



SHATSWELL, MacLEOD & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors  
The Nashua Bank  
Nashua, New Hampshire

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of The Nashua Bank as of December 31, 2007 and the related statements of loss, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Nashua Bank as of December 31, 2007, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Shatswell, MacLeod + Company, P.C.*

SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts  
April 14, 2008

THE NASHUA BANK

BALANCE SHEET

December 31, 2007

ASSETS

Cash and due from banks	\$ 2,073,313
Federal funds sold	<u>12,760,000</u>
Cash and cash equivalents	14,833,313
Interest-bearing time deposits with other banks	3,000,000
Investments in available-for-sale securities (at fair value)	5,987,484
Loans, net	2,978,819
Premises and equipment	653,100
Accrued interest receivable	28,834
Other assets	<u>83,823</u>
Total assets	<u>\$27,565,373</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:	
Noninterest-bearing	\$ 1,230,891
Interest-bearing	<u>14,446,619</u>
Total deposits	15,677,510
Other liabilities	<u>35,736</u>
Total liabilities	<u>15,713,246</u>
Stockholders' equity:	
Common stock, par value \$1.00; authorized 5,000,000 shares; shares issued 1,260,450	1,260,450
Paid-in capital	11,288,064
Accumulated deficit	(698,702)
Accumulated other comprehensive income	<u>2,315</u>
Total stockholders' equity	<u>11,852,127</u>
Total liabilities and stockholders' equity	<u>\$27,565,373</u>

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

THE NASHUA BANK

STATEMENT OF LOSS

Year Ended December 31, 2007

Interest income:	
Interest and fees on loans	\$ 21,373
Interest on securities - taxable	13,289
Interest on federal funds sold	144,995
Interest on interest-bearing deposits	<u>4,828</u>
Total interest income	<u>184,485</u>
Interest expense:	
Interest on deposits	<u>67,550</u>
Total interest expense	<u>67,550</u>
Net interest income	116,935
Provision for loan losses	<u>41,551</u>
Net interest income after provision for loan losses	<u>75,384</u>
Noninterest income:	
Customer service fees	866
Other income	<u>758</u>
Total noninterest income	<u>1,624</u>
Noninterest expense:	
Salaries and employee benefits	276,033
Occupancy expense	109,633
Equipment expense	10,444
Data processing expense	18,018
Insurance	4,022
Professional fees	156,560
Advertising and promotions	64,921
Other expense	<u>89,054</u>
Total noninterest expense	<u>728,685</u>
Net loss	<u>\$(651,677)</u>

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

THE NASHUA BANK

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Year Ended December 31, 2007

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance, December 31, 2006	\$	\$	\$ (47,025)	\$	\$ (47,025)
Proceeds from issuance of common stock (1,260,450 shares)	1,260,450	11,344,050			12,604,500
Stock issuance costs		(55,986)			(55,986)
Comprehensive loss:					
Net loss			(651,677)		
Unrealized holding gain on available-for-sale securities				2,315	
Comprehensive loss					(649,362)
Balance, December 31, 2007	<u>\$1,260,450</u>	<u>\$11,288,064</u>	<u>\$(698,702)</u>	<u>\$2,315</u>	<u>\$11,852,127</u>

Reclassification disclosure for the year ended December 31, 2007:

Net unrealized holding gains on available-for-sale securities	\$2,315
Reclassification adjustment for realized gains in net income	<u>0</u>
Other comprehensive income	<u>\$2,315</u>

Accumulated other comprehensive income as of December 31, 2007 consists of net unrealized holding gains on available-for-sale securities.

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

THE NASHUA BANK

STATEMENT OF CASH FLOWS

Year Ended December 31, 2007

Cash flows from operating activities:	
Net loss	\$ (651,677)
Adjustments to reconcile net loss to net cash used in operating activities:	
Accretion of discounts	(15)
Change in deferred fees, net	1,938
Provision for loan losses	41,551
Depreciation and amortization	19,901
Increase in interest receivable	(28,834)
Increase in prepaid expenses	(37,462)
Increase in other assets	(10,012)
Increase in interest payable	348
Decrease in accrued expenses	(7,135)
Increase in other liabilities	<u>880</u>
Net cash used in operating activities	<u>(670,517)</u>
Cash flows from investing activities:	
Purchases of available-for-sale securities	(5,985,154)
Purchases of interest-bearing time deposits with other banks	(3,000,000)
Loan originations and principal collections, net	(3,022,308)
Capital expenditures	<u>(709,350)</u>
Net cash used in investing activities	<u>(12,716,812)</u>
Cash flows from financing activities:	
Net increase in demand deposits, NOW and savings accounts	15,032,525
Net increase in time deposits	644,985
Proceeds from issuance of common stock, net of costs	<u>12,518,514</u>
Net cash provided by financing activities	<u>28,196,024</u>
Net increase in cash and cash equivalents	14,808,695
Cash and cash equivalents at beginning of year	<u>24,618</u>
Cash and cash equivalents at end of year	<u>\$14,833,313</u>
Supplemental disclosures:	
Interest paid	\$67,202
Incorporators' funds transferred to common stock and paid-in capital	30,000

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

## THE NASHUA BANK

### NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2007

#### NOTE 1 - NATURE OF OPERATIONS

The Nashua Bank (Bank) is a state chartered bank which was incorporated on August 13, 2007 and is headquartered in Nashua, New Hampshire. From its date of incorporation on August 13, 2007 through September 28, 2007 the Bank was in the development stage. In that period the Bank devoted substantially all of its efforts to establishing the Bank and planned operations had not commenced. The Bank began operating as a bank on October 1, 2007. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in residential and commercial real estate loans, and in consumer and small business loans.

#### NOTE 2 - ACCOUNTING POLICIES

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and predominant practices within the banking industry. The financial statements were prepared using the accrual method of accounting. The significant accounting policies are summarized below to assist the reader in better understanding the financial statements and other data contained herein.

##### USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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.

##### CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks and federal funds sold.

##### SECURITIES:

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts so as to approximate the interest method. Gains or losses on sales of investment securities are computed on a specific identification basis.

The Bank classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, securities may be classified as held-to-maturity only if the Bank has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

- Held-to-maturity securities are measured at amortized cost in the balance sheet. Unrealized holding gains and losses are not included in earnings or in a separate component of capital. They are merely disclosed in the notes to the financial statements.

- Available-for-sale securities are carried at fair value on the balance sheet. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.
- Trading securities are carried at fair value on the balance sheet. Unrealized holding gains and losses for trading securities are included in earnings.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

#### LOANS:

Loans receivable that management has the intent and ability to hold until maturity or payoff are reported at their outstanding principal balances adjusted for amounts due to borrowers on unadvanced loans, any charge-offs, the allowance for loan losses and any deferred fees, costs on originated loans or unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Loans are placed on nonaccrual status when reaching 90 days past due, except when the loans are well secured and in the process of collections. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally three months.

Cash receipts of interest income on impaired loans is credited to principal to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans is recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

#### 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 and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

#### PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets.

#### OTHER REAL ESTATE OWNED AND IN-SUBSTANCE FORECLOSURES:

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures in accordance with Statement of Financial Accounting Standards (SFAS) No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring." These properties are carried at the lower of cost or estimated fair value less estimated costs to sell. Any write-down from cost to estimated fair value, required at the time of foreclosure or classification as in-substance foreclosure, is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets, subsequent write-downs and gains or losses recognized upon sale are included in other expense.

In accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," the Bank classifies loans as in-substance repossessed or foreclosed if the Bank receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place.

#### EARNINGS (LOSS) PER SHARE:

Basic earnings (loss) per share (EPS) excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. EPS for the year ended December 31, 2007 is not presented since the information would not be meaningful.

#### ADVERTISING:

The Bank directly expenses costs associated with advertising as they are incurred.

#### INCOME TAXES:

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

## RECENT ACCOUNTING PRONOUNCEMENTS:

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Instruments" (SFAS 155), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS No. 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS No. 133. The statement is effective as of January 1, 2007. The adoption of SFAS 155 did not have a material impact on the Bank's financial condition and results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets- an amendment of FASB Statement No. 140" (SFAS 156). SFAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance sheet reporting periods. SFAS 156 is effective as of an entity's first fiscal year beginning after September 15, 2006. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The adoption of this statement did not have a material impact on the Bank's financial condition, results of operations or cash flows.

In June 2006 the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2007. The adoption of FIN 48 is not expected to have a material impact on the Bank's financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) and enhances disclosures about fair value measurements. SFAS 157 retains the exchange price notion and clarifies that the exchange price is the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. SFAS 157 is effective for the Bank's financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. The Bank does not expect the adoption of this statement to have a material impact on its financial condition, results of operations or cash flows.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue No. 06-4 "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," ("EITF Issue 06-4"). EITF 06-4 requires companies with an endorsement split-dollar life insurance arrangement to recognize a liability for future postretirement benefits. The effective date is for fiscal years beginning after December 15, 2007, with earlier application permitted. Banks should recognize the effects of applying this issue through either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all periods. The adoption of this issue is not expected to have a material impact on the Bank's financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and other Postretirement Plans – an amendment of FASB Statements No 87, 88, 106 and 132(R)" (SFAS 158). SFAS 158 requires 1) the recognition of an asset or liability for the over-funded or under-funded status of a defined benefit plan, 2) the recognition of actuarial gains and losses and prior service costs and credits in other comprehensive income, 3) measurement of plan assets and benefit obligations as of the employer's balance sheet date, rather than at interim measurement dates as currently allowed, and 4) disclosure of additional information concerning actuarial gains and losses and prior service costs and credits recognized in other comprehensive income. This statement is effective for financial statements with fiscal years ending after December 15, 2006. The adoption of this statement did not have a material impact on the Bank's financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective at the beginning of the Bank's fiscal year beginning January 1, 2008, and early application may be elected in certain circumstances. The Bank does not believe the adoption of this statement will have a material impact on the Bank's financial position, results of operations or cash flows.

**NOTE 3 - INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES**

Debt securities have been classified in the balance sheet according to management's intent. The amortized cost of securities and their approximate fair values are as follows as of December 31, 2007:

	<u>Amortized Cost Basis</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	\$4,000,000	\$	\$	\$4,000,000
Mortgage-backed securities	<u>1,985,169</u>	<u>2,315</u>	<u>_____</u>	<u>1,987,484</u>
	<u>\$5,985,169</u>	<u>\$2,315</u>	<u>\$_____</u>	<u>\$5,987,484</u>

The scheduled maturities of available-for-sale securities were as follows as of December 31, 2007:

	<u>Fair Value</u>
Due after one year through five years	\$4,000,000
Mortgage-backed securities	<u>1,987,484</u>
	<u>\$5,987,484</u>

For the year ended December 31, 2007 there were no sales of available-for-sale securities.

There were no securities of issuers which exceeded 10% of stockholders' equity.

There were no investment securities pledged as of December 31, 2007.

#### NOTE 4 - LOANS

Loans consisted of the following as of December 31, 2007:

Real estate - construction and land development	\$ 92,382
Real estate - residential	250,000
Real estate - commercial	390,000
Commercial and industrial	2,266,147
Consumer	<u>23,779</u>
	3,022,308
Deferred fees, net	(1,938)
Allowance for loan losses	<u>(41,551)</u>
Net loans	<u>\$2,978,819</u>

Certain directors and executive officers of the Bank and companies in which they have significant ownership interest were customers of the Bank during 2007. Total loans to such persons and their companies amounted to \$296,000 as of December 31, 2007. During 2007, principal payments totaled \$4,000 and advances amounted to \$300,000.

Changes in the allowance for loan losses were as follows for the year ended December 31, 2007:

Balance at beginning of period	\$ 0
Provision for loan losses	<u>41,551</u>
Balance at end of period	<u>\$41,551</u>

The Bank has no nonaccrual loans and accruing loans 90 days or more overdue as of December 31, 2007.

There were no loans that meet the definition of an impaired loan in Statement of Financial Accounting Standards No. 114 as of December 31, 2007 or during the year then ended.

#### NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31, 2007:

Leasehold improvements	\$459,873
Furniture and equipment	<u>209,987</u>
	669,860
Accumulated depreciation and amortization	<u>(16,760)</u>
	<u>\$653,100</u>

#### NOTE 6 - DEPOSITS

The aggregate amount of time deposit accounts in denominations of \$100,000 or more as of December 31, 2007 was \$503,518.

Deposits from related parties held by the Bank as of December 31, 2007 amounted to \$2,146,260.

For time deposits as of December 31, 2007, the scheduled maturities for each of the following years ended December 31 are:

2008	\$544,622
2010	<u>100,363</u>
	<u>\$644,985</u>

At December 31, 2007, the Bank had one depositor holding deposits of \$1,935,978, or 12.3% of total deposits.

## NOTE 7 - INCOME TAX BENEFIT

The components of income tax benefit are as follows for the year ended December 31, 2007:

Deferred:	
Federal	\$(203,103)
State	(55,493)
Change in valuation allowance	258,596
Total income tax benefit	<u>\$ 0</u>

The reasons for the differences between the statutory federal income tax rate and the effective tax rate are summarized as follows for the year ended December 31, 2007:

	% of
	<u>Income</u>
Federal income tax at statutory rate	(34.0)%
Other, net	(0.1)
State tax benefit, net of federal tax expense	(5.6)
Change in valuation allowance	<u>39.7</u>
Effective tax rates	<u>0.0%</u>

The Bank had deferred tax assets and deferred tax liabilities as follows as of December 31, 2007:

Deferred tax assets:	
Allowance for loan losses	\$ 16,458
Accelerated depreciation	4,232
Start-up expenses	150,051
Net operating loss carryforward	47,648
Organizational expenses	<u>42,997</u>
Gross deferred tax asset	261,386
Valuation allowance	<u>(257,679)</u>
	<u>3,707</u>
Deferred tax liabilities:	
Unrealized holding gain on available-for-sale securities	(917)
Deferred loan costs	<u>(2,790)</u>
Gross deferred tax liability	<u>(3,707)</u>
Net deferred tax asset	<u>\$ 0</u>

The Bank has state and federal net operating loss carryforwards of \$120,293 which will expire in 2017 and 2027, respectively. The tax benefit related to the net operating loss carryforwards totaled \$47,648 and has been offset with a full valuation allowance.

## NOTE 8 - EMPLOYEE BENEFITS

### Defined Contribution Plan

The Bank maintains a 401(k) plan for all of its employees. The Bank may make matching contributions based on employee elective deferrals. The Bank's contribution to the plan was \$3,950 in 2007.

## NOTE 9 - EMPLOYMENT AGREEMENTS

The Chief Executive Officer, Chief Lending Officer and Chief Financial Officer each have entered into employment agreements with the Bank. The agreements provide for payments of one year's base salary and other incentive compensation upon termination, as defined in each agreement. Upon a change in control, as defined in each agreement, followed by the executive's termination, the Bank shall pay each executive between one and two years' base salary. The term of each agreement is three years with one year extensions each year thereafter. Subject to shareholder approval of the Bank's stock option plan, each executive officer will receive stock options to purchase between 20,000 and 60,000 shares of the Bank's common stock.

#### NOTE 10 - COMMITMENTS AND CONTINGENCIES

As of December 31, 2007, the Bank is obligated under an operating lease for bank premises which started on June 1, 2007 and expires on May 31, 2010. The total minimum rental due in future periods under the existing agreement is as follows as of December 31, 2007:

2008	\$ 61,458
2009	62,500
2010	<u>26,042</u>
Total minimum lease payments	<u>\$150,000</u>

The lease contains a provision for escalation of minimum lease payments. The total rental expense amounted to \$78,459 for the year ended December 31, 2007.

On June 27, 2007, the Bank entered into an agreement with a third party data processing services provider which ends on October 1, 2014. The agreement may be terminated at any time by the Bank. If the Bank elects to terminate the agreement, it is required to pay a termination fee. The termination fee shall be an amount equal to all costs reasonably incurred by the data processing services provider in connection with such termination plus the total compensation which would have been paid or reimbursed to the data processing service provider during the remainder of the term of the agreement. As of December 31, 2007, the Bank had no plans to terminate the agreement.

#### NOTE 11 - FINANCIAL INSTRUMENTS

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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

Notional amounts of financial instrument liabilities with off-balance sheet credit risk are as follows as of December 31, 2007:

Commitments to originate loans	\$ 910,000
Unadvanced funds on commercial construction	354,560
Unadvanced funds on commercial real estate	<u>267,030</u>
	<u>\$1,531,590</u>

There is no material difference between the notional amounts and the estimated fair values of the off-balance sheet liabilities.

## NOTE 12 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Bank's business activity is with customers located within the state. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Bank's loan portfolio is comprised of loans collateralized by real estate located in the state of New Hampshire.

## NOTE 13 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table.

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(Dollar amounts in thousands)						
As of December 31, 2007:						
Total Capital (to Risk Weighted Assets)	\$11,891	141.68%	\$671	≥8.0%	\$839	≥10.0%
Tier 1 Capital (to Risk Weighted Assets)	11,850	141.19	336	≥4.0	504	≥6.0
Tier 1 Capital (to Average Assets)	11,850	70.03	677	≥4.0	846	≥5.0

The Federal Deposit Insurance Corporation requires the Bank to maintain a Tier 1 leverage capital ratio of 8% for the first three years of operation.