1,479	2,292	1,991	1,941	2,086
Total revenue	20,548	20,437	20,289	20,059	19,726
Provision for loan loss	0	0	675	450	2,250
Non-interest expense	16,626	16,794	16,260	16,143	15,130
Pre-tax income	3,922	3,643	3,354	3,466	2,346
Income taxes	913	803	745	937	565
Net income	3,009	2,840	2,609	2,529	1,780
OTHER DATA					
Earnings per share, basic	\$ 2.98	\$ 2.80	\$ 2.56	\$ 2.49	\$ 1.75
Dividends per share	1.44	1.30	1.24	1.24	1.24
Dividend payout ratio	49%	46%	49%	50%	71%
Tangible book value per share	\$ 37.65	\$ 37.72	\$ 36.20	\$ 32.96	\$ 32.55
Shares outstanding, net of treasury	1,013,684	1,008,271	1,021,227	1,017,415	1,016,431
Return on average assets	0.74%	0.72%	0.66%	0.64%	0.47%
Return on average equity	7.90%	7.57%	7.40%	7.59%	5.53%
Efficiency ratio	80.79%	82.05%	80.14%	80.48%	76.70%
Stock price - high	\$ 42.00	\$ 34.95	\$ 36.00	\$ 35.00	\$ 40.99
- low	\$ 34.35	\$ 27.25	\$ 29.00	\$ 30.00	\$ 30.05
- average	\$ 38.30	\$ 31.82	\$ 31.78	\$ 32.02	\$ 32.51
Assets under management and custody (millions)	\$ 1,064	\$ 902	\$ 895	\$ 884	\$ 801
Equity-to-asset ratio	8.99%	8.74%	9.48%	8.56%	8.40%
Allowance for loan losses to total loans	2.27%	2.44%	2.64%	3.01%	3.11%
Net charge-offs	\$ 92,030	\$ 50,900	\$ 1,275,000	\$ 490,000	\$ 830,000
Non-performing assets	\$ 2,510,089	\$ 2,298,030	\$ 5,267,024	\$ 4,804,756	\$ 5,535,866
Allowance for loan losses to non-performing assets	222%	246%	108%	131%	115%
Texas Ratio	5.84%	5.56%	13.08%	12.20%	15.26%

Complete Ledyard Financial Group 2013 audited financial statements can be found under "Investor Relations" at ledyardbank.com.



SENIOR MANAGEMENT TEAM

As of February 18, 2014



Back Row, L-R:

Jeffrey H. Marks, *Senior Vice President and Chief Marketing Officer*

Kevin D. Kober, *Senior Vice President and Chief Retail Banking Officer*

Reginald E. Greene, Jr., *Senior Vice President and Senior Lending Officer*

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

Front Row L-R:

Barbara S. Graf, *Senior Vice President and Human Resources Director*

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

Kathryn G. Underwood, *President and Chief Executive Officer*

Dennis B. Mitchell, *CFP®*, *President and Managing Director, Ledyard Financial Advisors*



BOARD OF DIRECTORS

As of February 18, 2014



Back Row L-R:

Richard W. Couch, Jr.

*Chairman of the Board and Chief Executive Officer
Hypertherm, Inc.*

Margaret M. Rightmire

Consultant and Community Volunteer

Andrew A. Samwick

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

Frederick A. Roesch

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

James W. Varnum

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

Douglas G. Britton

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

Deirdre Sheerr-Gross, AIA

Principal, Sheerr and White Residential Architecture

Adam M. Keller

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

Front Row L-R:

Dennis E. Logue

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

Cotton M. Cleveland

President, Mather Associates

Kathryn G. Underwood

*President and Chief Executive Officer,
Ledyard Financial Group*

Bayne Stevenson

*President
Bayson Company*

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LEDYARD

FINANCIAL GROUP

LEDYARD NATIONAL BANK

HANOVER

38 S. 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.

Plan well. Live well.
