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COMPANY DATA:
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CENTRAL INDEX KEY: 0000840886
STANDARD INDUSTRIAL CLASSIFICATION: NATIONAL COMMERCIAL BANKS [6021]
IRS NUMBER: 061241321
STATE OF INCORPORATION: DE
FISCAL YEAR END: 1231

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SEC ACT: 1934 Act
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CITY: LITCHFIELD
STATE: CT
ZIP: 06759
BUSINESS PHONE: 2035678752

MAIL ADDRESS:
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STREET 2: PO BOX 578
CITY: LITCHFIELD
STATE: CT
ZIP: 06759
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2007

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from ___________________ to ___________________

Commission file number 0-28815

FIRST LITCHFIELD FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware	06-1241321
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
13 North Street, Litchfield, CT	06759

- --   ------------------------------
(Address of Principal Executive Offices)   (Zip Code)

Registrant's telephone number, including area code (860) 567-8752

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
- ----------------------------	--
- ----------------------------	--

Securities registered pursuant to Section 12(g) of the Act:

Common Stock
- --
(Title of Class)

- --
(Title of Class)

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes |_| No |X|

Indicate by check mark whether the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes |_| No |X|

Indicate by check mark whether the Registrant: (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

<PAGE>

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. Yes |X| No |_|

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.;

Large accelerated filer |_| Accelerated filer |_| Non-accelerated filer |_|
Smaller reporting company |X|

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes |_| No |X|

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter $36,247,774.

Note. If determining whether a person is an affiliate will involve an unreasonable effort and expense, the issuer may calculate the aggregate market value of the common equity held by non-affiliates on the basis of reasonable assumptions, if the assumptions are stated.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

Indicate the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date. March 27, 2008 - 2,371,700

DOCUMENTS INCORPORATED BY REFERENCE

PART III. Portions of the Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 21, 2008.

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<S>   <C>   <C>

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PART I

ITEM 1. BUSINESS

Business of the Company

First Litchfield Financial Corporation, a Delaware corporation (the "Company") is a registered bank holding company under the Bank Holding Company Act of 1956, as amended. The Company was formed in 1988 and has one banking subsidiary, The First National Bank of Litchfield (the "Bank"), a national banking association organized under the laws of the United States. The Bank and its predecessors have been in existence since 1814. The principal executive office of the Company is located at 13 North Street, Litchfield, CT 06759, and the telephone number is (860) 567-8752. The Company owns all of the outstanding shares of the Bank. The Bank has three subsidiaries, Lincoln Corporation and Litchfield Mortgage Service Corporation, which are Connecticut corporations, and First Litchfield Leasing Corporation which is a Delaware corporation. The Bank holds a majority ownership position in First Litchfield Leasing Corporation. The purpose of Lincoln Corporation is to hold property such as real estate, personal property, securities, or other assets, acquired by the Bank through foreclosure or otherwise to compromise a doubtful claim or collect a debt previously contracted. The purpose of Litchfield Mortgage Service Corporation is to operate as a passive investment company in accordance with Connecticut law. On June 26, 2003, the Company formed First Litchfield Statutory Trust I for the purpose of issuing trust preferred securities and investing the proceeds in subordinated debentures issued by the Company, and on June 26, 2003, the first series of trust preferred securities were issued. During the second quarter of 2006, the Company formed a second statutory trust, First Litchfield Statutory Trust II ("Trust II"). The Company owns 100% of Trust II's common stock. Trust II exists for the sole purpose of issuing trust securities and investing the proceeds in subordinated debentures issued by the Company. In June 2006, Trust II issued its first series of trust preferred securities.

During the fourth quarter of 2006, The Bank formed First Litchfield Leasing Corporation for the purpose of providing equipment financing and leasing products. The Company considers First Litchfield Leasing Corporation as an operating segment for reporting business line results.

The Bank engages in a wide range of commercial and personal banking activities, including accepting demand deposits (including Money Market Accounts), accepting savings and time deposit accounts, making secured and unsecured loans and leases to corporations, individuals, and others, issuing letters of credit, originating mortgage loans, and providing personal and corporate trust services. The business of the Bank is not significantly affected by seasonal factors.

The Bank's lending services include commercial, real estate, and consumer installment loans and leases. Revenues from the Bank's lending activities constitute the largest component of the Bank's operating revenues. The loan and lease portfolio constitutes the major earning asset of the Bank and offers the best alternative for maximizing interest spread above the cost of funds. The Bank's loan and lease personnel have the authority to extend credit under guidelines established and approved by the Board of Directors. Any aggregate credit which exceeds the authority of the loan or lease officer is forwarded to the loan committee for approval. The loan committee is composed of various experienced loan and lease officers and Bank directors. All aggregate credits that exceed the loan committee's lending authority are presented to the full Board of Directors for ultimate approval or denial. The loan committee not only acts as an approval body to ensure consistent application of the Bank's loan and lease policy, but also provides valuable insight through communication and pooling of knowledge, judgment, and experience of its members.

The Bank's primary lending area generally includes towns located in Litchfield and Hartford counties.

The Bank's Trust and Wealth Management Department provides a wide range of personal and corporate trust and trust-related investment services, including serving as executor of estates, as trustee under testamentary and intervivos trusts and various pension and other employee benefit plans, as guardian of the estates of minors and incompetents, and as escrow agent under various agreements.

The Bank introduces new products and services as permitted by the regulatory authorities or desired by the public. The Bank remains committed to meeting the challenges that require technology. In addition to providing its customers with access to the latest technological products, such as telephone banking, which allows customers to handle routine transactions using a standard touch tone telephone, the Bank is accessible via a home page on the Internet. The Bank also offers PC banking and bill paying via the Internet at its Website. The Bank also offers a cash management product; e-Business Advantage, which is geared toward commercial businesses, municipal and nonprofit customers and provides 24-hour online account management including real-time account monitoring, managing cash flow, collecting and making payments electronically, as well as transferring idle cash.

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Competition

In Connecticut generally, and in the Bank's primary service area specifically, there is intense competition in the commercial banking industry. The Bank's market area consists principally of towns located in Litchfield County and Hartford County, although the Bank also competes with other financial institutions in surrounding counties in Connecticut in obtaining deposits and providing many types of financial services. The Bank competes with larger regional banks for the business of companies located in the Bank's market area. The Bank also competes with savings and loan associations, credit unions, finance companies, personal loan companies, money market funds and other non-depository financial intermediaries. Many of these financial institutions have resources many times greater than those of the Bank. In addition, new financial intermediaries such as money-market mutual funds and large retailers are not subject to the same regulations and laws that govern the operation of traditional depository institutions.

Changes in federal and state law have resulted in, and are expected to continue to result in, increased competition. The reductions in legal barriers to the acquisition of banks by out-of-state bank holding companies resulting from implementation of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 and other recent and proposed changes are expected to continue to further stimulate competition in the markets in which the Bank operates, although it is not possible to predict the extent or timing of such increased competition. [See Risk Factors]

Lending Activities

The Bank's lending policy is designed to correspond with its mission of remaining a community-oriented bank. The loan and lease policy sets forth accountability for lending functions in addition to standardizing the underwriting, credit and documentation procedures. The Bank's target market regarding lending is in the towns in which a Bank office is located and contiguous towns. The typical loan and lease customer is an individual or small business which has a deposit relationship with the Bank. The Bank strives to provide an appropriate mix in its loan and lease portfolio of commercial loans leases and loans and leases to individual consumers.

Loan and Lease Portfolio
- ------------------------

The Bank's loan and lease portfolio at December 31, 2007 - 2003 was comprised of the following categories:

<TABLE>
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(Dollar Amounts in Thousands)

	December 31,				
	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>
Commercial loans	$ 33,642	$ 26,950	$ 21,151	$ 17,911	$ 20,754
Commercial leases	8,634	--	--	--	--
Real Estate					
Construction	34,809	30,606	28,549	11,597	9,228
Residential	189,557	177,082	145,927	148,662	126,317
Commercial	55,752	53,318	42,145	33,655	27,022
Installment	6,520	7,168	4,334	6,315	8,057
Others	99	172	47	80	86
Total Loans and Leases	$ 329,013	$ 295,296	$ 242,153	$ 218,220	$ 191,464

</TABLE>

The following table reflects the maturity and sensitivities of the Bank's loan and lease portfolio at December 31, 2007.

<TABLE>
<CAPTION>

(Dollar Amounts in Thousands)

	One Year or less	After one year through five years	Due after five years	Total loans and leases
<S>	<C>	<C>	<C>	<C>
Commercial	$ 14,777	$ 5,840	$ 13,025	$ 33,642
Leases	--	6,943	1,691	8,634
Real Estate				
Construction	17,271	1,827	15,711	34,809
Residential	38,392	37,849	113,316	189,557
Commercial	5,538	19,362	30,852	55,752
Installment	1,106	3,575	1,839	6,520
Others	99	--	--	99
Total Loans and Leases	$ 77,183	$ 75,396	$ 176,434	$ 329,013

</TABLE>

At December 31, 2007, loans maturing after one year included approximately: $165,165,000 in fixed rate loans; and $86,665,000 in variable rate loans.

<PAGE>

Investment Securities

The primary objectives of the Bank's investment policy are to provide a stable source of interest income, to provide adequate liquidity necessary to meet short and long-term changes in the mix of its assets and liabilities, to provide a means to achieve goals set forth in the Bank's interest rate risk policy and to provide a balance of quality and diversification to its assets. The available-for-sale portion of the investment portfolio is expected to provide funds when demand for acceptable loans and leases increases and is expected to absorb funds when loan and lease demand decreases.

At December 31, 2007 the carrying value of the Bank's investment portfolio was $129,013,733 or 25% of total assets. There were no Federal Funds Sold as of December 31, 2007.

The table below presents the amortized cost and fair values of investment securities held by the Bank at December 31, 2007 and 2006.

(Dollar Amounts in Thousands)

	2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale	$ 130,145	$ 128,980	150,895	$ 147,780
Held-to-maturity	34	34	41	40
	$ 130,179	$ 129,014	$ 150,936	$ 147,820

The following tables present the maturity distribution of investment securities at December 31, 2007, and the weighted average yields of such securities. The weighted average yields were calculated based on the amortized cost and tax-effective yields to maturity of each security. The maturity distribution shown below will differ from the contractual maturities because of the borrower has the ability to prepay or call the security.

Held-to-maturity

<TABLE>
<CAPTION>

(Dollar Amounts in Thousands)

<S>	One Year Or Less <C>	Over One Through Five Years <C>	Over Five Through Ten Years <C>	Over Ten Years <C>	No Maturity <C>	Total <C>	Weighted Average Yield <C>
Mortgage-Backed Securities	$ 7	$ 27	$ --	--	--	$ 34	7.04%
Weighted Average Yield	7.22%	6.99%	--	--	--	7.04%	
Available-for-sale (1)							
U.S. Treasury Securities	$ 2,001	$ 2,006	$ --	$ --	--	$ 4,007	4.47%
U.S. Government Agency Securities	--	7,000	20,993	3,000	--	30,993	4.60%
State and Municipal Obligations	--	--	31,190	--	--	31,190	4.14%
Corporate & Other Bonds	1,000	--	3,030	4,899	2,000	10,929	6.43%
Mortgage-Backed Securities	12,091	37,026	3,909	--	--	53,026	4.77%
Total	$ 15,092	$ 46,032	$ 59,122	$ 7,899	2,000	$ 130,145	4.71%
Weighted Average Yield	4.60%	4.72%	4.61%	5.78%	4.00%	4.71%	
Total Portfolio	$ 15,099	$ 46,059	$ 59,122	$ 7,899	2,000	$ 130,179	4.71%
Total Weighted Average Yield	4.60%	4.72%	4.61%	5.78%	4.00%	4.71%	

</TABLE>

(1) Dollars shown at amortized cost amounts.

<PAGE>

Deposits

The following table summarizes average deposits and interest rates of the Bank for the years ended December 31, 2007, 2006 and 2005.

<TABLE>
<CAPTION>

(Dollar Amounts in Thousands)

	2007		2006		2005	
<S>	Average Balance <C>	Average Rate <C>	Average Balance <C>	Average Rate <C>	Average Balance <C>	Average Rate <C>
Non-interest bearing demand deposits	$ 68,278	--	$ 65,047	--	$ 61,375	--
Money market deposits	75,832	2.96%	74,200	2.20%	88,285	1.14%
Savings deposits	55,026	1.37%	48,141	.67%	55,167	.21%
Time deposits	136,764	4.59%	115,559	4.05%	84,771	2.73%
Total deposits	$335,900	2.76%	$ 302,947	2.19%	$ 289,598	1.18%

</TABLE>

Fixed rate certificates of deposit in amounts of $100,000 or more at December 31, 2007 are scheduled to mature as follows:

(Dollar Amounts in Thousands)	
Three months or less	$ 15,986
Over three, through six months	11,098
Over six, through twelve months	23,747
Over twelve months	1,514
Total	$ 52,345

Return on Equity and Assets

The following table summarizes various operating ratios of the Company for the past three years:

<TABLE>
<CAPTION>

	Years ended December 31, 2007	2006	2005
Return on average total assets (net income divided by average total assets)	.39%	.29%	.91%
Return on average shareholders' equity (net income divided by average shareholders' equity)	7.25	5.43	15.94
Equity to assets (average shareholders' equity as a percent of average total assets)	5.43	5.31	5.74
Dividend payout ratio	70.63	92.68	29.21

</TABLE>

Asset/Liability Management

A principal objective of the Bank is to reduce and manage the exposure of changes in interest rates on its results of operations and to maintain an approximate balance between the interest rate sensitivity of its assets and liabilities within acceptable limits. While interest-rate risk is a normal part of the commercial banking activity, the Bank desires to minimize its effect upon operating results. Managing the rate sensitivity embedded in the balance sheet can be accomplished in several ways. By managing the origination of new assets and liabilities, or the rollover of the existing balance sheet assets, incremental change towards the desired sensitivity position can be achieved. Hedging activities, such as the use of interest rate caps, can be utilized to create immediate change in the sensitivity position.

The Bank monitors the relationship between interest earning assets and interest bearing liabilities by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring the Bank's interest rate sensitivity "gap". An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-bearing liabilities maturing or repricing and the amount of interest-earning assets maturing or repricing for the same period of time. During a period of falling interest rates, a positive gap would tend to adversely affect net interest income, while a negative gap would tend to increase net interest income. During a period of rising interest rates, a positive gap would tend to increase net interest income, while a negative gap would tend to adversely affect net interest income.

<PAGE>

The information presented in the interest sensitivity table is based upon a combination of maturities, call provisions, repricing frequencies, prepayment patterns and management judgment. The distribution of variable rate assets and liabilities is based upon the repricing interval of the instrument. Management estimates that less than 20% of savings products are sensitive to interest rate changes based upon analysis of historic and industry data for these types of accounts.

The following table summarizes the repricing schedule for the Bank's assets and liabilities and provides an analysis of the Bank's periodic and cumulative GAP positions.

<TABLE>
<CAPTION>

	(Dollar Amounts in Thousands) As of December 31, 2007 Repriced Within			
	Under 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years
Securities available-for-sale	$ 17,657	$ 18,389	$ 57,700	$ 36,399
Securities held-to-maturity	2	20	8	4
Loan and Lease Portfolio	80,282	71,096	133,642	43,993
Other	--	--	--	5,388
Total interest earning assets	97,941	89,505	191,350	85,784
Interest-bearing liabilities				
Money Market	15,012	38,554	25,173	--
Savings	10,015	--	46,330	--
Time	34,025	91,175	4,770	--
Total interest-bearing deposits	59,052	129,729	76,273	--

Borrowed funds	24,272	21,577	55,038	38,109
Total interest-bearing liabilities	83,324	151,306	131,311	38,109
Periodic gap	$ 14,617	$ (61,801)	$ 60,039	$ 47,675
Cumulative gap	$ 14,617	$ (47,184)	$ 12,855	$ 60,530
Cumulative gap as a percentage of total earning assets	3.15%	(10.16)%	2.77%	13.03%

</TABLE>

Supervision and Regulation

The Bank is chartered under the National Bank Act and is subject to the supervision of, and is regularly examined by, the Office of the Comptroller of the Currency (the "OCC") and the Federal Deposit Insurance Corporation ("FDIC").

The Company is a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), is registered as such with and is subject to the supervision of, and the Bank Holding Company laws, of the Federal Reserve Board ("FRB"). The Company, as a bank holding company, is also subject to the Connecticut Bank Holding Company laws. Certain legislation and regulations affecting the business of the Company and the Bank are discussed below.

General

As a bank holding company, the Company is subject to the BHC Act. The Company reports to, registers with, and is examined by the FRB. The FRB also has the authority to examine the Company's subsidiaries, which includes the Bank.

The FRB requires the Company to maintain certain levels of capital. See "Capital Standards" herein. The FRB also has the authority to take enforcement action against any bank holding company that commits any unsafe or unsound practice, violates certain laws, regulations, or conditions imposed in writing by the FRB. See "Prompt Corrective Action and Other Enforcement Mechanisms" herein.

Under the BHC Act, a company generally must obtain the prior approval of the FRB before it exercises a controlling influence over, or acquires, directly or indirectly, more than 5% of the voting shares or substantially all of the assets of, any bank or bank holding company. Thus, the Company is required to obtain the prior approval of the FRB before it acquires merges or consolidates with any bank, or bank holding company. Any company seeking to acquire, merge or consolidate with the Company also would be required to obtain the FRB's approval.

The FRB generally prohibits a bank holding company from declaring or paying a cash dividend which would impose undue pressure on the capital of subsidiary banks or would be funded only through borrowing or other arrangements that might adversely affect a bank holding company's financial position. The FRB's policy is that a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition.

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Transactions between the Company, the Bank and any future subsidiaries of the Company are subject to a number of other restrictions. FRB policies forbid the payment by bank subsidiaries of management fees, which are unreasonable in amount or exceed the fair market value of the services rendered (or, if no market exists, actual costs plus a reasonable profit). Additionally, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with the extension of credit, sale or lease of property, or furnishing of services. Subject to certain limitations, depository institution subsidiaries of bank holding companies may extend credit to, invest in the securities of, purchase assets from, or issue a guarantee, acceptance, or letter of credit on behalf of, an affiliate, provided that the aggregate of such transactions with affiliates may not exceed 10% of the capital stock and surplus of the institution, and the aggregate of such transactions with all affiliates may not exceed 20% of the capital stock and surplus of such institution. The Company may only borrow from depository institution subsidiaries if the loan is secured by marketable obligations with a value of a designated amount in excess of the loan. Further, the Company may not sell a low-quality asset to a depository institution subsidiary.

Capital Standards

The FRB, OCC and other federal banking agencies have adopted risk-based minimum capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, and transactions, such as letters of credit and recourse arrangements, which are reported as off-balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. government securities, to 100% for assets with relatively higher credit risk, such as business loans.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. The regulators measure risk-adjusted assets and off-balance sheet items against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. Tier 1 capital consists of common stock, retained earnings, noncumulative perpetual preferred stock and minority interests in certain subsidiaries, less most other intangible assets. Trust preferred securities are currently considered regulatory capital for purposes of determining the Company's Tier I capital ratios. Tier 2 capital may consist of limited amounts of the allowance for loan and lease losses, unrealized gains on equity securities and certain other instruments with some characteristics of equity. The inclusion of elements of Tier 2 capital are subject to certain other requirements and limitations of the federal banking agencies. The federal banking agencies require a minimum ratio of qualifying total capital to risk-adjusted assets and off-balance sheet items of 8%, and a minimum ratio of Tier 1 capital to risk-adjusted assets and off-balance sheet items of 4%.

In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 3%. It is improbable; however, that an institution with a 3% leverage ratio would receive the highest rating by the regulators since a strong capital position is a significant part of the regulators' rating. For all banking organizations not rated in the highest category, the minimum leverage ratio is at least 100 to 200 basis points above the 3% minimum. Thus, the effective minimum leverage ratio, for all practical purposes, is at least 4% or 5%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

The following table presents the capital ratios for the Company and the Bank as of December 31, 2007:

	The Company's Ratio	The Bank's Ratio	Minimum Regulatory Capital Level
RISK-BASED CAPITAL RATIO:			
Total Capital	12.61%	11.65%	8%
Tier 1 Capital	11.96%	11.00%	4%
TIER 1 LEVERAGE CAPITAL RATIO:	8.04%	7.36%	4%

Prompt Corrective Action and Other Enforcement Mechanisms

Each federal banking agency is required to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more of the prescribed minimum capital ratios. The law requires each federal banking agency to promulgate regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

<PAGE>

An insured depository institution generally is classified in the following categories based on capital measures indicated below:

"Well-Capitalized":

Total risk-based capital of 10% or more;
Tier 1 risk-based ratio capital of 6% or more; and
Leverage ratio of 5% or more.

"Adequately Capitalized":

Total risk-based capital of at least 8%;
Tier 1 risk-based capital of at least 4%; and
Leverage ratio of at least 4%.

"Undercapitalized":

Total risk-based capital less than 8%
Tier 1 risk-based capital less than 4%; or
Leverage ratio less than 4%.

"Significantly Undercapitalized":

Total risk-based capital less than 6%

Tier 1 risk-based capital less than 3%; or
Leverage ratio less than 3%.

"Critically Undercapitalized":

Tangible equity to total assets less than 2%.

The Bank is classified as "well-capitalized" under the above guidelines. An institution that, based upon its capital levels, is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat an institution as "critically undercapitalized" unless its capital ratio actually warrants such treatment. If an insured depository institution is undercapitalized, it will be closely monitored by the appropriate federal banking agency. Undercapitalized institutions must submit an acceptable capital restoration plan with a guarantee of performance issued by the holding company. Further restrictions and sanctions are required to be imposed on insured depository institutions that are critically undercapitalized. The most important additional measure is that the appropriate federal banking agency is required to either appoint a receiver for the institution within 90 days or obtain the concurrence of the FDIC in another form of action. In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders based upon a prima facie showing by the agency that such relief is appropriate. Additionally, a holding company's inability to serve as a source of strength to its subsidiary banking organizations could serve as an additional basis for a regulatory action against the holding company.

Safety and Soundness Standards

The federal banking agencies have established safety and soundness standards for insured financial institutions covering: (1) internal controls, information systems and internal audit systems; (2) loan and lease documentation; (3) credit underwriting; (4) interest rate exposure; (5) asset growth; (6) compensation, fees and benefits; (7) asset quality and earnings; (8) excessive compensation for executive officers, directors or principal shareholders which could lead to material financial loss; and (9) information security standards. If an agency determines that an institution fails to meet any standard established by the guidelines, the agency may require the financial institution to submit to the agency an acceptable plan to achieve compliance with the standard. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves. If the agency requires submission of a compliance plan and the institution fails to timely submit an acceptable plan or to implement an accepted plan, the agency must require the institution to correct the deficiency.

Restrictions on Dividends and Other Distributions

The power of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to statutory and regulatory restrictions which limit the amount available for such distribution depending upon the earnings, financial condition and cash needs of the institution, as well as general business conditions. Federal Law prohibits insured

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depository institutions from paying management fees to any controlling persons or, with certain limited exceptions, making capital distributions, including dividends, if, after such transaction, the institution would be undercapitalized.

The Company's ability to pay dividends depends in large part on the ability of the Bank to pay dividends to the Company. The ability of the Bank to pay dividends is subject to restrictions set forth in the National Banking Act and regulations of the OCC. See "Market Price for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" herein.

Additionally, a bank may not make any capital distribution, including the payment of dividends, if, after making such distribution, the bank would be in any of the "under-capitalized" categories under the OCC's Prompt Corrective Action regulations.

The OCC also has the authority to prohibit the Bank from engaging in business practices which the OCC considers to be unsafe or unsound. It is possible, depending upon the financial condition of a bank and other factors, that the OCC could assert that the payment of dividends or other payments in some circumstances might be such an unsafe or unsound practice and thereby prohibit such payment.

FDIC Insurance

The Bank's deposits are insured through the Bank Insurance Fund of the FDIC up to a maximum of $100,000 per separately insured depositor. Effective April 1, 2006, the federal deposit insurance limits on certain retirement accounts increased so that such retirement accounts are separately insured by the FDIC up to $250,000.

Inter-Company Borrowings

Bank holding companies are also restricted as to the extent to which they and their subsidiaries can borrow or otherwise obtain credit from one another or engage in certain other transactions. The "covered transactions" that an insured depository institution and its subsidiaries are permitted to engage in with their nondepository affiliates are limited to the following amounts: (1) in the case of any one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and the surplus of the insured depository institution; and (2) in the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution. In addition, extensions of credit that constitute covered transactions must be collateralized in prescribed amounts. "Covered transactions" are defined by statute to include a loan or extension of credit to the affiliate, a purchase of securities issued by an affiliate, a purchase of assets from the affiliate (unless otherwise exempted by the FRB), the acceptance of securities issued by the affiliate as collateral for a loan and the issuance of a guarantee, acceptance, or letter of credit for the benefit of an affiliate. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

Effects of Government Policy

Legislation adopted in recent years has substantially increased the scope of regulations applicable to the Bank and the Company and the scope of regulatory supervisory authority and enforcement power over the Bank and the Company.

Virtually every aspect of the Bank's business is subject to regulation with respect to such matters as the amount of reserves that must be established against various deposits, the establishment of branches, reorganizations, nonbanking activities and other operations. Numerous laws and regulations also set forth special restrictions and procedural requirements with respect to the extension of credit, credit practices, the disclosure of credit terms and discrimination in credit transactions.

The descriptions of the statutory provisions and regulations applicable to banks and bank holding companies set forth above do not purport to be a complete description of such statutes and regulations and their effects on the Bank and the Company. Proposals to change the laws and regulations governing the banking industry are frequently introduced in Congress, in the state legislatures and before the various bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on the Bank and the Company are difficult to determine.

Gramm-Leach-Bliley Financial Services Modernization Act of 1999

The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 provides bank holding companies, banks, securities firms, insurance companies, and investment management firms the option of engaging in a broad range of financial and related activities by opting to become a "financial holding company." These holding companies are subject to oversight by the FRB, in addition to other regulatory agencies. Under the financial holding company structure, financial institutions have the ability to purchase or establish broker/dealer subsidiaries, as well as the option to purchase insurance companies. Additionally, securities and insurance firms are permitted to purchase full-service banks.

As a general rule, the individual entities within a financial holding company structure are regulated according to the type of services provided which is referred to as functional regulation. Under this approach, a financial holding company with banking, securities, and insurance subsidiaries will have to interact with several regulatory agencies (e.g., appropriate banking agency, Securities and Exchange Commission ("SEC"), state insurance commissioner).

While the Act facilitates the ability of financial institutions to offer a wide range of financial services, large financial institutions appear to be the primary beneficiaries as a result of this Act because many community banks are less able to devote the capital and management resources needed to facilitate broad expansion of financial services. The Company has no current plans to operate within a financial holding company structure.

The Sarbanes-Oxley Act of 2002

The purpose of the Sarbanes-Oxley Act is to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes.

The Sarbanes-Oxley Act amends the Securities Exchange Act of 1934 to prohibit a registered public accounting firm from performing specified nonaudit services contemporaneously with a mandatory audit. The Sarbanes-Oxley Act also vests the audit committee of an issuer with responsibility for the appointment, compensation, and oversight of any registered public accounting firm employed to perform audit services. It requires each committee member to be a member of the board of directors of the issuer, and to be otherwise independent. The Sarbanes-Oxley Act further requires the chief executive officer and chief financial officer of an issuer to make certain certifications as to each annual or quarterly report.

In addition, the Sarbanes-Oxley Act requires officers to forfeit certain bonuses and profits under certain circumstances. Specifically, if an issuer is required to prepare an accounting restatement due to the material noncompliance of the issuer as a result of misconduct with any financial reporting requirements under the securities laws, the chief executive officer and chief financial officer of the issuer shall be required to reimburse the issuer for (1) any bonus or other incentive-based or equity based compensation received by that person from the issuer during the 12-month period following the first public issuance or filing with the SEC of the financial document embodying such financial reporting requirement; and (2) any profits realized from the sale of securities of the issuer during that 12-month period.

Pursuant to the Sarbanes-Oxley Act, the SEC has adopted rules to require:

- disclosure of all material off-balance sheet transactions and relationship that may have a material effect upon the financial status of an issuer; and

- the presentation of pro forma financial information in a manner that is not misleading, and which is reconcilable with the financial condition of the issuer under generally accepted accounting principles.

The Sarbanes-Oxley Act, among other things, also provides for mandated internal control report and assessment with the annual report and an attestation and a report on such report by the Company's auditor. In accordance with the requirements of Section 404, Management's report on internal controls is included herein at Item 9A(T). The SEC had delayed until fiscal years ending after December 15, 2008 for the auditors attestation report on internal controls over financial reporting and has proposed a further one-year delay. The SEC also requires an issuer to institute a code of ethics for senior financial officers of the Company.

The USA Patriot Act

On October 26, 2001, President Bush signed into law The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Patriot Act"). On March 10, 2006, the President signed legislation making permanent certain provisions of the Patriot Act. The terrorist attacks in September, 2001 have impacted the financial services industry and led to federal legislation that addresses certain issues involving financial institutions. Part of the Patriot Act is the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 ("IMLA"). IMLA authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to banks, bank holding companies, and other financial institutions. These measures may include enhanced recordkeeping and reporting requirements for certain financial transactions that are of primary money laundering concern, due diligence requirements concerning the beneficial ownership of certain types of accounts, and restrictions or prohibitions on certain types of accounts with foreign financial institutions.

Among its other provisions, IMLA requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks; and (iii) avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, IMLA contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. IMLA expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours. IMLA also amends the BHCA and the Bank Merger Act to require the federal banking agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing an application under these acts. The Bank has implemented policies and procedures to address the requirements of the Patriot Act and IMLA.

Impact of Monetary Policies

Banking is a business which depends on interest rate differentials. In general, the difference between the interest paid by a bank on its deposits and other borrowings and the interest rate earned by a bank on loans and leases, securities and other interest-earning assets comprises the major source of banks' earnings. Thus, the earnings and growth of banks are subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the FRB. The FRB implements national monetary policy, such as seeking to curb inflation and combat recession, by its open-market dealings in United States government securities, by adjusting the required level of reserves for financial institutions subject to reserve requirements and

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through adjustments to the discount rate applicable to borrowings by banks which are members of the FRB. The actions of the FRB in these areas influence the growth of bank loans and leases, investments and deposits and also affect interest rates. The nature and timing of any future changes in such policies and their impact on the Company cannot be predicted. In addition, adverse economic conditions could make a higher provision for loan and lease losses a prudent course and could cause higher loan and lease loss charge-offs, thus adversely affecting the Bank's net earnings.

Employees

The Company, the Bank and its subsidiaries employ 117 full-time employees and 5 part-time employees. Neither the Company nor the Bank are parties to any collective bargaining agreements, and employee relations are considered good.

Forward Looking Statements

This Form 10-K and future filings made by the Company with the SEC, as well as other filings, reports and press releases made or issued by the Company and the Bank, and oral statements made by executive officers of the Company and Bank, may include forward-looking statements relating to such matters as (a) assumptions concerning future economic and business conditions and their effect on the economy in general and on the markets in which the Company and the Bank do business, and (b) expectations for increased revenues and earnings for the Company and Bank through growth resulting from acquisitions, attraction of new deposit and loan and lease customers and the introduction of new products and services. Such forward-looking statements are based on assumptions rather than historical or current facts and, therefore, are inherently uncertain and subject to risk. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The Company notes that a variety of factors could cause the actual results or experience to differ materially from the anticipated results or other expectations described or implied by such forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's and Bank's business include the following: (a) the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Bank operates; (b) changes in the legislative and regulatory environment that negatively impact the Company and Bank through increased operating expenses; (c) increased competition from other financial and non-financial institutions (d) the impact of technological advances; and (e) other risks detailed from time to time in the Company's filings with the SEC.

Such developments could have an adverse impact on the Company's financial position and results of operation. See Item 1A. Risk Factors for additional information.

Availability of Financial Information

The Company files reports with the SEC. Those reports include the annual report on Form 10-K, quarterly reports on Form 10-Q, current event reports on Form 8-K and proxy statements, as well as any amendments to those reports. The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains quarterly and annual reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. The Company's website address is: www.fnbl.com.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this report, the following risks may affect the Bank. If any of these risks occurs, the Company's business, financial condition or operating results could be adversely affected.

Changes in economic conditions could materially hurt the Company's business.

The business of the Company is directly affected by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond the Company's control. The Company is particularly affected by economic conditions in the state of Connecticut. Deterioration in economic conditions could result in the following consequences, any of which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows:

- problem assets and foreclosures may increase;

- demand for the Bank's products and services may decline;

- low cost or non-interest bearing deposits may decrease; and,

- collateral for loans and leases made by the Bank, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with the Bank's existing loans and leases.

In view of the geographic concentration of the Bank's operations and the collateral securing the Bank's loan and lease portfolio in Litchfield and Hartford Counties, Connecticut, the Bank may be particularly susceptible to the adverse effects of any of these consequences, any of which could have a material adverse effect on the Bank's business, financial condition, results of operations and cash flows.

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The Bank is dependent on key personnel.

Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the Connecticut, community banking industry. The Bank's success depends to a significant degree upon the Bank's ability to attract and retain qualified management, and personnel and upon the continued contributions of the Bank's management and personnel. In particular, the Bank's success has been and continues to be highly dependent upon the abilities of the Bank's management team members, which has expertise in community banking and experience in the markets served by the Bank. The loss of the services of the Bank's senior executive management team members or other key executives could have a material adverse effect on the Bank's business, financial condition, results of operations and cash flows.

The Bank's business is subject to interest rate risk and variations in interest rates may negatively affect the Bank's financial performance.

A substantial portion of the Bank's income is derived from the differential or "spread" between the interest earned on loans and leases, securities and other interest earning assets, and interest paid on deposits, borrowings and other interest bearing liabilities. Because of the differences in the maturities and repricing characteristics of the Bank's interest earning assets and interest bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest earning assets and interest paid on interest bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect the Bank's interest rate spread and, in turn, the Bank's profitability. In addition, loan and lease origination volumes are affected by market interest rates. Rising interest rates, generally, are associated with a lower volume of loan and lease originations while lower interest rates are usually associated with higher loan and lease originations. Conversely, in rising interest rate environments, loan and lease repayment rates may decline and in falling interest rate environments, loan and lease repayment rates may increase. Falling interest rate environments may cause additional refinancing of commercial real estate and 1-4 family residence loans, which may depress the Bank's loan and lease volumes or cause rates on loans and leases to decline. In addition, an increase in the general level of short-term interest rates on variable rate loans and leases may adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations or reduce the amount they wish to borrow. As short-term rates continue to rise, retention of existing deposit customers and the attraction of new deposit customers may require the Bank to increase rates it pays on deposit accounts. Changes in levels of market interest rates could materially and adversely affect the Bank's net interest spread, asset quality, loan and lease origination volume, business, financial condition, results of operations and cash flows.

Certain types of loans and leases in the Bank's portfolio have a higher degree of risk and a downturn in the Bank's real estate markets could hurt the Bank's business.

A downturn in the Bank's real estate markets could hurt the Bank's business because most of the Bank's loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans and leases to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature. If real estate prices decline, the value of real estate collateral securing the Bank's loans and leases could be reduced. The Bank's ability to recover on defaulted loans and leases by foreclosing and selling the real estate collateral would then be diminished and the Bank would be more likely to suffer losses on defaulted loans and leases. A majority of the Bank's loan and lease portfolio consisted of loans and leases collateralized by various types of real estate. Substantially all of the Bank's real estate collateral is located in Connecticut. If there is a significant decline in real estate values, especially in Connecticut, the collateral for the Bank's loans and leases will provide less security. Any such downturn could have a material adverse effect on the Bank's business, financial condition, results of operations and cash flows.

The ability to attract deposits may limit growth.

The Bank's ability to increase the Bank's assets depends in large part on the Bank's ability to attract additional deposits at favorable rates. The Bank anticipates seeking additional deposits by offering deposit products that are competitive with those offered by other financial institutions in the Bank's markets and by establishing personal relationships with the Bank's customers. A bank's ability to attract additional deposits at competitive rates could have a material effect on a bank's business, financial condition, results of operations and cash flows.

In the business of banking, the allowance for loan and lease losses is an estimate and may not be adequate to cover all future actual losses.

A source of risk arises from the possibility that losses could be incurred because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on the Bank's business, financial condition, results of operations and cash flows. Unexpected losses may arise from a wide variety of specific or systemic factors, many of which are beyond the Bank's ability to predict, influence or control.

Like all banking institutions, the Bank maintains an allowance for loan and lease losses to provide for loan and lease defaults and non-performance. The allowance for loan and lease losses reflects the Bank's estimate of the probable losses in the Bank's loan and lease portfolio at the relevant balance sheet date. The Bank's allowance for loan and lease losses is based on prior experience, as well as an evaluation of the known risks in the current portfolio, composition and growth of the loan and lease portfolio and economic factors. The determination of an appropriate level of loan and lease loss allowance is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond the Bank's control and these losses may exceed current estimates. Federal and state regulatory agencies, as an integral part of their examination process, review the Bank's loans, leases and allowance for loan and lease losses.

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Banks rely on certain third-party service providers.

The Bank relies on certain third-party service providers for much of the Bank's communications, information, operating and financial control systems technology. Any failure or interruption or breach in security of these systems could result in failures or interruptions in the Bank's customer relationship management, general ledger, deposit, servicing and/or loan and lease origination systems. The Bank cannot be certain that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by the Bank or the third parties on which the Bank relies. The occurrence of any failures or interruptions could have a material adverse effect on the Bank's business, financial condition, results of operations and cash flows. If any of the Bank's third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in the Bank's relationships with them, the Bank may be required to locate alternative sources of such services, and the Bank cannot be certain that the Bank could negotiate terms that are as favorable to the Bank, or could obtain services with similar functionality as found in the Bank's existing systems without the need to expend substantial resources, if at all. Any of these circumstances could have a material adverse effect on the Bank's business, financial condition, results of operations and cash flows.

The Bank faces strong competition from financial service companies and other companies that offer banking services.

The Bank conducts the Bank's banking operations in Connecticut. Increased competition in the Bank's markets may result in reduced loans, leases and deposits. Ultimately, the Bank may not be able to compete successfully against current and future competitors. Many competitors offer the banking services that the Bank offers in its service areas. These competitors include national banks, regional banks and other community banks. The Bank also faces competition from many other types of financial institutions, including savings and loan associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, the Bank's competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions may have larger lending limits, which would allow them to serve the credit needs of larger customers. Areas of competition include interest rates for loans, leases and deposits, efforts to obtain loan, lease and deposit customers and a range in quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services. The Bank also faces competition from out-of-state financial intermediaries that have opened loan and lease production offices or that solicit deposits in the Bank's market areas. If the Bank is unable to attract and retain banking customers, it may be unable to continue the Bank's loan, lease and deposit growth and the Bank's business, financial condition, results of operations and cash flows may be adversely affected.

Changes in accounting standards could materially impact the Company's financial statements.

From time to time the Financial Accounting Standards Board changes the financial accounting and reporting standards that govern the preparation of financial statements.

The Bank is subject to extensive government regulation.

The Bank's operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of the Bank's operations. Such laws, rules and regulations are subject to change. The Bank cannot be certain that these proposed laws, rules and regulations or any other laws, rules or regulations will not be adopted in the future, which could make compliance much more difficult or expensive, or otherwise adversely affect the Bank's business, financial condition, results of operations or cash flows.

The Bank is exposed to potential risk of environmental liabilities with respect to properties to which it takes title.

In the course of the Bank's business, the Bank may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties.

New litigation or changes in current litigation could adversely affect the Company's financial condition or results of operation.

Although there is a currently no material litigation to which the Company is the subject, other than that disclosed in Item 3 herein, future litigation that arises during the normal course of business could be material and have a negative impact on the Company's earnings. Future litigation or changes in current litigation could also adversely impact the reputation of the Company in the communities that it serves.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable as the registrant is not an accelerated filer or large accelerated filer.

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ITEM 2. PROPERTIES

The Company is not the owner or lessee of any properties. The properties described below are properties owned or leased by the Bank.

The Bank's main office is located at 13 North Street, Litchfield, Connecticut. In addition to the Bank's main office in Litchfield, the Bank has branches in Marble Dale, Washington Depot, Goshen, Canton, New Milford, Roxbury and Torrington, Connecticut.

During the year ended December 31, 2007, the net rental expenses paid by the Bank for all of its office properties was approximately $242,000. All properties are considered to be in good condition and adequate for the purposes for which they are used. The following table outlines all owned or leased property of the Bank.

<TABLE>
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Location	Address	Owned Leased	Lease Expiration
<S>	<C>	<C>	<C>
Main Office	13 North Street Litchfield, CT	Owned since 1816	
Marble Dale	Route 202 Marble Dale, CT	Leased	2008

Washington Depot	Bryan Plaza Washington Depot, CT	Owned since 1959	
Goshen	Routes 4 & 63 Goshen, CT	Owned since 1989	
Roxbury	Route 67 Roxbury, CT	Leased	2009 with one 5-year extension
New Milford	Route 202 New Milford, CT	Leased	2011 with one 5-year extension
Torrington	1057 Torringford Street Torrington, CT	Leased	2026 with option to purchase
Canton	188 Albany Turnpike Canton, CT	Owned since 2005	
Trust Department	40 West Street Old Borough Firehouse Litchfield, CT	Owned since 1996	
Torrington, North	397 Main Street Torrington, CT	Owned since 2007	
Finance Department	29 West Street Litchfield, CT	Leased	2009 with one 3-year extension

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ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor the Bank (or any of their properties) are the subject of any material pending legal proceedings other than routine litigation that is incidental to their business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 2007, no matter was submitted to a vote of Shareholders of the Company.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price

The Company's Common Stock is traded on the Over the Counter ("OTC") Bulletin Board under the symbol FLFL.OB. As of March 12, 2008, there were 2,504,729 shares issued and 2,371,700 shares outstanding, which were held by approximately 420 shareholders.

The following information, provided by Oppenheimer and Co., sets forth transactions in the Company's Common Stock in each quarter of the two most recently completed fiscal years:

2006	High	Low
First Quarter	$ 28.10	$ 23.10
Second Quarter	28.10	24.76
Third Quarter	25.71	23.81
Fourth Quarter	23.31	21.25

2007	High	Low
First Quarter	$ 21.85	$ 19.10
Second Quarter	20.40	18.60
Third Quarter	19.00	13.50
Fourth Quarter	16.95	14.99

In December 2006, in a single transaction, the Company purchased 5,000 shares of outstanding Common stock. In September 2007, Company's Board of Directors approved a stock repurchase program to acquire in the next twelve months up to an aggregate of 30,000 shares of the Company's outstanding shares of common stock. Pursuant to the repurchase program, in October 2007, the Company purchased 8,263 shares of the Company's Common stock.

Dividends

All shares of the Company's Common Stock are entitled to participate equally and ratably in such dividends as may be declared by the Board of Directors out of funds legally available therefore. During 2005, 2006 and 2007, the Company declared cash dividends of 57 cents per share, 60 cents per share and 60 cents per share, respectively. During 2005, 2006 and 2007 the Company declared stock dividends of 5.00%.

The Company's ability to pay dividends is limited by the prudent banking principles applicable to all bank holding companies and by the provisions of Delaware Corporate law, which provides that a company may, unless otherwise restricted by its certificate of incorporation, pay dividends in cash, property or shares of capital stock out of surplus or, if no surplus exists, out of net profits for the fiscal year in which declared or out of net profits for the preceding fiscal year (provided that such payment will not reduce the company's capital below the amount of capital represented by classes of stock having a preference upon distributions of assets).

As a practical matter, the Company's ability to pay dividends is generally limited by the Bank's ability to dividend funds to the Company. As a national bank, the declaration and payment of dividends by the Bank must be in accordance with the National Bank Act. More specifically, applicable law provides that the Board of Directors may declare quarterly, semiannual and annual dividends so long as the Bank carries at least ten percent (10%) of its net profits for the preceding half year in its surplus fund, and, in the case of annual dividends, has carried not less than one-tenth of its net profits of the preceding two consecutive half year periods in its surplus fund. National banks are required to obtain the approval of the Office of the Comptroller of the Currency if the total dividends declared by it in any calendar year exceed the total of its net profits for that year combined with any retained net profits of the preceding two years less any required transfers. In addition to such statutory requirements, the payment of an excessive dividend which would deplete a bank's capital base to an inadequate level could be considered to be an unsafe or unsound banking practice and be a basis for supervisory action by the Office of the Comptroller of the Currency. As of December 31, 2007, approximately $3,417,000 of the undistributed net income of the Bank was theoretically available for distribution to the Company as dividends. However, the ability of the Bank to declare and pay such dividends would be subject to safe and sound banking practices.

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Recent Sales of Unregistered Securities

In the past three years, there have been no sales of unregistered securities.

Securities Authorized for Issuance under Equity Compensation Plans

The following schedule provides information with respect to compensation plans under which equity securities are authorized for issuance as of December 31, 2007:

Equity Compensation Plan Information

<TABLE>
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Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (a))
	(a)	(b)	(c)
<S>	<C>	<C>	<C>
Equity compensation plans approved by shareholders	32,327	$ 11.64	25,000
Equity compensation plans not approved by shareholders	N/A	N/A	N/A
Total	32,327	$ 11.64	25,000

</TABLE>

STOCK PRICE PERFORMANCE GRAPH

Set forth below is a line graph with an explanatory table comparing the yearly percentage change in the cumulative total shareholder return on the Company's Common Stock, based on the market price of the Company's Common Stock and assuming reinvestment of dividends, with the total return of the S&P 500 Index and the SNL Bank Index for Banks with total assets more than $250 million and less than $500 million. The calculation of total cumulative return assumes a $100 investment in the Company's Common Stock and each of the other indices on December 31, 2002.

First Litchfield Financial Corp
Total Return Performance

[THE FOLLOWING TABLE WAS REPRESENTED BY A LINE GRAPH IN THE PRINTED MATERIAL.]

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
AMONG FIRST LITCHFIELD FINANCIAL CORP., S&P 500 INDEX

AND THE SNL $250 - $500 BANK INDEX

<TABLE>
<CAPTION>

Period Ending	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Index						
First Litchfield Financial Corp	100.00	168.50	254.05	242.21	199.42	152.79
S & P 500 Index	100.00	128.69	142.69	149.69	173.33	182.82
SNL $250-$500M Bank Index	100.00	144.49	163.99	174.11	181.92	147.85

</TABLE>

<PAGE>

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the audited consolidated financial statements and the notes thereto and the other information contained in this Form 10-K. The selected balance sheet data as of December 31, 2007 and 2006, and the selected income statement data for the years ended December 31, 2007, 2006 and 2005, are derived from, and are qualified by reference to, the audited consolidated financial statements of the Company appearing elsewhere in this Form 10-K. The balance sheet data as of December 31, 2005, 2004 and 2003, and income statement data for the years ended December 31, 2004, and 2003, are derived from audited consolidated financial statements of the Company not included herein.

<TABLE>
<CAPTION>

	At or For the Year Ended December 31,				
	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>
Income Statement Data					
Interest Income	$ 28,098,261	$ 25,805,321	$ 21,665,441	$ 19,809,236	$ 16,609,791
Interest Expense	14,885,202	13,114,088	7,594,052	6,216,042	5,788,062
Net Interest Income	13,213,059	12,691,233	14,071,389	13,593,194	10,821,729
Noninterest Income	3,431,476	2,272,986	2,899,313	2,432,094	2,643,623
Noninterest Expense	14,267,491	13,202,841	11,081,440	10,228,091	9,497,832
Income Before Income Taxes	2,173,044	1,341,378	5,547,234	5,437,197	3,667,520
Income Taxes	225,702	(67,525)	1,511,343	1,520,962	881,096
Net Income	1,947,342	1,408,903	4,035,891	3,916,235	2,786,424
Balance Sheet Data					
Total Loans, Leases and Loans Held for Sale	329,012,939	296,338,181	242,152,589	218,220,157	191,463,609
Allowance for Loan and Lease Losses	2,151,622	2,106,100	1,759,611	1,389,947	1,149,454
Total Investment Securities	129,013,733	147,820,791	182,949,393	173,864,701	171,164,956
Total Assets	507,653,629	501,232,357	467,560,946	424,304,747	393,771,197
Total Deposits	335,617,664	333,428,874	277,870,361	300,847,379	303,556,487
Total Borrowings	140,079,676	137,610,667	157,301,172	96,620,588	66,211,000
Total Liabilities	479,291,017	474,976,163	441,591,209	399,759,074	371,488,266
Shareholders' Equity	28,312,612	26,206,194	25,969,737	24,545,673	22,282,931
Selected Ratios and Per Share Data					
Return on Average Assets	.39%	.29%	.91%	.93%	.80%
Return on Average Equity	7.25%	5.43%	15.94%	17.33%	13.02%
Basic Net Income Per Share (1)	$ .82	$ .60	$ 1.72	$ 1.68	$ 1.22
Diluted Net Income Per Share (1)	.82	.59	1.70	1.65	1.19
Price Per Share (1)	14.50	21.73	27.25	30.00	20.65
Book Value Per Share (1)	11.96	11.63	12.16	12.12	11.75
Dividends Declared:					
Cash	$ .60	$ .60	$ .57	$ .50	$ .42
Stock	5.00%	5.00%	5.00%	5.00%	5.00%
Cash Dividend Yield	4.14%	2.76%	2.09%	1.67%	2.03%

</TABLE>

(1) All per-share data has been adjusted to give retroactive effect to all stock dividends and splits.

<PAGE>

SELECTED QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (unaudited)

Selected quarterly data for 2007 and 2006 follows:

<TABLE>
<CAPTION>

	First	Second	Third	Fourth

	Quarter	Quarter	Quarter	Quarter
<S>	<C>	<C>	<C>	<C>
2007:				
Interest Income	$ 6,882,582	$ 6,995,279	$ 7,113,345	$ 7,107,055
Interest Expense	3,700,632	3,694,001	3,775,752	3,714,817
Net Interest Income	3,181,950	3,301,278	3,337,593	3,392,238
Noninterest Income	794,572	826,799	890,301	919,804
Noninterest Expense	3,456,906	3,452,099	3,380,685	3,977,801
Income Before Income Taxes	414,616	675,978	847,209	235,241
Income Taxes	11,722	94,212	169,373	(49,605)
Net Income	402,894	581,766	677,836	284,846
Basic Net Income Per Share (1)	$ .17	$ .24	$ .29	$ .12
Diluted Net Income Per Share (1)	$ .17	$ .24	$ .29	$ .12
2006:				
Interest Income	$ 5,877,209	$ 6,184,919	$ 6,775,724	$ 6,967,469
Interest Expense	2,615,402	2,984,905	3,598,745	3,915,036
Net Interest Income	3,261,807	3,200,014	3,176,979	3,052,433
Noninterest Income	667,495	704,477	735,764	165,250
Noninterest Expense	3,096,249	3,283,532	3,230,751	3,592,309
Income Before Income Taxes	728,053	515,959	576,992	(479,626)
Income Taxes	104,693	40,516	76,594	(289,328)
Net Income	623,360	475,443	500,398	(190,298)
Basic Net Income Per Share (1)	$ .27	$ .20	$ .21	$ (.08)
Diluted Net Income Per Share (1)	$ .26	$ .20	$ .21	$ (.08)

</TABLE>

(1) All per-share data has been adjusted to give retroactive effect to all stock dividends and splits.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is Management's discussion of financial condition of the Company on a consolidated basis as of December 31, 2007 and 2006 and results of operations and analysis of the Company on a consolidated basis for the three years ended December 31, 2007, 2006 and 2005. The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiary, The First National Bank of Litchfield (the "Bank") and the Bank's wholly owned subsidiaries, Lincoln Corporation and Litchfield Mortgage Service Corporation. Additionally included in these statements as of December 31, 2007 and 2006, and for the twelve month periods ending December 31, 2007 and 2006, are the accounts of First Litchfield Leasing Corporation; a subsidiary in which the Bank owns an majority interest. This discussion should be read in conjunction with the consolidated financial statements and the related notes of the Company presented elsewhere herein.

FINANCIAL CONDITION

Total assets as of December 31, 2007 were $507,653,629, an increase of $6,421,272, or 1.3% from year-end 2006 total assets of $501,232,357.

The securities portfolio totaled $129,013,733 as of December 31, 2007, a decrease of 12.7% from the December 31, 2006 balance of $147,820,791. The decrease in the portfolio is primarily due to a continued restructuring of the balance sheet towards a more profitable mix of earning assets which is focused on loans and leases rather than investments.

The net loan and lease ("loan") portfolio as of December 31, 2007 totaled $327,475,371 and increased by 11.4% or $33,575,346, from the December 31, 2006 balance of $293,900,025. The volume of loan growth during 2007 was realized primarily in the residential mortgage portfolio, as well as in construction mortgages and commercial loans and leases. The residential mortgage portfolio totaled $189,556,668 as of December 31, 2007, increasing by $12,474,525, or 7.0% during 2007. Growth in residential mortgages is attributed to the popularity of the fixed rate thirty year product as well as selected growth in interest-only mortgages.

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Construction mortgages totaled $34,808,984 as of December 31, 2007 which is an increase of $4,203,197, or 13.7% over the year-end 2006 balance. The growth in construction mortgages was related to commercial properties which increased by over $9 million during the year and offset the decline in construction loans for residential properties. The commercial mortgage portfolio totaled $55,752,240 as of December 31, 2007, increasing slightly over the year-end 2006 balance of $53,318,351. Consistent with Management's strategy to migrate to a more profitable composition of earning assets, and through the acquisition of commercial lending expertise, expanded markets and the addition of the leasing subsidiary, commercial loan and lease growth was strong during 2007. Commercial loans totaled $33,641,679 as of December 31, 2007 which was an increase of $6,691,694 or 24.8% from the December 31, 2006 balance of $26,949,985. Growth in commercial loans has been in both lines of credit and in term financing and continues to be a result of the sales development and commercial calling initiatives for traditional and contiguous markets. As a complement to the Bank's commercial lending product line, First Litchfield Leasing Corporation began offering financing through middle market equipment leasing during 2007. In its first year of operation the subsidiary funded nearly $13 million of loans and leases. Leases were in amounts ranging from $15,000 to $2,100,000. Lease receivables were $8,634,199 at December 31, 2007. Management attributes the first year success of the subsidiary to Bank cross sales and more importantly to the depth in experience and knowledge of the subsidiary's management team. As of December 31, 2007, the installment loan portfolio totaled $6,519,812, a decrease of 9.0% from the year-end 2006 balance of $7,167,980. The decline in the portfolio is related to the amortization of a small pool of consumer auto loans purchased by the Company during 2006.

Cash and cash equivalents totaled $21,497,194, as of December 31, 2007, which was a decrease of $7,700,443, or 26.4% compared to the balance of $29,197,637 as of December 31, 2006. Much of the decrease is due to lower cash letter activity and reserve balances as of year-end 2007 as compared to year-end 2006. Offsetting some of the decrease however, was a higher level of funds temporarily invested in interest bearing correspondent bank balances resulting from temporary balance sheet liquidity at year-end 2007.

Net premises and equipment totaled $7,758,761 as of December 31, 2007, increasing by $318,445 from the year-end 2006 balance of $7,440,316. Increases in premises and equipment during 2007 were primarily related to the purchase of the Bank's downtown Torrington branch which had been previously leased. Also included in the increase were various equipment purchases related the Bank's core processor conversion in 2007. Included in net premises and equipment is a capital lease related to the Bank's Hilltop Torrington branch. During 2007, depreciation and amortization of bank premises and equipment totaled $751,259 and net purchases totaled $1,074,027.

Deferred tax assets totaled $1,327,535 as of December 31, 2007, which is a decrease of $845,498, or 38.9% from the December 31, 2006 balance of $2,173,033. Most of the decrease was associated with the decrease in the unrealized losses on available for sale securities.

Total liabilities were $479,291,017 as of December 31, 2007, an increase of $4,314,854 from the December 31, 2006 balance of $474,976,163.

Deposits as of December 31, 2007 were $335,617,664, increasing $2,188,790, or less than 1%, from the December 31, 2006 balance of $333,428,874. Demand deposits totaled $70,564,267 as of December 31, 2007, which was a 3% increase from the year-end 2006 balance. Savings deposits totaled $56,344,878, which was an increase of $11,040,211, or 24.4% from the December 31, 2006 balance. Growth in savings deposits was related to the Bank's introduction of a municipal NOW account. Additionally contributing to the growth in savings deposits was the popularity of the Bank's health savings accounts (HSA). Money market deposits totaled $78,738,706, which was an increase of $7,658,771, or 10.8% from the December 31, 2006 balance of $71,079,935. Much of the increase was in the competitively priced "Synergy" relationship money market product introduced during the previous year. Also, increases in money market deposits were due to higher balances held for the Bank's trust customers. Time certificates of deposit totaled $129,969,813 as of December 31, 2007, which was a decrease of 12.5%, or $18,572,709 from year-end 2006. Most of this decrease was due to lower levels of brokered certificates of deposit through financial institution counterparties. These deposits totaled $3,000,000 at year-end 2007 compared to $22,500,000 at year-end 2006. While they remain a cost efficient source of funding, deposit growth in the new markets replaced these deposits. The growth in retail time certificates of deposit was in products with terms under one year, primarily in six to nine months maturities.

As of December 31, 2007, Federal Home Loan Bank (FHLBB) advances totaled $91,500,000 as compared to $67,000,000 as of December 31, 2006. At December 31, 2007, borrowings under repurchase agreements totaled $35,692,773, a decrease of $23,713,250 from the year-end 2006 balance of $59,406,023. As of December 31, 2007 and 2006, included in repurchase agreements was $14,142,773 and $12,206,023, respectively, of balances in the overnight investment product offered to the Bank's commercial and municipal cash management customers. At December 31, 2007, total borrowings under repurchase agreements with financial institutions and FHLBB advances totaled $113,050,000 compared to the balance of $114,200,000 at December 31, 2006. As of December 31, 2007 and 2006, obligations under subordinated debt totaled $10,104,000. The subordinated debt represents the Company's liability for junior subordinated notes with regard to First Litchfield Statutory Trust I and II, which were issued in 2003 and 2006, respectively. At year-end 2007 and 2006, the ratio of borrowed funds to total assets remained at similar levels of 27.0% and 27.2%, respectively.

Collateralized borrowings totaled $1,699,336 as of December 31, 2007. The borrowings are related to participation agreements for the sale of loans that include provisions for the Bank to repurchase the loans at its future discretion, and therefore disqualifying the classification of these loans as sold. A similar amount is recorded in loans receivable. There were no collateralized borrowings as of December 31, 2006.

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RESULTS OF OPERATIONS - 2007 COMPARED TO 2006

Net interest income is the single largest source of the Company's income. Net interest income is determined by several factors and is defined as the difference between interest and dividend income from earning assets, primarily loans, leases and investment securities, and interest expense due on deposits and borrowed money.

Net income for the year totaled $1,947,342 or $.82 basic and diluted earnings per share. Earnings increased 38.2% or $538,439 from 2006 earnings of $1,408,903, or $.60 and $.59 basic and diluted earnings per share, respectively. The Company's return on average shareholders' equity totaled 7% for 2007 versus 5% for 2006.

Net Interest Income

Net interest income for the year of 2007 totaled $13,213,059, an increase of 4.1% or $521,826, from 2006. See "Rate/Volume Analysis" on page 21 for a description of the various factors that impacted net interest income. Average earning assets, which represent the Company's balance in loans, leases, investment securities and Federal funds sold, totaled $463 million for 2007, which was a slight increase over the 2006 average of $458 million. The change in the composition of earning assets however, was significant. Average loans and leases increased from $267,353,000 and 58% of average earning assets in 2006 to $311,594,000 and 67% of the average earning assets in 2007. The loan and lease growth was realized in the commercial lending, leasing and mortgage portfolios and was funded primarily by cash flows and the resultant decrease in the investment portfolio.

The following table presents the Company's average balance sheets (computed on a daily basis), net interest income, and interest rates for the years ended December 31, 2007 and 2006. Average loans outstanding include nonaccruing loans. Interest income is presented on a tax-equivalent basis, which reflects a federal tax rate of 34% for all periods presented.

	2007	2006
Interest and dividend income	$ 28,098,261	$ 25,805,321
Tax-equivalent adjustment	611,559	646,130
Interest expense	(14,885,200)	(13,114,088)
Net interest income	$ 13,824,620	$ 13,337,363

As shown below, the 2007 net interest margin increased 8 basis points from the 2006 level of 2.91% to 2.99%. The net interest spread decreased slightly from the 2006 level of 2.46% to 2.43% primarily due to a more expensive mix of funding.

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL

<TABLE>
<CAPTION>

	2007			2006		
	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS						
Interest Earning Assets:						
Loan and lease receivables	$ 311,594,000	$ 21,057,941	6.76%	$ 267,353,000	$ 17,401,364	6.51%
Securities	142,460,000	7,250,336	5.09	188,974,000	8,995,775	4.76
Federal funds sold and other	9,032,000	401,543	4.45	1,856,000	54,312	2.93
Total interest earning assets	463,086,000	28,709,820	6.20	458,183,000	26,451,451	5.77
Allowance for loan and lease losses	(2,130,000)			(1,935,000)		
Cash & due from banks	12,268,000			15,522,000		
Premises and equipment	7,679,000			5,106,000		
Net unrealized loss on securities	(2,815,000)			(5,119,000)		
Other assets	17,097,000			17,189,000		
Total Average Assets	$ 495,185,000			$ 488,946,000		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest Bearing Liabilities:						
Savings deposits	$ 55,026,000	$ 752,024	1.37%	$ 48,141,000	$ 323,492	0.67%
Money market deposits	75,832,000	2,241,181	2.96	74,200,000	1,631,588	2.20
Time deposits	136,764,000	6,280,686	4.59	115,559,000	4,676,810	4.05
Borrowed funds	127,716,000	5,611,309	4.39	158,442,000	6,482,198	4.09

Total interest bearing liabilities	395,338,000	14,885,200	3.77	396,342,000	13,114,088	3.31
Demand deposits	68,278,000			65,047,000		
Other liabilities	4,705,000			1,598,000		
Shareholders' Equity	26,864,000			25,959,000		
Total Liabilities and Equity	$ 495,185,000			$ 488,946,000		
Net interest income		$ 13,824,620			$ 13,337,363	
Net interest spread			2.43%			2.46%
Net interest margin			2.99%			2.91%

</TABLE>

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Rate/Volume Analysis

The following table, which is presented on a tax-equivalent basis, reflects the changes for the year ended December 31, 2007 when compared to the year ended December 31, 2006 in net interest income arising from changes in interest rates and from changes in asset and liability volume. The change in interest attributable to both rate and volume has been allocated to the changes in the rate and the volume on a pro rata basis.

<TABLE>
<CAPTION>

	2007 Compared to 2006		
	Increase (Decrease) Due to		
<S>	Volume <C>	Rate <C>	Total <C>
Interest earned on:			
Loan and lease receivables	$ 2,969,124	$ 687,453	$ 3,656,577
Securities	(2,333,716)	588,277	(1,745,439)
Federal funds sold and other	306,119	41,112	347,231
Total interest earning assets	941,527	1,316,842	2,258,369
Interest paid on:			
Deposits	896,927	1,745,074	2,642,001
Borrowed funds	(1,320,406)	449,517	(870,889)
Total interest bearing liabilities	(423,479)	2,194,591	1,771,112
Increase (decrease) in net interest income	$ 1,365,006	$ (877,749)	$ 487,257

</TABLE>

Tax equivalent net interest income for 2007 increased $487,257 or 3.7% over 2006. The increase in net interest income was due to increased margin resulting from a more profitable mix of earning assets in spite of the flat and inverted yield curve experienced during most of 2007. The 2007 net interest margin (net interest income divided by average earning assets) increased from the previous year's level of 2.91% by 8 basis points to 2.99%. Interest income on average earning assets for 2007 totaled $28,709,820, which was an increase of 8.5%, or $2,258,369 from 2006 interest income on average earning assets of $26,451,451. Interest expense on average earning assets totaled $14,885,200 for 2007, which was an increase of $1,771,112 from 2006. As shown in the Rate/Volume Analysis above, the increase in net interest income on average earning assets was significantly impacted by the improved average earning assets resulting from the changes in the earning asset mix as well as in the funding mix. The change in earning asset mix was the main reason for the $941,527 volume increase in interest income. The 2007 yield on average earning assets was 6.20% which was an increase of 43 basis points from the 2006 yield of 5.77%. The related interest expense from average interest bearing liabilities also reflects an improvement in the mix of liabilities. Funding through borrowed money averaged $127,716,000 which was a decrease of $30,726,000 or 19.4% from the 2006 average. These funds were replaced by retail deposits which resulted in a volume reduction of interest expense of approximately $423,479. In total, the improvement in the volume mix of assets and liabilities contributed $1,365,006 to tax-equivalent net interest income.

Offsetting some of the positive impact from the improvement in the mix of average earning assets was continued margin compression due to the flat and sometimes inverted yield curve experienced during 2007 and 2006. Interest income, as a result of changes in interest rates, increased by $1,316,842 in 2007. This increase is reflected in the increased yields on the loan and lease portfolio as well as in the investment portfolio where yields have increased by 25 and 33 basis points, respectively. Unfortunately, funding costs for 2007 increased by 46 basis points, from 3.31% in 2006 to 3.77% in 2007. The increase in costs is attributed to the increases in short term rates and intense market competition for all retail deposits. Interest expense, as a result of changes in interest rates, increased by $2,194,591 for 2007. Overall, the reduction in tax-equivalent net interest income due to margin compression approximated $877,749 for 2007.

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Noninterest Income

Non-interest income for 2007 totaled $3,431,476, increasing $1,158,490, or 51.0% from 2006 non-interest income of $2,272,986. Much of the increase in non-interest income is due to the 2006 sale of securities executed as part of the balance sheet restructure. This sale resulted in a loss totaling $666,702. There were no similar balance sheet transactions during 2007. However, sales of available for sale securities transacted for yield and price volatility maintenance purposes resulted in gains totaling $19,632 during 2007.

Other areas of non-interest income contributed to the increase over 2006 results. Fees from trust services for 2007 totaled $1,372,999, an increase of $237,108, or 20.9% from the previous year's fees of $1,135,891. This increase is attributed growth in assets under management resulting from key wealth management talent, cross sales, our reputation for customer service and the value added products this area offers in our market. Banking service charges and fees increased 10.8%, or $132,597 from 2006, as a result of revenue opportunities from deposit accounts and cash management services.

Noninterest Expenses

Noninterest expenses totaled $14,267,491 in 2007, an increase of 8.1%, or $1,064,650 from 2006 noninterest expenses of $13,202,841. The execution of initiatives begun in 2006 and the full year's costs related to those initiatives was responsible for the increase in noninterest expense. These initiatives included increasing the branch franchise, adding key talent to the wealth management and commercial lending areas and the formation of the leasing company, and resulted in significantly increased costs in personnel, occupancy, equipment, and other noninterest expenses.

Salary and benefits costs totaled $7,930,160, increasing $1,077,578, or 15.7% from 2007 costs of $6,852,582. This increase reflects the staffing for the new branches, wealth management, commercial lending and the leasing company. The increase in these costs, however was mitigated by cost containment strategies for staffing, overtime and group insurance.

Computer services costs totaled $860,600 for 2007 which was a decrease of $168,627, or 16.4% from 2006 costs of $1,029,227. During the first quarter of the year, the Company completed its conversion to a new core processor. The benefits of the conversion are enhanced product and service capabilities, operational efficiencies and decreased costs related to core processing and ancillary services. The decrease in computer services expense is the result of the lower processing costs as well as to vendor credits which were utilized during the year. Net occupancy and equipment costs totaled $1,784,649, which was an increase of $297,184 or 20.0% above 2006 costs. Depreciation, building maintenance, property taxes and utilities expenses, especially as they relate to a full year's cost of the new branch facilities, caused increases in these expenses. Advertising fees totaled $469,385 which was a decrease of $209,055 over 2006 costs. This decrease was mostly related to the 2006 branch opening promotions and related direct mail campaigns. Commission, services and fees expenses totaled $505,412, decreasing $15,421, from 2006. The majority of this expense for 2007 was advice and consulting relating to corporate initiatives, investment and interest rate risk, lending, trust, retail and personnel. Other noninterest expenses totaled $1,916,616 and increased 2.1% over the 2006 expenses. This expense includes costs for telephone, software, travel, contributions, exam and audit, regulatory assessments and insurance.

RESULTS OF OPERATIONS - 2006 COMPARED TO 2005

Net interest income is the single largest source of the Company's income. Net interest income is determined by several factors and is defined as the difference between interest and dividend income from earning assets, primarily loans, leases and investment securities, and interest expense due on deposits and borrowed money.

Net income for the year totaled $1,408,903 or $.59 and $.60 diluted and basic earnings per share, respectively. Earnings decreased 65.1% or $2,626,988 from 2005 earnings of $4,035,891, or $1.70 and $1.72 diluted and basic earnings per share. The Company's return on average shareholders' equity totaled 5% for 2006 versus 16% for 2005.

The decline in earnings resulted primarily from decreased net interest income, increased non-interest expenses and the loss on the sale of securities.

Net Interest Income

Net interest income for the year of 2006 totaled $12,691,233, a decrease of 9.8% or $1,380,156, from 2005. See "Rate/Volume Analysis" on p. 23 for a description of the various factors that impacted net interest income. Average earning assets, which represent the Company's balance in loans and leases, investment securities and Federal funds sold, totaled $458 million for 2006, an increase of $46 million from 2005 average earning assets of $412 million. This growth was realized in the commercial lending and mortgage portfolios as well as in the investment portfolio and was funded primarily from increases in borrowed funds, certificates of deposit and demand deposits. As shown below, the 2006 net interest margin decreased 61 basis points from the 2005 level of 3.52% to 2.91%. The net interest spread decreased from the 2005 level of 3.21% to 2.46% primarily due to increased funding costs, and a lower proportionate share of demand deposit growth during 2006.

	2006	2005
Interest and dividend income	$ 25,805,321	$ 21,665,441
Tax-equivalent adjustment	646,130	428,367
Interest expense	(13,114,088)	(7,594,052)
Net interest income	$ 13,337,363	$ 14,499,756

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The following table presents the Company's average balance sheets (computed on a daily basis), net interest income, and interest rates for the years ended December 31, 2006 and 2005. Average loans outstanding include nonaccruing loans. Interest income is presented on a tax-equivalent basis, which reflects a federal tax rate of 34% for all periods presented.

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL

<TABLE>
<CAPTION>

	2006			2005		
	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS						
Interest Earning Assets:						
Loans receivable	$ 267,353,000	$ 17,401,364	6.51%	$ 237,399,000	$ 14,449,159	6.09%
Securities	188,974,000	8,995,775	4.76	173,223,000	7,625,982	4.40
Federal funds sold and other	1,856,000	54,312	2.93	1,292,000	18,667	1.44
Total interest earning assets	458,183,000	26,451,451	5.77	411,914,000	22,093,808	5.36
Allowance for loan losses	(1,935,000)			(1,574,000)		
Cash & due from banks	15,522,000			14,860,000		
Premises and equipment	5,106,000			3,593,000		
Net unrealized loss on securities	(5,119,000)			(2,891,000)		
Other assets	17,189,000			15,399,000		
Total Average Assets	$ 488,946,000			$ 441,301,000		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest Bearing Liabilities:						
Savings deposits	$ 48,141,000	$ 323,492	0.67%	$ 55,167,000	$ 115,448	0.21%
Money market deposits	74,200,000	1,631,588	2.20	88,285,000	1,002,312	1.14
Time deposits	115,559,000	4,676,810	4.05	84,771,000	2,312,234	2.73
Borrowed funds	158,442,000	6,482,198	4.09	124,558,000	4,164,058	3.34
Total interest bearing liabilities	396,342,000	13,114,088	3.31	352,781,000	7,594,052	2.15
Demand deposits	65,047,000			61,375,000		
Other liabilities	1,598,000			1,819,000		
Shareholders' Equity	25,959,000			25,326,000		
Total Liabilities and Equity	$ 488,946,000			$ 441,301,000		
Net interest income		$ 13,337,363			$ 14,499,756	
Net interest spread			2.46%			3.21%
Net interest margin			2.91%			3.52%

</TABLE>

Rate/Volume Analysis

The following table, which is presented on a tax-equivalent basis, reflects the changes for the year ended December 31, 2006, when compared to the year ended December 31, 2005 in net interest income arising from changes in interest rates and from asset and liability volume mix. The change in interest attributable to both rate and volume has been allocated to the changes in the rate and the volume on a pro rata basis.

<TABLE>
<CAPTION>

	2006 Compared to 2005 Increase (Decrease) Due to		
	Volume	Rate	Total
<S>	<C>	<C>	<C>
Interest earned on:			
Loan and lease receivables	$ 1,904,751	$ 1,047,454	$ 2,952,205
Securities	723,187	646,606	1,369,793
Federal funds sold and other	10,644	25,001	35,645
Total interest earning assets	2,638,582	1,719,061	4,357,643
Interest paid on:			
Deposits	151,312	3,050,584	3,201,896
Borrowed funds	1,271,849	1,046,291	2,318,140
Total interest bearing liabilities	1,423,161	4,096,875	5,520,036
Increase (decrease) in net interest income	$ 1,215,421	$ (2,377,814)	$ (1,162,393)

</TABLE>

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Tax equivalent net interest income for 2006 was $1,162,393 or 8.0% below 2005. The decrease in net interest income was due to margin compression resulting from the flat and inverted yield curve experienced during 2006. The 2006 net interest margin (net interest income divided by average earning assets) decreased from the previous year's level of 3.52% by 61 basis points to 2.91%. Interest income on average earning assets for 2006 totaled $26,451,451, which was an increase of 19.7% or $4,357,643 from 2005 interest income of $22,093,808. Interest expense, however, totaled $13,114,088 for 2006, which was an increase of $5,520,036 from 2005. As shown in the Rate/Volume Analysis above, the decrease in net interest income was significantly impacted by the increased cost of interest bearing liabilities which was on average, 116 basis points higher than in 2005. The related interest income from earning assets only increased by $4,357,643, or 41 basis points, resulting in the overall net decrease in net interest income. The 2006 yield on earning assets was 5.77%, which was an increase of 41 basis points from the 2005 yield of 5.36%. Increases in short-term rates during 2006 as well as a continuing goal to attain a more profitable mix of earning assets within the loan and lease portfolio, from residential mortgages to commercial loans, leases and mortgages, contributed to the increase in yield. Funding costs for 2006 were 3.31% which was an increase of 116 basis points. This increase is attributed to the increases in short term rates, intense market competition for time deposits, as well as the increased reliance on non-core funding.

Offsetting the negative impact of margin compression on 2006 net interest income was increased net interest income due to earning asset growth, which more than offset the impact on net interest income of liability volume increases. Average earning assets grew by $46 million or 11% during 2006 and, net of the effect of liability volume increases, resulted in increased net interest income of $1,215,421. Loans and leases, on average, increased nearly $30 million, while investment securities increased by $16 million.

The $1,162,393 decrease in net interest income is primarily the result of increases in rates. Increases in rates impacted funding costs to a greater extent than earning asset income and decreased net interest income by $2,377,814. This decrease in net interest income was mitigated from the net effect of increased volume of average interest earning assets and interest bearing liabilities which increased net interest income by $1,215,421.

Noninterest Income

Non-interest income for 2006 totaled $2,272,986, decreasing $626,327, or 21.6% from 2005 non-interest income of $2,899,313. The decline in non-interest income is due mainly to the loss on sale of securities totaling $666,702. This loss is primarily the result of the balance sheet restructuring which occurred in the fourth quarter, whereby $32 million of low-yielding securities were sold to enable management to reduce its level of expensive wholesale funding. Management believes this transaction will proactively add shareholder value as it positions greater profitability in future earnings. There was no similar balance sheet transaction during 2005 however, sales of available for sale securities transacted for yield and price volatility maintenance purposes resulted in gains totaling $78,949 during 2005.

Other areas of non-interest income had strong 2006 results. Fees from trust services for 2006 totaled $1,135,891, an increase of $160,086, or 16.4% from the previous year. This growth is attributed to key wealth management talent acquired during 2006 and to the customer service and value added products this area offers in our market. Banking service charges and fees increased 20.7%, or $210,737 from 2005, as a result of revenue opportunities from deposit accounts and cash management services.

During the fourth quarter of 2005, the Bank sold approximately $17 million of residential mortgages in the secondary market. The sale resulted in a gain totaling $82,858, which is included in other noninterest income for 2005. There were no similar transactions in 2006.

Noninterest Expenses

Noninterest expenses totaled $13,202,841 in 2006, an increase of 19.1%, or $2,121,401 from 2005 noninterest expenses of $11,081,440. Increased costs related to the growth of the branch franchise ,as well as to the development of the wealth management area and the formation of the leasing company were the significant reasons for the increased costs. These initiatives significantly increased costs in personnel, marketing, occupancy, equipment and legal expenses. During 2006, the Bank expanded its market footprint by opening full service branches in Canton and New Milford, Connecticut. Also recognizing the need and potential for full service facilities, management converted the Torrington supermarket branch to a full service branch. The Bank's wealth management division has strengthened its market potential through the hiring of key management talent as well as through improved product and service offerings.

Salary and benefits costs totaled $6,852,582, increasing $859,788, or 14.3% from 2005 costs of $5,992,794. This increase reflects the staffing for the new branches, compliance and wealth management. The increase in benefits costs, however was mitigated by lower incentive and ESOP costs due to the reduced 2006 earnings. As of December 31, 2006, the number of employees on a full-time equivalent basis totaled 126 compared to 105 as of December 31, 2005.

Computer services costs totaled $1,029,227 for 2006 which was an increase of $128,846, or 14.3% from 2005. Increased costs resulting from a higher customer dependence on e-banking, debit cards, ATMs and cash management products resulted in this increase. Net occupancy and equipment costs totaled $1,487,465, which was an increase of $352,111 or 31.0% above 2005 costs. Depreciation, building maintenance, property taxes and utilities expenses, especially as they relate to the new offices, caused increases in these expenses. Advertising fees increased by $231,629 over 2005 costs. This increase was mostly related to branch opening promotions and related direct mail campaigns. Commission, services and fees expenses totaled $520,833, increasing $193,956, or 59.3% from 2005. The majority of this increase relates to sales training, compliance and core processor due diligence advice. During 2006 the Company contracted to change core processors and began the conversion process for a new core processing system, which was substantially

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completed in early 2007. This new system will significantly increase customer service capabilities and will also contribute significant operational efficiencies.

Non-accrual, Past Due, Restructured Loans and Leases and Other Real Estate Owned

The Bank's non-accrual loans and leases ("loans"), other real estate owned ("OREO") and loans and leases past due in excess of ninety days and accruing interest at December 31, 2003 through 2007 are presented below.

<TABLE>
<CAPTION>

	December 31, 2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>
Non-accrual loans and leases	$ 2,959,074	$ 1,504,551	$ 273,330	$ 1,634,999	$ 1,424,097
Other real estate owned ("OREO")	--	--	--	--	300,000
Total non-performing assets	$ 2,959,074	$ 1,504,551	$ 273,330	$ 1,634,999	$ 1,724,097
Loans and leases past due in excess of ninety days and accruing interest	$ 3,111	$ 343	$ 4,884	$ --	$ --

</TABLE>

The accrual of interest income is generally discontinued when a loan or lease becomes 90 days past due as to principal or interest, or when, in the judgment of management, collectibility of the loan, lease or loan interest become uncertain. When accrual of interest is discontinued, any unpaid interest previously accrued is reversed from income. Subsequent recognition of income occurs only to the extent payments are received subject to management's assessment of the collectibility of the remaining principal and interest. The accrual of interest on loans and leases past due 90 days or more, including impaired loans and leases, may be continued when the value of the loan's or lease's collateral is believed to be sufficient to discharge all principal and accrued interest income due on the loan or lease, and the loan or lease is in the process of collection. A non-accrual loan or lease is restored to accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt. A loan or lease is classified as a restructured loan or lease when certain concessions have been made to the original contractual terms, such as reduction of interest rates or deferral of interest or principal payments, due to the borrower's financial condition. OREO is comprised of properties acquired through foreclosure proceedings and acceptance of a deed in lieu of foreclosure. These properties are carried at the lower of cost or fair value less estimated costs of disposal. At the time these properties are obtained, they are recorded at fair value with any difference between carrying value and fair value reflected as a direct charge against the allowance for loan and lease losses which establishes a new cost basis. Any subsequent declines in value are charged to income with a corresponding adjustment to the allowance for foreclosed real estate. Revenue and expense from the operation of foreclosed real estate and changes in the valuation allowance are included in operations. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value. Upon disposition, gains and losses, to the extent they exceed the corresponding valuation allowance, are reflected in the statement of income.

Restructured loans and leases on non-accrual status are included in the table above. As of December 31, 2007, there were no restructured loans or leases considered performing.

Had the non-accrual loans and leases performed in accordance with their original terms, gross interest income for the years ended December 31, 2007, 2006 and 2005 would have increased by approximately $88,000, $64,000 and $9,000, respectively.

The Bank considers all non-accrual loans and leases, other loans and leases past due 90 days or more based on contractual terms, and restructured loans and leases to be impaired. A loan or lease is considered impaired when it is probable that the Bank will be unable to collect amounts due, both principal and interest, according to the contractual terms of the loan or lease agreement. When a loan or lease is impaired, impairment is measured using (1) the present value of expected future cash flows of the impaired loan or lease discounted at the loan's or lease's original effective interest rate; (2) the observable market price of the impaired loan or lease; or (3) the fair value of the collateral of a collateral-dependent loan or lease. When a loan or lease has been deemed to have impairment, a valuation allowance is established for the amount of impairment.

Critical Accounting Policy

In the ordinary course of business, the Bank has made a number of estimates and assumptions relating to the reported results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes the following discussion addresses the Bank's only critical accounting policy, which is the policy that is most important to the portrayal of the Bank's financial results and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The Bank utilizes a loan and lease review and rating process which classifies loans and leases according to the Bank's uniform classification system in order to identify potential problem loans and leases at an early stage, alleviate weaknesses in the Bank's lending policies, oversee the individual loan and lease rating system and ensure compliance with the Bank's underwriting, documentation, compliance and administrative policies. Loans and leases included in this process are considered by management as being in need of special attention because of some deficiency related to the credit or documentation, but which are still considered collectable and performing. Such attention is intended to act as a preventative measure and thereby avoid more serious problems in the future.

The allowance for loan and lease losses consists of specific, general and unallocated components. The specific component relates to loans and leases that are classified as either doubtful, substandard or special mention. For such loans and leases that are also classified

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as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan or lease is lower than the carrying value of that loan or lease. The general component covers non-classified loans and leases and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate or probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions.

The Bank makes provisions for loan and lease losses on a quarterly basis as determined by a continuing assessment of the adequacy of the allowance for loan and lease losses. The Bank performs an ongoing review of loans and leases in accordance with an individual loan and lease rating system to determine the required allowance for loan and lease losses at any given date. The review of loans and leases is performed to estimate potential exposure to losses. Management's judgment in determining the adequacy of the allowance is inherently subjective and is based on an evaluation of the known and inherent risk characteristics and size of the loan and lease portfolios, the assessment of current economic and real estate market conditions, estimates of the current value of underlying collateral, past loan and lease loss experience, review of regulatory authority examination reports and evaluations of impaired loans and leases, and other relevant factors. Loans and leases, including impaired loans and leases, are charged against the allowance for loan and lease losses when management believes that the uncollectibility of principal is confirmed. Any subsequent recoveries are credited to the allowance for loan and lease losses when received. In connection with the determination of the allowance for loan and lease losses and the valuation of foreclosed real estate, management obtains independent appraisals for significant properties, when considered necessary.

There were no material changes in loan and lease concentration or loan and lease quality that had a significant effect on the allowance for loan and lease losses calculation at December 31, 2007. In addition, there were no material changes in the estimation methods and assumptions used in the Company's allowance for loan and lease losses calculation, and there were no material reallocations of the allowance among different parts of the loan and lease portfolio.

The following table summarizes the Bank's OREO, past due and non-accrual loans and leases, and non-performing assets as of December 31, 2007, 2006 and 2005.

<TABLE>
<CAPTION>

	December 31,				
	2007	2006	2005	2004	200
<S>	<C>	<C>	<C>	<C>	<C>
Non-accrual loans and leases	$ 2,959,074	$ 1,504,551	$ 273,330	$ 1,634,999	$ 1,424
Other real estate owned	--	--	--	--	300
Total non-performing assets	$ 2,959,074	$ 1,504,551	$ 273,330	$ 1,634,999	$ 1,724
Loans and leases past due in excess of ninety days and accruing interest	$ 3,111	$ 343	$ 4.884	$ --	$
Ratio of non-performing assets to total loans, leases and OREO	.90%	.51%	.11%	.75%	
Ratio of non-performing assets and loans and leases past due in excess of ninety days accruing interest to total loans, leases and OREO	.90%	.51%	.11%	.75%	
Ratio of allowance for loan and lease losses to total loans and leases	.65%	.71%	.73%	.64%	
Ratio of allowance for loan and lease losses to non-performing assets and loans and leases in excess of ninety days past due and accruing interest	72.64%	139.95%	632.47%	85.01%	6
Ratio of non-performing assets, loans and leases in excess of ninety days past due and accruing interest to total shareholders' equity	10.46%	5.74%	1.07%	6.66%	

</TABLE>

Total non-performing assets increased by $1,454,523, or 96.67%, to $2,959,074 at December 31, 2007, from $1,504,551 at December 31, 2006. The increase in non-performing assets from year-end 2006 is due mostly to the addition of a small number of mid-size mortgages and commercial loans and leases during 2007. Additionally, as of December 31, 2007 there was approximately $320,000 in purchased sub-prime consumer loans included in nonperforming total which was an increase of $73,000 from December 31, 2006. As of December 31, 2007 and 2006, loans and leases past due in excess of ninety days and accruing interest totaled $3,111 and $343, respectively.

Total non-performing assets represented .90% of total loans, leases and other real estate owned at year-end December 31, 2007 compared to .51% at year-end 2006. The allowance for loan and lease losses as of December 31, 2007 was .65% of total loans and leases. This is similar to the level from 2006 when the allowance was approximately .71% of total loans and leases. The allowance for loan and lease losses provided coverage for 72.4% of non-accrual loans and leases at December 31, 2007, as compared to 139.95% at December 31, 2006. The decrease in the coverage ratio is a result of increased level of non-performing assets at year end 2007; however, such loans and leases did not require a commensurate level of specific reserves due to strong levels of collateral.

Potential Problem Loans and Leases

As of December 31, 2007, there were no potential problem loans and leases not disclosed above which cause Management to have serious doubts as to the ability of such borrowers to comply with their present loan and lease repayment terms.

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Allowance for Loan and Lease Losses

The following table summarizes the activity in the allowance for loan and lease losses for the years ended December 31, 2003 through 2007. The allowance is maintained at a level consistent with the identified loss potential and the perceived risk in the portfolio.

<TABLE>
<CAPTION>

	(Dollar Amounts in Thousands) December 31,				
	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>
Balance, at beginning of period	$ 2,106	$ 1,760	$ 1,390	$ 1,149	$ 1,011
Loans and Leases charged-off:					
Commercial and financial	16	--	37	80	30

Real estate	--	--	--	--	--
Installment loans to individuals	160	96	60	104	279
	176	96	97	184	309
Recoveries on loans and leases charged-off:					
Commercial and financial	--	1	81	--	--
Real estate	--	--	--	--	--
Installment loans to individuals	18	21	44	65	147
	18	22	125	65	147
Net loan charge-offs/(recoveries)	158	74	(28)	119	162
Provisions charged to operations	204	420	342	360	300
Balance, at end of period	$ 2,152	$ 2,106	$ 1,760	$ 1,390	$ 1,149
Ratio of net charge-offs/(recoveries) during the period to average loans and leases outstanding during the period	.05%	.03%	(.01%)	.06%	.09%
Ratio of allowance for loan and lease losses to total loans and leases	.65%	.71%	.73%	.64%	.60%

</TABLE>

During 2007, net charge-offs totaled $158,000, which is an increase of $84,000 from 2006 net chargeoffs of $74,000. The increase in net charge-offs was due to a higher level of net charge-offs in the installment loan and lease portfolio. During 2007 the Bank experienced higher levels of charge-offs, which were primarily related to a pool of subprime consumer auto loans the Bank purchased during 2006. Net charge-offs totaled $142,000 from installment loans and leases in 2007 increasing $67,000 from 2006. The increased level of net charge-offs is related to losses on loans and leases whereby the collateral asset value was considerably less than loan or lease amount.

The following table reflects the allowance for loan and lease losses as of December 31, 2007, 2006, 2005, 2004 and 2003.

Analysis of Allowance for Loan and Lease Losses
(Amounts in thousands)
December 31,

<TABLE>
<CAPTION>

Loans and Leases by Type	2007		2006		2005		2004		2003	
	Allocation of Allowance for Loan and Lease Losses	Percentage of Loans in Each Category to Total Loans	Allocation of Allowance for Loan and Lease Losses	Percentage of Loans in Each Category to Total Loans	Allocation of Allowance for Loan and Lease Losses	Percentage of Loans in Each Category to Total Loans	Allocation of Allowance for Loan and Lease Losses	Percentage of Loans in Each Category to Total Loans	Allocation of Allowance for Loan and Lease Losses	Percen of L in Cate to T L
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial	$ 317	10.23%	$ 204	9.13%	$ 357	8.73%	$ 261	8.21%	$ 224	1
Real Estate										
Construction	231	10.58	480	10.36	224	11.79	82	5.31	48	
Residential	863	57.61	769	59.97	411	60.26	550	68.13	314	6
Commercial	465	16.94	401	18.05	518	17.40	379	15.42	367	1
Installment	180	1.98	181	2.43	54	1.79	58	2.89	170	
Other	16	0.03	17	0.06	38	0.03	39	0.04	--	
Commercial Leases	80	2.63	--	--	--	--	--	--	--	
Unallocated	--	--	54	--	158	--	21	--	26	
Total	$ 2,152	100.00%	$ 2,106	100.00%	$ 1,760	100.00%	$ 1,390	100.00%	$ 1,149	10

</TABLE>

The unallocated portion of the allowance reflects Management's estimate of probable but unconfirmed losses inherent in the portfolio. Such estimates are influenced by uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors.

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LIQUIDITY

Management's objective is to ensure continuous ability to meet cash needs as they arise. Such needs may occur from time to time as a result of fluctuations in loan and lease demand and the level of total deposits. Accordingly, the Bank has a liquidity policy that provides flexibility to meet cash needs. The liquidity objective is achieved through the maintenance of readily marketable investment securities as well as a balanced flow of asset maturities and prudent pricing on loan, lease and deposit products. Management believes that the liquidity is adequate to meet the Company's future needs.

The Bank is a member of the Federal Home Loan Bank System which provides credit to its member banks. This enhances the liquidity position of the Bank by providing a source of available overnight as well as short-term borrowings. Additionally, borrowings through repurchase agreements, federal funds and the sale of mortgage loans in the secondary market are available to fund short-term cash needs.

SHORT-TERM BORROWINGS

The following information relates to the Bank's short-term borrowings at the Federal Home Loan Bank for the years ended December 31:

	2007	2006	2005
Balance at December 31,	$ --	$ 1,000,000	$ 17,116,000
Maximum Month-End Borrowings	17,307,000	16,346,000	32,354,000
Average Balance	3,090,000	6,463,000	13,573,000
Average Rate at Year-End	--	5.57%	4.19%
Average Rate during the Period	3.99%	5.83%	4.05%

The following information relates to the Bank's short-term repurchase agreements with customers for the years ended December 31:

	2007	2006	2005
Balance at December 31,	$ 14,142,773	$ 12,206,023	$ 9,974,172
Maximum Month-End Borrowings	15,324,920	24,544,352	19,083,821
Average Balance	10,259,208	13,649,712	7,815,990
Average Rate at Year-End	3.34%	2.74%	2.48%
Average Rate during the Period	3.47%	3.19%	2.44%

CONTRACTUAL COMMITMENTS

In the normal course of business the Company enters into certain contractual obligations. Such obligations include obligations to make future payments on debt and lease arrangements. See Notes G, H and I of the Notes to Consolidated Financial Statements. The following table summarizes the Company's significant contractual obligations at December 31, 2007.

<TABLE>
<CAPTION>

	Payments due by period (Amounts in thousands)				
More than				Less than	
	Total	1 year	1-3 years	3-5 years	5 years
<S>	<C>	<C>	<C>	<C>	<C>
Time Deposit Maturities	$ 129,970	$ 125,199	$ 4,048	$ 723	$ --
Short-term Borrowings	14,143	14,143	--	--	--
Long-term Debt	123,154	21,500	30,550	12,000	59,104
Capital lease obligations	1,794	75	150	162	1,407
Collateralized borrowings	1,699	102	227	261	1,109
Computer processing obligations	2,605,565	615,086	1,277,998	712,481	--
Operating lease obligations	1,083	175	260	227	421
Total	$ 2,877,408	$ 776,280	$1,313,233	$ 725,854	$ 62,041

</TABLE>

OFF-BALANCE SHEET ARRANGEMENTS

See Note O on page F-28 of the consolidated financial statements for the disclosure of off-balance sheet arrangements.

<PAGE>

CAPITAL

At December 31, 2007, total shareholders' equity was $28,312,612 compared to $26,206,194 at December 31, 2006. From a regulatory perspective, the Bank's capital ratios place the Bank in the well-capitalized categories under applicable regulations. The various capital ratios of the Company and the Bank are as follows as of December 31, 2007:

	Minimum Regulatory Capital Level	The Company	The Bank
Tier 1 leverage capital ratio	4%	8.04%	7.36%
Tier 1 risk-based capital ratio	4%	11.96%	11.00%

Total risk-based capital ratio	8%	12.61%	11.65%

Included in the Company's capital used to determine these ratios at December 31, 2007 and December 31, 2006 is $9.8 million related to the Company's investment in First Litchfield Statutory Trust I and First Litchfield Statutory Trust II, which is recorded as subordinated debt in the Company's balance sheets at December 31, 2007 and 2006, respectively. Trust preferred securities are currently considered regulatory capital for purposes of determining the Company's Tier I capital ratios. On March 1, 2005, the Board of Governors of the Federal Reserve System, which is the Company's banking regulator, approved final rules that allow for the continued inclusion of outstanding and prospective issuances of trust preferred securities in regulatory capital subject to new, more strict limitations. The Company has until March 31, 2009 to meet the new limitations. Management does not believe these final rules will have a significant impact on the Company.

INCOME TAXES

The income tax expense for 2007 totaled $225,702 in comparison to income tax benefit of $67,525 in 2006 and income tax expense of $1,511,343 in 2005. The increase in income tax expense between 2007 and 2006 is due to significantly higher levels of pretax income in 2007, both due to higher overall pretax income as well as a much higher proportionate share of tax-exempt income from investments in state and municipal securities and bank-owned life insurance in 2006. The decrease in income tax expense between 2006 and 2005 is due to significantly lower levels of taxable income in 2006, both due to lower overall pretax income as well as a much higher proportionate share of tax-exempt income from investments in state and municipal securities and bank-owned life insurance. The effective tax rates for 2007, 2006 and 2005 were 10%, -5% and 27%, respectively. Also, in all years, provisions for income taxes included the tax benefit related to income associated with Litchfield Mortgage Service Corporation ("LMSC"), which was formed by the Bank in 2000. The income from LMSC is considered passive investment income pursuant to Connecticut law, under which LMSC was formed and is operating, and is not subject to state taxes which resulted in no state tax expense for all years.

IMPACT OF INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and related notes thereto presented elsewhere herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative value of money over time due to inflation. Unlike many industrial companies, most of the assets and virtually all of the liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The main components of market risk for the Company are equity price risk, credit risk, interest rate risk and liquidity risk. The Company's common stock is traded on the Over the Counter ("OTC") Bulletin Board under the symbol "FLFL.OB". As a result, the value of its common stock may fluctuate or respond to price movements relating to the banking industry or other indicia of investment.

The Company manages interest rate risk and liquidity risk through an ALCO Committee comprised of directors, senior management and other officers. Additionally, the Company has engaged asset/liability advisors to analyze and forecast the interest rate risk and recommend balance sheet strategies for the Company. The committee monitors compliance with the Bank's Asset/Liability Policy which provides guidelines to analyze and manage gap, which is the difference between the amount of assets and the amounts of liabilities which mature or reprice during specific time frames. The Company manages its interest-rate risk sensitivity through the use of a simulation model that projects the impact of rate shocks, rate cycles and rate forecast estimates on net interest income. These simulations take into consideration factors such as maturities, reinvestment rates, prepayment speeds, repricing limits and other factors. The results of these simulations are compared to earnings tolerance limits set forth in the Bank's Asset/Liability Policy. The rate-shock simulation projects the impact of instantaneous parallel shifts in the yield curve. Management utilizes different rate scenarios in its simulations as deemed appropriate to the current interest rate environment.

At December 31, 2007, an instantaneous rate increase of 200 basis points indicates a negative change of $86,000 or a 0.62% decrease in net interest income. An instantaneous decrease in rates of 200 basis points indicates a negative change of $314,000 or a 2.24% increase in net interest income. As of year end 2007, management felt that shocks of plus or minus 200 basis points were most relevant. In

<PAGE>

comparison to the December 31, 2006 projections, the Company's 2007 net interest income projections have been positively impacted by a more normalized yield curve as opposed to the previous year's flat inverted yield curve. In the current years projection of a rising rate environment net interest decreases slightly as the benefit of rising asset yields are mitigated by assumed deposit pricing increases. Negatively impacting the current year's projection of a 200 basis point decrease in rates is that within this scenario, funding costs will reach their implicit floors while accelerated cash flows from mortgage-based assets will continue to drive asset yields lower, resulting in ongoing margin compression and a downward trend in net interest income levels.

The table below (dollars in thousands) sets forth the estimated changes in the Company's net interest income which would result from various instantaneous changes in the yield curve.

	Net Interest Income		
Change in Interest Rates (basis points)	Estimated Value	Amount of Change	Percent Change
+200	$ 13,913	$ (86)	(0.62%)
Base	13,999		
- -200	13,686	(314)	(2.24%)

At December 31, 2006, an instantaneous rate increase of 200 basis points indicates a negative change of $1,816,000 or a 14.42 % decrease in net interest income. An instantaneous decrease in rates of 200 basis points indicates a positive change of $548,000 or a 4.35% increase in net interest income. The Company's 2006 net interest income projections have been adversely impacted by the inverted and/ flat yield curve. Should the curve return to a more normalized slope, the impact of the instantaneous upward shocks would not be as dramatic.

The table below (dollars in thousands) sets forth the estimated changes in the Company's net interest income which would result from various instantaneous changes in the yield curve. The Company's interest rate risk and liquidity position have been positively impacted by the fourth quarter 2006 de-leveraging strategy. Lower yielding, longer term investments were sold in order to pay off short-term expensive funding.

	Net Interest Income		
Change in Interest Rates (basis points)	Estimated Value	Amount of Change	Percent Change
+200	$ 10,778	$ (1,816)	(14.42%)
+100	11,573	(1,022)	(8.11%)
Base	12,594		
- -100	13,113	519	4.12%
- -200	13,143	548	4.35%

A discussion of credit risk can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Annual Financial Information

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
First Litchfield Financial Corporation and Subsidiary

We have audited the accompanying consolidated balance sheets of First Litchfield Financial Corporation and Subsidiary (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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 financial position of First Litchfield Financial Corporation and Subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As described in Note A to the consolidated financial statements, during 2006 the Company adopted SFAS No. 123(R), "Share-Based Payment," and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."

We were not engaged to examine management's assertion about the effectiveness of First Litchfield Financial Corporation and Subsidiary's internal control over financial reporting as of December 31, 2007 included in the accompanying Management's Report on Internal Control Over Financial Reporting and, accordingly, we do not express an opinion thereon.

/s/ McGladrey & Pullen, LLP

New Haven, Connecticut
March 31, 2008

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CONSOLIDATED BALANCE SHEETS
As of December 31,

<TABLE>
<CAPTION>

<S>	2007 <C>	2006 <C>
ASSETS		
Cash and due from banks (Note B)	$ 10,876,445	$ 21,501,
Interest -bearing and due from banks	10,620,749	7,696,
CASH AND CASH EQUIVALENTS	21,497,194	29,197,
Securities (Note C):		
Available for sale securities, at fair value	128,979,548	147,780,
Held to maturity securities (fair value $33,712-2007; $39,974-2006)	34,185	40,
TOTAL SECURITIES	129,013,733	147,820,
Federal Home Loan Bank stock, at cost (Note I)	5,067,400	4,443,
Federal Reserve Bank stock, at cost	225,850	225,
Other restricted stock, at cost	95,000	80,
Loans held for sale	--	1,042,
Loans and Leases Receivable, net of allowance for loan and lease losses of $2,151,622-2007, $2,106,100-2006 (Notes D and E)	327,475,371	293,900,
Premises and equipment, net (Note F)	7,758,761	7,440,
Deferred income taxes (Note J)	1,327,535	2,173,
Accrued interest receivable	2,609,606	2,598,
Cash surrender value of insurance (Note K)	10,020,540	9,636,
Other assets (Notes I and K)	2,562,638	2,673,
TOTAL ASSETS	$ 507,653,629	$ 501,232,
LIABILITIES		
Deposits (Note H):		
Noninterest-bearing	$ 70,564,267	$ 68,501,
Interest-bearing	265,053,397	264,927,
Total deposits	335,617,664	333,428,
Federal Home Loan Bank advances (Note I)	91,500,000	67,000,
Repurchase agreements with financial institutions (Note I)	21,550,000	47,200,
Repurchase agreements with customers	14,142,773	12,206,
Junior subordinated debt issued by unconsolidated trusts (Note I)	10,104,000	10,104,
Collateralized borrowings	1,699,336	
Capital lease obligation (Note G)	1,083,567	1,100,

Accrued expenses and other liabilities (Note K)	3,593,677	3,936,
TOTAL LIABILITIES	479,291,017	474,976,
Minority interest	50,000	50,
Commitments and contingencies (Notes G, I, K and M)	--	
SHAREHOLDERS' EQUITY (Notes L, M, N, and Q)		
Preferred stock $.00001 par value; 1,000,000 shares authorized, no shares outstanding	--	
Common stock $.01 par value		
Authorized--5,000,000 shares		
Issued--2,501,229 shares, outstanding--2,368,200 shares--2007 and		
Issued--2,491,055 shares, outstanding--2,366,702 shares--2006	25,012	23,
Additional paid-in capital	27,858,841	25,840,
Retained earnings	2,623,110	3,953,
Less treasury stock at cost--133,029 shares--2007, 124,353 shares--2006	(926,964)	(794,
Accumulated other comprehensive loss, net of taxes (Note S)	(1,267,387)	(2,816,
TOTAL SHAREHOLDERS' EQUITY	28,312,612	26,206,
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 507,653,629	$ 501,232,

</TABLE>

See Notes to Consolidated Financial Statements.

<PAGE>

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31,

<TABLE>
<CAPTION>

<S>	2007 <C>	2006 <C>	2005 <C>
INTEREST INCOME			
Interest and fees on loans and leases	$ 21,053,610	$ 17,399,787	$ 14,447,701
Interest on:			
Mortgage-backed securities	2,564,052	3,367,077	3,593,937
U.S. Treasury and agency securities	2,129,407	2,919,332	2,501,379
State and municipal securities-tax exempt	1,355,523	1,416,669	894,149
Corporate bonds and other securities	594,126	648,144	209,608
Federal funds sold and other interest income	401,543	54,312	18,667
TOTAL INTEREST INCOME	28,098,261	25,805,321	21,665,441
INTEREST EXPENSE			
Interest on deposits:			
Savings	752,024	323,492	115,448
Money market	2,241,181	1,631,588	1,002,312
Time certificates of deposit in denominations of $100,000 or more	2,618,965	1,284,364	813,775
Other time certificates of deposit	3,661,721	3,392,446	1,498,459
TOTAL INTEREST ON DEPOSITS	9,273,891	6,631,890	3,429,994
Interest on Federal Home Loan Bank advances	3,270,980	2,783,674	1,610,527
Interest on repurchase agreements	1,395,488	3,011,053	2,112,536
Interest on subordinated debt	791,523	682,604	440,995
Interest on collateralized borrowings	95,395	--	--
Interest on capital lease obligation	57,923	4,867	--
TOTAL INTEREST EXPENSE	14,885,202	13,114,088	7,594,052
NET INTEREST INCOME	13,213,059	12,691,233	14,071,389
PROVISION FOR LOAN AND LEASE LOSSES (Note E)	204,000	420,000	342,028
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	13,009,059	12,271,233	13,729,361
NONINTEREST INCOME			
Banking service charges and fees	1,362,758	1,230,161	1,019,424
Trust income	1,372,999	1,135,891	975,805
Gains (losses) on sales of available for sale securities (Note C)	19,632	(666,702)	78,949
Increase in cash surrender value of insurance	384,079	347,975	332,579
Other	292,008	225,661	492,556
TOTAL NONINTEREST INCOME	3,431,476	2,272,986	2,899,313
NONINTEREST EXPENSES			
Salaries	6,351,946	5,457,435	4,673,028

Employee benefits	1,578,214	1,395,147	1,319,766
Computer services	860,600	1,029,227	900,381
Net occupancy	1,157,703	954,325	705,569
Equipment	626,946	533,140	429,785
Advertising	469,385	678,440	446,811
Commissions, services and fees	505,412	520,833	326,877
Supplies	202,381	187,114	168,050
Postage	143,070	135,441	124,992
Legal fees	246,815	257,553	176,708
Director fees	208,403	177,700	145,150
Other	1,916,616	1,876,486	1,664,323
TOTAL NONINTEREST EXPENSES	14,267,491	13,202,841	11,081,440
INCOME BEFORE INCOME TAXES	2,173,044	1,341,378	5,547,234
PROVISION (BENEFIT) FOR INCOME TAXES (Note J)	225,702	(67,525)	1,511,343
NET INCOME	$ 1,947,342	$ 1,408,903	$ 4,035,891
EARNINGS PER SHARE (Note L)			
BASIC NET INCOME PER SHARE	$ .82	$ .60	$ 1.72
DILUTED NET INCOME PER SHARE	$ .82	$ .59	$ 1.70

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2007, 2006 and 2005

<TABLE>
<CAPTION>

<S>	Common Stock <C>	Additional Paid-In Capital <C>	Retained Earning <C>	Treasury Stock <C>	Accumulated Other Comprehensive Loss <C>	Total Sharehold Equit <C>
BALANCE, DECEMBER 31, 2004	21,308	19,892,870	6,555,092	(701,061)	(1,222,536)	24,545
Comprehensive Income:						
Net income	--	--	4,035,891	--	--	4,035
Other comprehensive income, net of taxes						
Net, unrealized holding loss on available for sale securities (Note S)					(1,567,623)	(1,567
Total other comprehensive loss	--	--	--	--		(1,567
Total Comprehensive income						2,468
Cash dividends declared $.57 per share	--	--	(1,172,874)	--	--	(1,172
5% stock dividend declared November 17, 2005--106,787 shares including 5,259 treasury shares	1,068	2,967,610	(2,968,678)	--	--	
Fractional shares paid in cash	--	--	(5,952)	--	--	(5
Stock options exercised-9,185 shares	92	73,655	--	--	--	73
Tax benefit on stock options exercised (Note M)	--	60,875	--	--	--	60
BALANCE, DECEMBER 31, 2005	22,468	22,995,010	6,443,479	(701,061)	(2,790,159)	25,969
Comprehensive Income:						
Net income	--	--	1,408,903	--	--	1,408
Other comprehensive income, net of taxes						
Net unrealized holding gain on available for sale securities (Note S)	--	--	--	--	734,250	734
Total other comprehensive income						734
Total Comprehensive income						2,143
Cash dividends declared $.60 per share	--	--	(1,300,535)	--	--	(1,300
5% stock dividend declared November 30, 2006--112,755 shares including 5,401 treasury shares	1,127	2,592,238	(2,593,365)	--	--	
Fractional shares paid in cash			(5,266)			(5
Purchase of treasury shares - 5,000 shares	--	--	--	(109,000)	--	(109
Contribution of treasury shares to ESOP - 2,414 shares (Note K)		52,287	--	15,305		67
Stock options exercised-12,864 shares	129	138,068	--	--	--	138
Tax benefit on stock options						

exercised (Note M)	--	63,020	--	--	--	63
Adoption of SFAS No. 158 as of December 31, 2006	--	--	--	--	(760,704)	(760
BALANCE, DECEMBER 31, 2006	$ 23,724	$ 25,840,623	$ 3,953,216	$ (794,756)	$ (2,816,613)	$ 26,206

</TABLE>

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY, Cont.

<TABLE>

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Comprehensive Income:						
Net income	--	--	1,947,342	--	--	1,947
Other comprehensive income, net of taxes (Note S)						
Net unrealized holding gain on available for sale securities	--	--	--	--	1,286,413	1,286
Net actuarial gain for pension benefits					262,813	262
Total other comprehensive income						1,549
Total Comprehensive Income						3,496
Cash dividends declared $.60 per share	--	--	(1,371,563)	--	--	(1,371
5% stock dividend declared November 29, 2007--118,873 shares including 6,334 treasury shares	1,189	1,900,779	(1,901,968)	--	--	
Fractional shares paid in cash			(3,917)			(3
Purchase of treasury shares - 8,263 shares	--	--	--	(132,208)	--	(132
Stock options exercised-9,922 shares	99	87,388	--	--	--	87
Tax benefit on stock options exercised (Note M)	--	30,051	--	--	--	30
BALANCE, DECEMBER 31, 2007	$ 25,012	$ 27,858,841	$ 2,623,110	$ (926,964)	$ (1,267,387)	$ 28,312

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31,

<TABLE>
<CAPTION>

<S>	2007 <C>	2006 <C>	2005 <C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,947,342	$ 1,408,903	$ 4,035,891
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and accretion of premiums and discounts on investment securities, net	177,406	207,376	381,201
Provision for loan and lease losses	204,000	420,000	342,028
Depreciation and amortization	751,259	498,680	401,740
Deferred income taxes	47,413	(347,290)	(96,531)
(Gains) losses on sales of available for sale securities	(19,632)	666,702	(78,949)
Gain on the sales of loans receivable	--	--	(82,858)
Loans originated for sale	(4,015,817)	(2,656,004)	--
Proceeds from sales of loans held for sale	5,093,056	1,625,210	--
Gains on sales of loans held for sale	(35,056)	(11,389)	--
Gains on sale of repossessed assets	--	(159)	(549)
(Gains) losses on disposals of bank premises and equipment	(17,677)	(100)	1,867
Increase in accrued interest receivable	(10,880)	(249,634)	(344,028)
Decrease (increase) in other assets	182,315	(190,789)	82,397
Increase in cash surrender value of insurance	(384,079)	(347,974)	(332,579)
Increase in deferred loan origination costs	(70,494)	(86,416)	(90,220)
Increase in accrued expenses and other liabilities	38,125	772,654	416,333
Net cash provided by operating activities	3,887,281	1,709,770	4,635,743
CASH FLOWS FROM INVESTING ACTIVITIES			
Available for sale securities:			
Proceeds from principal payments	10,224,784	17,584,308	26,220,847
Purchases	(5,928,540)	(15,850,960)	(44,016,696)
Proceeds from sales	16,295,820	33,625,157	9,687,181
Decrease in due to broker for security purchases	--	(3,675,373)	--
Held to maturity securities:			
Proceeds from maturities and principal payments	6,331	8,519	21,911
Purchase of restricted stock	(15,000)	(30,000)	--

Investment in First Litchfield Statutory Trust II(Note I)	--	(93,000)	--
Purchase of Federal Home Loan Bank stock	(634,500)	(242,200)	(1,018,300)
Redemption of Federal Home Loan Bank stock	10,500	--	--
Proceeds from the sale of loans	--	--	17,101,552
Net increase in loans and leases	(33,779,870)	(53,571,030)	(40,955,177)
Proceeds from sales of repossessed assets	--	15,159	21,395
Purchases of premises and equipment	(1,074,027)	(2,589,641)	(1,881,108)
Proceeds from sale of premises and equipment	22,000	100	--
Purchase of life insurance policies	--	(24,750)	(24,750)
Net cash used in investing activities	(14,872,502)	(24,843,711)	(34,843,145)

</TABLE>

<PAGE>

CONSOLIDATED STATEMENTS OF CASH FLOWS, Cont.

<TABLE>

<S>	<C>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in savings, money market and demand deposits	20,761,499	(9,765,351)	(20,277,950)
Net (decrease) increase in certificates of deposit	(18,572,709)	65,323,864	(2,699,068)
Proceeds from Federal Home Loan Bank advances	112,000,000	24,000,000	49,000,000
Repayments on Federal Home Loan Bank advances	(86,500,000)	(14,500,000)	(22,000,000)
Net (decrease) increase in overnight Federal Home Loan Bank borrowings	(1,000,000)	(16,116,000)	17,116,000
Net (decrease) increase in repurchase agreements with financial institutions	(25,650,000)	(19,500,000)	6,800,000
Net increase in repurchase agreements with customers	1,936,750	2,231,851	9,764,584
Net increase in collateralized borrowings	1,699,336	--	--
Proceeds from issuance of subordinated debt	--	3,093,000	--
Principal repayments on capital lease obligation	(17,077)	(1,383)	--
Purchase of treasury shares	(132,208)	(109,000)	--
Distribution in cash for fractional shares of common stock	(3,917)	(5,266)	(5,952)
Proceeds from exercise of stock options	87,487	138,197	73,747
Tax benefit of stock options exercised	30,051	63,020	60,875
Dividends paid on common stock	(1,354,434)	(1,282,891)	(1,136,010)
Minority interest investment in subsidiary	--	50,000	--
Net cash provided by financing activities	3,284,778	33,620,041	36,696,226
Net (decrease) increase in cash and cash equivalents	(7,700,443)	10,486,100	6,488,824
CASH AND CASH EQUIVALENTS, at beginning of year	29,197,637	18,711,537	12,222,713
CASH AND CASH EQUIVALENTS, at end of year	$ 21,497,194	$ 29,197,637	$ 18,711,537
SUPPLEMENTAL INFORMATION			
Cash paid during the year for:			
Interest on deposits and borrowings	$ 15,155,901	$ 12,987,505	$ 7,155,131
Income taxes	$ 750	$ 900,400	$ 950,500
Noncash investing and financing activities:			
Due to broker for securities purchased	$ --	$ --	$ 3,675,373
Transfer of loans to repossessed assets	$ 71,018	$ 19,160	$ 31,687
Accrued dividends declared	$ 355,229	$ 338,100	$ 320,456
Treasury stock contributed to ESOP	$ --	$ 67,592	$ --
Change in other assets and other liabilities related to the unfunded pension liability	$ 398,201	$ 1,152,582	$ --
Capital lease incurred for acquisition of premises	$ --	$ 1,102,027	$ --

</TABLE>

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of the First Litchfield Financial Corporation (the "Company") and The First National Bank of Litchfield (the "Bank"), a nationally-chartered commercial bank, and the Bank's wholly owned subsidiaries, Litchfield Mortgage Service Corporation and Lincoln Corporation and First Litchfield Leasing Corporation, an entity in which the Bank has an eighty percent ownership. Deposits in the Bank are insured up to specified limits by the Bank Insurance Fund, which is administered by the Federal Deposit Insurance Corporation (the "FDIC"). The Bank provides a full range of banking services to individuals and businesses located primarily in Northwestern Connecticut. These products and services include demand, savings, NOW, money market and time deposits, residential and commercial mortgages, consumer installment and other loans and leases as well as trust services. The Bank is subject to competition from other financial institutions. The Bank is also subject to the regulations of certain federal agencies and undergoes periodic regulatory examinations.

On January 7, 2000, the Company filed a Form 10-SB registration statement with the Securities and Exchange Commission (the "SEC") to register the Company's $.01 par value common stock under the Securities and Exchange Act of 1934 (the "Exchange Act"). The Company files periodic financial reports with the SEC as required by the Exchange Act. On June 26, 2003, the Company formed First Litchfield Statutory Trust I for the purpose of issuing trust preferred securities and investing the proceeds in subordinated debentures issued by the Company. On June 16, 2006, the Company formed First Litchfield Statutory Trust II for the purpose of issuing trust preferred securities and investing the proceeds in subordinated debentures issued by the Company. (See Note I).

The significant accounting policies followed by the Company and the methods of applying those policies are summarized in the following paragraphs:

BASIS OF FINANCIAL STATEMENT PRESENTATION: The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry. All significant intercompany balances and transactions have been eliminated. The Trust I and Trust II are not included in the consolidated financial statements as they do not meet the requirements for consolidation. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the balance sheet and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan and lease losses.

SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK: Most of the Company's activities are with customers located within Litchfield County, Connecticut. Note C discusses the types of securities that the Company invests in. Note E discusses the types of lending and lease financing that the Company engages in. The Company does not have any significant loan and lease concentrations to any one industry or customer. Note K discusses a concentration related to the cash surrender value of the life insurance.

SEGMENT REPORTING: The Company has two business segments, community banking and commercial leasing. During the periods presented these segments represented all the revenues and income for the consolidated group and therefore, are the only reported segments as defined by Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131).

DEBT AND MARKETABLE EQUITY SECURITIES: Management determines the appropriate classification of securities at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each balance sheet date.

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Trading securities, if any, are carried at fair value, with unrealized gains and losses recognized in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of taxes.

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Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. 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. In estimating other-than-temporary impairment losses, management considers (1) the length of time and 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.

The sale of a held maturity security within three months of its maturity date or after collection of at least 85% of the principal outstanding at the time the security was acquired is considered a maturity for purposes of classification and disclosure.

INTEREST AND FEES ON LOANS AND LEASES: Interest on loans and leases ("loans") is included in income as earned based on contractual rates applied to principal amounts outstanding. The accrual of interest income is generally discontinued when a loan or lease becomes 90 days past due as to principal or interest, or when, in the judgment of management, collectibility of the loan, lease, loan interest or lease interest become uncertain. When accrual of interest is discontinued, any unpaid interest previously accrued is reversed from income. Subsequent recognition of income occurs only to the extent payment is received subject to management's assessment of the collectibility of the remaining principal and interest. The accrual of interest on loans and leases past due 90 days or more, including impaired loans and leases, may be continued when the value of the loan's or lease's collateral is believed to be sufficient to discharge all principal and accrued interest income due on the loan or lease and the loan or lease is in the process of collection. A non-accrual loan or lease is restored to accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt. Loan and lease origination fees and certain direct loan and lease origination costs are deferred and the net amount is amortized as an adjustment of the related loan's or lease's yield. The Bank generally amortizes these amounts over the contractual life of the related loans and leases, utilizing a method which approximates the interest method.

LOANS HELD FOR SALE: Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold on the trade date.

TRANSFER OF FINANCIAL ASSETS: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the transferred assets and no condition both constrains the transferee from taking advantage of that right and provides more than a trivial benefit for the transferor, and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call. Transfers that are not accounted for as sales are accounted for as secured borrowings.

LOANS AND LEASES RECEIVABLE: Loans and leases receivable, ("loans"), other than those held for sale, are reported at their principal amount outstanding, net of unearned discounts and unamortized nonrefundable fees and direct costs associated with their origination or acquisition. Management has the ability and intent to hold its loans and leases for the foreseeable future or until maturity or payoff.

Leases are for equipment to customers under leases that qualify as direct financing leases for financial reporting. Under the direct financing method of accounting, the minimum lease payments to be received under the lease contract, together with the estimated residual value, are recorded as lease receivables when the lease contract is signed and the leased property is delivered to the customer. The excess of the minimum lease payments and residual values over the cost of the equipment is recorded as unearned income. Unearned income is recognized at an effective level yield method over the life of the lease contract. Lease payments are recorded when due under the lease contract.

A loan or lease is classified as a restructured loan or lease when certain concessions have been made to the original contractual terms, such as reductions of interest rates or deferral of interest or principal payments, due to the borrowers' financial condition.

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A loan or lease is considered impaired when it is probable that the creditor will be unable to collect amounts due, both principal and interest, according to the contractual terms of the loan or lease agreement. When a loan or lease is impaired, impairment is measured using (1) the present value of expected future cash flows of the impaired loan or lease discounted at the loan's or lease's original effective interest rate, (2) the observable market price of the impaired loan or lease or (3) the fair value of the collateral if the loan or lease is collateral-dependent. When a loan or lease has been deemed to have an impairment, a valuation allowance is established for the amount of impairment. The Bank considers all non-accrual loans and leases; other loans or leases past due 90 days or more, based on contractual terms, and restructured loans or leases to be impaired.

ALLOWANCE FOR LOAN AND LEASE LOSSES: The allowance for loan and lease losses is established as losses are estimated to have occurred through a provision for loan and lease losses charged to earnings. Loan and lease losses are charged against the allowance when management believes the uncollectibility of a loan or lease balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan and lease losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans or leases in light of historical experience, the nature and volume of the loan or lease 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.

The allowance consists of specific, general and unallocated components. The specific component relates to loans and leases that are classified as either doubtful, substandard or special mention. For such loans and leases that are also classified as impaired, an allowance is established when the discounted cash flows (or observable market price or collateral value if the loan or lease is collateral dependent) of the impaired loan or lease is lower than the carrying value of that loan or lease. The general component covers non-classified loans and leases and is based on historical loss experience adjusted for qualitative factors. 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.

The Bank's mortgage loans and leases are collateralized by real estate located principally in Litchfield County, Connecticut. Accordingly, the ultimate collectibility of a substantial portion of the Bank's loan and lease portfolio is susceptible to changes in local market conditions. In addition, medical equipment secures a substantial portion of the Leasing Company's lease portfolio. Accordingly, the ultimate collectibility of a substantial portion of the lease portfolio is susceptible to changes in the medical equipment market.

Management believes that the allowance for loan and lease losses is adequate. While management uses available information to recognize losses on loans and leases, future additions to the allowance or write-downs may be necessary based on changes in economic conditions, particularly in Connecticut. In addition, the Office of the Comptroller of the Currency (the "OCC"), as an integral part of its examination process, periodically reviews the Bank's allowance for loan and lease losses. The OCC may require the Bank to recognize additions to the allowance or write-downs based on their judgment about information available to them at the time of their examination.

RATE LOCK COMMITMENTS: The Company enters into commitments to originate loans and leases whereby the interest rate on the loan or lease is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in other assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates.

DERIVATIVE FINANCIAL INSTRUMENTS: The Company records derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement requires that all derivatives be recognized as assets or liabilities in the balance sheet and measured at fair value.

PREMISES AND EQUIPMENT: Bank premises and equipment are stated at cost for purchased assets, and for assets under capital lease, at the lower of fair value or net present value of the minimum lease payments required over the term of the lease, net of accumulated depreciation and amortization. Depreciation is charged to operations using the straight-line method over the estimated useful lives of the related assets, which range from three to forty years. Leasehold improvements are capitalized and amortized over the shorter of the terms of the related leases or the estimated economic lives of the improvements. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized.

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IMPAIRMENT OF LONG-LIVED ASSETS: Long-lived assets, including premises and equipment and certain identifiable intangible assets which are held and used by the Company, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to noninterest expense.

FORECLOSED REAL ESTATE: Foreclosed real estate, if any, is comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. These properties are carried at the lower of cost or fair value less estimated costs of disposal. At the time these properties are obtained, they are recorded at fair value with any difference between the carrying value and fair value reflected as a direct charge against the allowance for loan and lease losses, which establishes a new cost basis. Any subsequent declines in value are charged to income with a corresponding adjustment to the allowance for foreclosed real estate. Revenue and expense from the operation of foreclosed real estate and changes in the valuation allowance are included in operations. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value. Upon disposition, gains and losses, to the extent they exceed the corresponding valuation allowance, are reflected in the statement of income.

COLLATERALIZED BORROWINGS: Collateralized borrowings represent the portion of loans transferred to other institutions under loan participation agreements which were not recognized as sales due to recourse provisions and/or restrictions on the participant's right to transfer their portion of the loan.

REPURCHASE AGREEMENTS WITH CUSTOMERS: Repurchase agreements with customers are classified as secured borrowings, and generally mature within one to three days of the transaction date. Repurchase agreements are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

TRUST ASSETS: Assets of the Trust Department, other than trust cash on deposit at the Bank, are not included in these consolidated financial statements because they are not assets of the Company. Trust fees are recognized on the accrual basis of accounting.

INCOME TAXES: The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets may be reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

When tax returns are filed, it is highly certain that some positions taken will be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit more than fifty percent likely of being realized upon settlement with the applicable taxing authority.

Interest and penalties related to income taxes are recorded as provision for income taxes.

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and provides guidance on the recognition, de-recognition and measurement of benefits related to an entity's uncertain income tax positions. Based on a detailed review of all tax positions, it was determined that the Company has no significant unrecognized tax benefits, and therefore the company's adoption of FIN 48 had no impact on the Company's consolidated financial statements.

PENSION PLAN: The Bank has a noncontributory defined benefit pension plan that covers substantially all employees. Pension costs are accrued based on the projected unit credit method and the Bank's policy is to fund annual contributions in amounts necessary to meet the minimum funding standards established by the Employee Retirement Income Security Act (ERISA) of 1974.

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In September 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Statement No. 158 ("SFAS No. 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)," which requires companies to recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets. The Company adopted SFAS No. 158 effective December 31, 2006 and as a result of the adoption, a liability was recognized for the under funded status of the Company's qualified pension plan and the net impact was recognized as an after-tax charge to accumulated other comprehensive income (loss). Subsequent to December 31, 2006, changes in the under funded status of the plan is recognized as a component of other comprehensive income.

STOCK OPTION PLANS: In December 2004, the FASB issued Statement No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"). SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) is a replacement of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related interpretive guidance. This statement requires entities to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. SFAS No. 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement.

The Company elected to adopt SFAS No. 123(R) on January 1, 2006 under the modified prospective method. Compensation is measured using the fair value of an award on the grant dates and is recognized over the service period, which is usually the vesting period. Compensation cost related to the unvested portion of awards outstanding as of that date was based on the grant-date fair value of those awards as calculated under the original provisions of SFAS No 123; that is, the Company was not required to re-measure the grant-date fair value estimate of the unvested portion of awards granted prior to the effective date of SFAS No 123(R).

The Company had applied Accounting Principles Board Opinion No. 25 and related Interpretations, in accounting for the stock option plan prior to January 1, 2006. Under APB Opinion No. 25, stock options issued prior to 2006 had no intrinsic value at the grant date and therefore, no compensation cost is recognized for them. In addition, all stock options outstanding at December 31, 2005 were fully vested and therefore the adoption of SFAS No. 123(R) had no initial impact on the Company's financial statements. There are no pro forma disclosures required for 2007, 2006 and 2005 because there was no stock-based compensation attributed to those years.

EARNINGS PER SHARE: Basic earnings per share represents income available to common shareholders and is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and are determined using the treasury stock method.

RELATED PARTY TRANSACTIONS: Directors and officers of the Company and Bank and their affiliates have been customers of and have had transactions with the Bank, and it is expected that such persons will continue to have such transactions in the future. Management believes that all deposit accounts, loans and leases, services and commitments comprising such transactions were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. In the opinion of the management, the transactions with related parties did not involve more than normal risks of collectibility or favored treatment or terms, or present other unfavorable features. Notes D, H, and P contain details regarding related party transactions.

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

STATEMENTS OF CASH FLOWS: Cash and due from banks, Federal funds sold and interest-earning deposits in banks are recognized as cash equivalents in the statements of cash flows. For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Generally, Federal

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funds sold have a one-day maturity. Cash flows from loans, leases and deposits are reported net. The Company maintains amounts due from banks and Federal funds sold which, at times, may exceed federally insured limits. The Company has not experienced any losses from such concentrations.

RECENT ACCOUNTING PRONOUNCEMENTS: In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity operates. This statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company does not expect that the adoption of this statement will have a material impact on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This statement permits companies to elect to follow fair value accounting for certain financial assets and liabilities in an effort to mitigate volatility in earnings without having to apply complex hedge accounting provisions. The statement also establishes presentation and disclosure requirements designed to facilitate comparison between entities that chose different measurement attributes for similar types of assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007. The Company does not expect that the adoption of this statement will have a material impact on its financial statements.

In September 2006, the FASB ratified Emerging Issues Task Force ("EITF") Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefits Associated with Endorsement Split-Dollar Life Insurance Arrangements" ("EITF 06-4"), and in March 2007, the FASB ratified EITF Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements" ("EITF 06-10"). EITF 06-4 requires deferred compensation or postretirement benefit aspects of an endorsement-type split-dollar life insurance arrangement to be recognized as a liability by the employer and states the obligation is not effectively settled by the purchase of a life insurance policy. The liability for future benefits should be recognized based on the substantive agreement with the employee, which may be either to provide a future death benefit or to pay for the future cost of the life insurance. EITF 06-10 provides recognition guidance for postretirement benefit liabilities related to collateral assignment split-dollar life insurance arrangements, as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment split-dollar life insurance arrangement. EITF 06-4 and EITF 06-10 are effective for fiscal years beginning after December 15, 2007. The Company does not expect that the adoption of EITF 06-4 or EITF 06-10 will have a material impact on its financial statements.

NOTE B - RESTRICTIONS ON CASH AND DUE FROM BANKS

The Bank is required to maintain reserves against its respective transaction accounts and nonpersonal time deposits. At December 31, 2007 and 2006 the Bank was required to have cash and liquid assets of approximately $148,000 and $6,207,000, respectively, to meet these requirements. In addition, the Bank is required to maintain $200,000 in the Federal Reserve Bank for clearing purposes at both December 31, 2007 and 2006.

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NOTE C - SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of securities which are classified as available for sale and held to maturity at December 31, 2007 and 2006 are as follows:

AVAILABLE FOR SALE

<TABLE>
<CAPTION>

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
Debt Securities:				
U.S. Treasury securities	$ 4,007,040	$ 62,179	$ --	$ 4,069,219
U.S. Government Agency securities	30,992,780	8,895	(106,435)	30,895,240
State and Municipal obligations	31,190,175	364,035	(49,871)	31,504,339
Corporate and Other bonds	4,898,731	--	(445,731)	4,453,000
	71,088,726	435,109	(602,037)	70,921,798
Mortgage-Backed Securities:				
GNMA	674,447	--	(16,521)	657,926
FNMA	40,041,144	221,704	(996,597)	39,266,251
FHLMC	12,311,134	61,541	(295,091)	12,077,584
	53,026,725	283,245	(1,308,209)	52,001,761
Marketable Equity Securities	6,030,000	54,000	(28,011)	6,055,989
Total available for sale securities	$ 130,145,451	$ 772,354	$ (1,938,257)	$ 128,979,548

</TABLE>

<TABLE>
<CAPTION>

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
Debt Securities:				
U.S. Treasury securities	$ 4,011,499	$ --	$ (19,624)	$ 3,991,875
U.S. Government Agency securities	38,991,992	--	(1,190,389)	37,801,603

State and Municipal obligations	31,193,318	381,930	(43,720)	31,531,528
Corporate and Other bonds	11,274,073	67,326	(14,649)	11,326,750
	85,470,882	449,256	(1,268,382)	84,651,756
Mortgage-Backed Securities:				
GNMA	1,060,592	--	(18,763)	1,041,829
FNMA	47,084,763	78,779	(1,790,692)	45,372,850
FHLMC	15,279,052	33,758	(546,682)	14,766,128
	63,424,407	112,537	(2,356,137)	61,180,807
Marketable Equity Securities	2,000,000	--	(52,288)	1,947,712
Total available for sale securities	$ 150,895,289	$ 561,793	$ (3,676,807)	$ 147,780,275

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HELD TO MATURITY

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-Backed Securities:				
GNMA	$ 34,185	$ --	$ (473)	$ 33,712

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-Backed Securities:				
GNMA	$ 40,516	$ --	$ (542)	$ 39,974

The following table presents the Bank's securities' gross unrealized losses and fair value, aggregated by the length of time the individual securities have been in a continuous unrealized loss position at December 31, 2007:

<TABLE>
<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Investment Securities:						
U.S. Treasury securities	$ --	$ --	$ --	$ --	$ --	$ --
U.S. Government Agency securities	--	--	21,893,564	106,435	21,893,564	106,435
State & Municipal obligations	8,077,673	49,871	--	--	8,077,673	49,871
Corporate & Other bonds	4,453,000	445,731	--	--	4,453,000	445,731
	12,530,673	495,602	21,893,564	106,435	34,424,237	602,037
Mortgage-Backed Securities:						
GNMA	348,421	6,769	327,981	10,225	676,402	16,994
FNMA	110,712	817	27,637,383	995,780	27,748,095	996,597
FHLMC	--	--	9,546,400	295,091	9,546,400	295,091
	459,133	7,586	37,511,764	1,301,096	37,970,897	1,308,682
Marketable Equity Securities	--	--	1,971,989	28,011	1,971,989	28,011
Total	$ 12,989,806	$ 503,188	$ 61,377,317	$ 1,435,542	$ 74,367,123	$ 1,938,730

</TABLE>

The following table presents the Bank's securities' gross unrealized losses and fair value, aggregated by the length of time the individual securities have been in a continuous unrealized loss position at December 31, 2006:

<TABLE>
<CAPTION>

	Less than 12 Months	12 Months or More	Total

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Investment Securities:						
U.S. Treasury securities	$ 3,007,031	$ 5,394	$ 984,844	$ 14,230	$ 3,991,875	$ 19,624
U.S. Government Agency securities	2,887,470	112,530	34,914,133	1,077,859	37,801,603	1,190,389
State & Municipal obligations	5,361,502	25,491	1,241,836	18,229	6,603,338	43,720
Corporate & Other bonds	3,880,000	14,649	--	--	3,880,000	14,649
	15,136,003	158,064	37,140,813	1,110,318	52,276,816	1,268,382
Mortgage-Backed Securities:						
GNMA	--	--	1,065,361	19,305	1,065,361	19,305
FNMA	2,713,210	2,927	35,794,145	1,787,765	38,507,355	1,790,692
FHLMC	444,661	2,665	11,593,313	544,017	12,037,974	546,682
	3,157,871	5,592	48,452,819	2,351,087	51,610,690	2,356,679
Marketable Equity Securities	--	--	1,947,712	52,288	1,947,712	52,288
Total	$ 18,293,874	$ 163,656	$ 87,541,344	$ 3,513,693	$105,835,218	$ 3,677,349

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At December 31, 2007, fifty-one securities have unrealized losses. Management does not believe that any of the unrealized losses are other than temporary as they primarily relate to debt and mortgage-backed securities issued by the U.S. Treasury and U.S. Government agencies, and are due to changes in the interest rate environment. The Company has both the intent and the ability to hold these securities until maturity or until the fair value fully recovers. In addition, management considers the issuers of the securities to be financially sound and the Company will receive all contractual principal and interest related to these investments. As a result, management believes that these unrealized losses will not have a negative impact on future earnings or a permanent effect on capital. However, management periodically evaluates investment alternatives to properly manage the overall balance sheet. The timing of sales and reinvestments is based on various factors, including management's evaluation of interest rate risks and liquidity needs.

The amortized cost and fair value of debt securities at December 31, 2007, by contractual maturity, are shown below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or prepaid with or without call or prepayment penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

<TABLE>
<CAPTION>

	December 31, 2007			
	Available-for-Sale Securities		Held-to-Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<S>	<C>	<C>	<C>	<C>
Due in one year or less	$ 2,000,856	$ 2,013,594	$ --	$ --
Due after one year through five years	9,006,185	9,039,298	--	--
Due after five years through ten years	23,982,494	23,943,788	--	--
Due after ten years	36,099,191	35,925,119	--	--
	71,088,726	70,921,798	--	--
Mortgage-backed securities	53,026,725	52,001,761	34,185	33,712
TOTAL DEBT SECURITIES	$ 124,115,451	$ 122,923,559	$ 34,185	$ 33,712

</TABLE>

For the years ended December 31, 2007, 2006 and 2005, proceeds from the sales of available for sale securities were $16,295,820, $33,625,157 and $9,687,181, respectively. Gross losses of $666,702 were realized on these sales in 2006. Gross gains of $19,632 and $78,949, respectively, were realized on sales in 2007 and 2005, respectively.

Investment securities with a carrying value of $62,582,000 and $95,244,000 were pledged as collateral to secure treasury tax and loan, trust assets, securities sold under agreements to repurchase and public funds at December 31, 2007 and 2006, respectively.

During 2007 and 2006, there were no transfers of securities from the available for sale category into the held to maturity or trading categories, and there were no securities classified as held to maturity that were transferred to available for sale or trading categories.

NOTE D - LOANS TO RELATED PARTIES

In the normal course of business the Bank has granted loans to officers and directors of the Bank and to their associates. As of December 31, 2007 and 2006, all loans to officers, directors and their associates were performing in accordance with the contractual terms of the loans. Changes in these loans to persons considered to be related parties are as follows:

	2007	2006
Balance at the beginning of year	$ 2,471,904	$ 2,874,780
Advances	596,691	234,271
Repayments	(792,962)	(1,114,905)
Other changes	(56,578)	477,758
BALANCE AT END OF YEAR	$ 2,219,055	$ 2,471,904

Other changes in loans to related parties resulted from loans to individuals who ceased being related parties during the year, as well as existing loans outstanding at the beginning of the year to individuals who became related parties during the year.

<PAGE>

NOTE E - LOAN AND LEASE RECEIVABLES

A summary of loans and leases at December 31, 2007 and 2006 is as follows:

<TABLE>
<CAPTION>

<S>	2007 <C>	2006 <C>
Real estate--residential mortgage	$ 189,556,668	$ 177,082,143
Real estate--commercial mortgage	55,752,240	53,318,351
Real estate--construction	34,808,984	30,605,787
Commercial loans	33,641,679	26,949,985
Commercial leases (net of unearned discount of $1,264,980)	8,634,199	--
Installment	6,519,812	7,167,980
Other	99,357	171,752
TOTAL LOANS AND LEASES	329,012,939	295,295,998
Net deferred loan origination costs	445,671	375,177
Premiums on purchased loans	168,383	334,950
Allowance for loan and lease losses	(2,151,622)	(2,106,100)
NET LOANS AND LEASES	$ 327,475,371	$ 293,900,025

</TABLE>

Changes in the allowance for loan and lease losses for the years ended December 31, 2007, 2006 and 2005, were as follows:

<TABLE>
<CAPTION>

<S>	2007 <C>	2006 <C>	2005 <C>
Balance at beginning of year	$ 2,106,100	$ 1,759,611	$ 1,389,947
Provision for loan and lease losses	204,000	420,000	342,028
Loans and leases charged off	(176,777)	(96,072)	(97,565)
Recoveries of loans and leases previously charged off	18,299	22,561	125,201
BALANCE AT END OF YEAR	$ 2,151,622	$ 2,106,100	$ 1,759,611

</TABLE>

A summary of nonperforming loans and leases follows:

<TABLE>
<CAPTION>

<S>	2007 <C>	2006 <C>
Non-accrual loans and leases	$ 2,959,074	$ 1,504,551
Accruing loans and leases contractually past due 90 days or more	3,111	343
TOTAL	$ 2,962,185	$ 1,504,894

</TABLE>

If interest income on non-accrual loans and leases throughout the year had been recognized in accordance with their contractual terms, approximately $88,000, $64,000 and $9,000 of additional interest would have been recorded for the years ended December 31, 2007, 2006 and 2005, respectively.

The following information relates to impaired loans and leases, which include all nonaccrual loans and leases and other loans and leases past due 90 days or more, and all restructured loans and leases, as of and for the years ended December 31, 2007 and 2006:

<TABLE>
<CAPTION>

<S>	2007 <C>	2006 <C>
Loans and leases receivable for which there is a related allowance for loan and lease losses determined:		
Based on discounted cash flows	$ 59,042	$ 56,392
Based on the fair value of collateral	267,985	170,677
Total	$ 327,027	$ 227,069
Loans and leases receivable for which there is no related allowance for loan and lease losses determined:		
Based on discounted cash flows	$ 2,635,158	$ 1,239,032
Based on the fair value of collateral	--	38,793
Total	$ 2,635,158	$ 1,277,825
Allowance for loan and lease losses related to impaired loans and leases	$ 181,119	$ 85,261

</TABLE>

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Additional information related to impaired loans and leases is as follows:

<TABLE>
<CAPTION>

<S>	2007 <C>	2006 <C>	2005 <C>
Average recorded investment in impaired loans and leases	$1,865,000	$ 745,000	$ 985,000
Interest income recognized	$ 228,000	$ 73,000	$ 5,000
Cash interest received	$ 186,000	$ 87,000	$ 15,000

</TABLE>

The Bank has no commitments to lend additional funds to borrowers whose loans and leases are impaired.

The Bank's lending activities are conducted principally in the Litchfield County section of Connecticut. The Bank grants single-family and multi-family residential loans, commercial real estate loans, commercial business loans and a variety of consumer loans. In addition, the Bank grants loans for the construction of residential homes, residential developments and for land development projects. Although lending activities are diversified, a substantial portion of many of the Bank's customers' net worth is dependent on real estate values in the Bank's market area. The Bank's leasing activities are conducted primarily in the New England states as well as in New Jersey. The leasing company's activities are primarily equipment financing.

The Bank has established credit policies applicable to each type of lending activity in which it engages, evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 80% of the market value of the collateral at the date of the credit extension depending on the Bank's evaluation of the borrowers' creditworthiness and type of collateral. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Real estate is the primary form of collateral. Other important forms of collateral are marketable securities, time deposits, automobiles, boats, motorcycles and recreational vehicles. While collateral provides assurance as a secondary source of repayment, the Bank ordinarily requires the primary source of repayment to be based on the borrower's ability to generate continuing cash flows. The Bank's policy for real estate collateral requires that, generally, the amount of the loan may not exceed 80% of the original appraised value of the property. Private mortgage insurance is required for the portion of the loan in excess of 80% of the original appraised value of the property. For installment loans, the Bank may loan up to 100% of the value of the collateral. For leases, the leasing company will lend 100% of the asset value financed.

NOTE F - PREMISES AND EQUIPMENT

The major categories of premises and equipment as of December 31, 2007 and 2006 are as follows:

	2007	2006
Land	$ 1,245,465	$ 1,102,465
Buildings and improvements	7,584,199	6,972,685

Furniture and fixtures	3,597,603	3,431,455
Leasehold improvements	212,106	308,591
	12,639,373	11,815,196
Less accumulated depreciation and amortization	4,880,612	4,374,880
	$ 7,758,761	$ 7,440,316

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2007, 2006 and 2005 was $751,259, $498,680 and $401,740 respectively.

Included in buildings and improvements, premises under capital lease totaled $1,102,027, and related accumulated amortization as of December 31, 2007 and 2006 totaled $18,460 and $1,383, respectively.

NOTE G - LEASES

The Company leases a branch office of the Bank under a twenty-year capital lease that expires in 2026. In addition, at December 31, 2007, the Company was obligated under various non-cancellable operating leases for office space. Certain leases contain renewal options and provide for increased rentals based principally on increases in the average consumer price

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index. The Company also pays certain executory costs under these leases. Net rent expense under operating leases was approximately $242,000, $287,000 and $153,000 for 2007, 2006 and 2005, respectively. The future minimum payments under the capital lease and operating leases are as follows:

	Capital Lease	Operating Leases
2008	75,000	175,400
2009	75,000	151,053
2010	75,000	108,742
2011	75,917	112,018
2012	86,000	115,365
2013 and thereafter	1,406,832	420,450
	1,793,749	$ 1,083,028
Less amount representing interest	(710,182)	
Present value of future minimum lease payments-capital lease obligation	$ 1,083,567	

NOTE H - DEPOSITS

A summary of deposits at December 31, 2007 and 2006 is as follows:

	2007	2006
Noninterest bearing:		
Demand	$ 70,564,267	$ 68,501,750
Interest bearing:		
Savings	56,344,878	45,304,667
Money market	78,738,706	71,079,935
Time certificates of deposit in denominations of $100,000 or more	52,345,036	72,781,087
Other time certificates of deposit	77,624,777	75,761,435
	265,053,397	264,927,124
	$ 335,617,664	$ 333,428,874

Included in deposits as of December 31, 2007 are approximately $6,538,000 of brokered deposits which have varying maturities through December 2008.

The following is a summary of time certificates of deposits by contractual maturity as of December 31, 2007:

2008	125,199,263
2009	2,623,359
2010	1,424,059
2011	203,392
2012	519,740
Total	$129,969,813

Deposit accounts of officers, directors and their associates aggregated $9,015,747 and $5,456,910 at December 31, 2007 and 2006, respectively.

NOTE I - BORROWINGS

Federal Home Loan Bank Borrowings

The Bank, which is a member of the Federal Home Loan Bank of Boston (the "FHLBB"), is required to maintain as collateral, an investment in capital stock of the FHLBB in an amount equal to a certain percentage of its outstanding residential first mortgage loans. Purchases of Federal Home Loan Bank stock totaled $634,500 during 2007 and $242,200 during 2006.

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Redemptions during 2007 amounted to $10,500. There were no such redemptions during 2006. The 2007 and 2006 increases in FHLBB stock are due to capital structure changes implemented during the second quarter of 2004 by the Federal Home Loan Bank of Boston (FHLBB). These changes require each institution's stock investment in the FHLBB to be reflective of that institution's use of FHLBB products. The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provision of the Federal Home Loan Bank. As a member of the FHLBB, the Bank has access to a preapproved line of credit of up to 2% of its total assets and the capacity to obtain additional advances up to 30% of its total assets. In accordance with an agreement with the FHLBB, the Bank is required to maintain qualified collateral, as defined in the FHLBB Statement of Products Policy, free and clear of liens, pledges and encumbrances for the advances. FHLBB stock and certain loans which aggregate approximately 100% of the outstanding advances are used as collateral. At December 31, 2007, there were no advances under the Federal Home Loan Bank line of credit. At December 31, 2006, advances under the Federal Home Loan Bank line of credit totaled $1,000,000. At December 31, 2007 and 2006, other outstanding advances from the FHLBB aggregated $91,500,000 and $66,000,000, respectively, at interest rates ranging from 3.27% to 4.70%, and 2.59% to 5.30%, respectively.

Repurchase Agreements with Financial Institutions

At December 31, 2007 and 2006, securities sold under agreements to repurchase totaled $21,550,000 and $47,200,000, respectively, at interest rates ranging from 3.20% to 4.19%, and 2.40% to 4.19%, respectively.

Secured Borrowings

Secured borrowings amounted to $1,699,336 and as of December 31, 2007. There were no amounts outstanding during the year ended December 31, 2006. Pursuant to SFAS Statement 140, certain loan participation agreements did not qualify for sale accounting due to buyback provisions included within the agreement, thus the Company has not surrendered control over the transferred loans and has accounted for the transfers as secured borrowings.

Junior Subordinated Debt Issued by Unconsolidated Trusts

The Company has established two Delaware statutory trusts, First Litchfield Statutory Trust I and First Litchfield Statutory Trust II, for the sole purpose of issuing trust preferred securities and related trust common securities. The proceeds from such issuances were used by the trusts to purchase junior subordinated notes of the Company, which are the sole assets of each trust. Concurrently with the issuance of the trust preferred securities, the Company issued guarantees for the benefit of the holders of the trust preferred securities. The trust preferred securities are issues that qualify, and are treated by the Company, as Tier 1 regulatory capital. The Company wholly owns all of the common securities of each trust. The trust preferred securities issued by each trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the notes has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment.

The table below summarizes the outstanding junior subordinated notes and the related trust preferred securities issued by each trust as of December 31, 2007:

	First Litchfield Statutory Trust I	First Litchfield Statutory Trust II
Junior Subordinated Notes:		
Principal balance	$ 7,011,000	$ 3,093,000
Annual interest rate	3 mo libor +3.10%	3 mo libor +1.65%
Stated maturity date	June 26, 2033	June 30, 2036
Call date	June 26, 2008	June 30, 2011
Trust Preferred Securities:		
Face value	6,800,000	3,000,000
Annual distribution rate	3 mo libor +3.10%	3 mo libor +1.65%
Issuance date	June 2003	June 2006
Distribution dates (1)	Quarterly	Quarterly

(1) All cash distributions are cumulative

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Trust preferred securities are currently considered regulatory capital for purposes of determining the Company's Tier I capital ratios. On March 1, 2005, the Board of Governors of the Federal Reserve System, which is the Company's banking regulator, approved final rules that allow for the continued inclusion of outstanding and prospective issuances of trust preferred securities in regulatory capital subject to new, more strict limitations. The Company has until March 31, 2009 to meet the new limitations. Management does not believe these final rules will have a significant impact on the Company.

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated notes at the stated maturity date or upon redemption on a date no earlier than June 26, 2008 for First Litchfield Statutory Trust I and June 30, 2011 for First Litchfield Statutory Trust II. Prior to these respective redemption dates, the junior subordinated notes may be redeemed by the Company (in which case the trust preferred securities would also be redeemed) after the occurrence of certain events that would have a negative tax effect on the Company or the trusts, would cause the trust preferred securities to no longer qualify as Tier 1 capital, or would result in a trust being treated as an investment company. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated notes. The Company's obligation under the junior subordinated notes and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each trust's obligations under the trust preferred securities issued by each trust. The Company has the right to defer payment of interest on the notes and, therefore, distributions on the trust preferred securities, for up to five years, but not beyond the stated maturity date in the table above. During any such deferral period the Company may not pay cash dividends on its common stock and generally may not repurchase its common stock.

The contractual maturities of the Company's borrowings at December 31, 2007, by year, are as follows:

	Fixed Rate	Floating Rate	Total
2008	$ 21,500,000	$ --	$ 21,500,000
2009	15,550,000	--	15,550,000
2010	15,000,000	--	15,000,000
2011	--	--	--
2012	12,000,000	--	12,000,000
Thereafter	49,000,000	10,104,000	59,104,000
TOTAL LONG-TERM DEBT	$113,050,000	$ 10,104,000	$123,154,000

NOTE J - INCOME TAXES

The components of the income tax provision (benefit) are as follows:

	2007	2006	2005
Current Provision:			
Federal	$ 178,289	$ 279,765	$ 1,607,874
Deferred Provision (Benefit):			
Federal	47,413	(347,290)	(96,531)
Total	$ 225,702	$ (67,525)	$ 1,511,343

A reconciliation of the anticipated income tax expense (computed by applying the Federal statutory income tax rate of 34% to the income before taxes) to the provision (benefit) for income taxes as reported in the statements of income is as follows:

<TABLE>
<CAPTION>

<S>	2007 <C>		2006 <C>		2005 <C>	
Provision for income taxes at statutory Federal rate	$ 738,835	34%	$ 456,069	34%	$ 1,886,060	34%
Increase (decrease) resulting from:						
Tax exempt interest income	(464,076)	(21)	(482,846)	(36)	(305,425)	(6)
Nondeductible interest expense	62,718	3	57,165	4	22,783	1
Nondeductible income from insurance policies	(130,587)	(6)	(118,311)	(9)	(113,077)	(2)
Other	18,812	--	20,398	2	21,002	--
(Benefit) provision for income taxes	$ 225,702	10%	$ (67,525)	(5)%	$ 1,511,343	27%

</TABLE>

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The tax effects of temporary differences that give rise to significant components of the deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006 are presented below:

	2007	2006
Deferred tax assets:		
Allowance for loan and lease losses	$ 731,552	$ 716,073
Depreciation	140,883	101,807
Accrued expenses	282,835	222,719
Alternative minimum taxes	261,503	261,503
Unfunded pension liability	256,490	391,878
Unrealized loss on available for sale securities	396,407	1,059,106
Total gross deferred tax assets	2,069,670	2,753,086
Deferred tax liabilities:		
Tax bad debt reserve	(153,536)	(153,536)
Prepaid pension costs	(246,976)	(232,209)
Net deferred loan and lease costs	(151,528)	(127,560)
Leases	(151,856)	--
Prepaid expenses and other	(38,240)	(66,748)
Total gross deferred tax liabilities	(742,136)	(580,053)
Net deferred tax asset	$ 1,327,535	$ 2,173,033

Based on the Company's earning history and amount of income taxes paid in prior years, management believes that it is more likely than not that the deferred tax asset will be realized.

Effective for taxable years commencing after December 31, 1998, financial services institutions doing business in Connecticut are permitted to establish a "passive investment company" ("PIC") to hold and manage loans secured by real property. PICs are exempt from Connecticut corporation business tax, and dividends received by the financial services institution's parent from PICs are not taxable. In August 2000, the Bank established a PIC, as a wholly-owned subsidiary, and beginning in October 2000, transferred a portion of its residential and commercial mortgage loan portfolios from the Bank to the PIC. A substantial portion of the Company's interest income is now derived from the PIC, an entity that has been organized as a state tax exempt entity, and accordingly there is no provision for state income taxes in 2007, 2006 and 2005.

NOTE K - EMPLOYEE BENEFITS

PENSION PLAN: The Bank has a noncontributory defined benefit pension plan (the "Plan") that covers substantially all employees who have completed one year of service and have attained age 21. The benefits are based on years of service and the employee's compensation during the last five years of employment. During the first quarter of 2005, the Bank's pension plan was curtailed. Prior to the Plan's curtailment, the Bank's funding policy was to contribute amounts to the Plan sufficient to meet the minimum funding requirements set forth in ERISA, plus such additional amounts as the Bank determined to be appropriate from time to time. The actuarial information has been calculated using the projected unit credit method.

As described in Note A, the Company adopted SFAS No. 158 at December 31, 2006 and, as a result, an adjustment to record the Company's unfunded pension liability of $1,152,582 was made to decrease prepaid pension costs and increase accrued expenses and other liabilities. This amount, net of deferred taxes of $391,878, was recorded as an adjustment to accumulated other comprehensive income of $760,704.

The following table sets forth the Plan's funded status and amounts recognized in the consolidated balance sheets at December 31, 2007, 2006 and 2005 using a measurement date of December 31:

<PAGE>

<TABLE>
<CAPTION>

<S>	2007 <C>	2006 <C>	2005 <C>
Change in benefit obligation			
Benefit obligation, beginning	$ 3,408,732	$ 3,586,983	$ 3,567,063
Service cost	--	--	--
Interest cost	184,166	193,161	210,062
Change in assumptions due to plan amendments	--	--	813,887
Actuarial gain	(31,536)	--	(38,658)
Curtailment gain	--	--	(644,297)
Benefits paid	(291,209)	(371,412)	(321,074)
Benefit obligation, ending	3,270,153	3,408,732	3,586,983

Change in plan assets:			
Fair value of plans assets, beginning	2,939,118	2,981,138	3,077,431
Actual return on plan assets	494,263	329,392	224,781
Employer contribution	100,000	--	--
Benefits paid	(291,209)	(371,412)	(321,074)
Fair value of plan assets, ending	3,242,172	2,939,118	2,981,138
Funded status at end of year included in accrued expenses and other liabilities in 2007 and 2006	$ (27,981)	(469,614)	(605,845)
Unrecognized net actuarial loss			1,334,951
Unrecognized service cost			--
Prepaid benefit cost included in other assets			$ 729,106

</TABLE>

The accumulated benefit obligation was $3,270,153 and $3,408,732 at December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006, $754,381 and $1,152,582, respectively of net actuarial gains are included in other comprehensive income. The estimated net gain that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2008 is $59,249.

<TABLE>
<CAPTION>

<S>	2007 <C>	2006 <C>	2005 <C>
Components of net periodic benefit cost and other amounts recognized in other comprehensive income:			
Service cost	$ --	$ --	$ --
Interest cost	184,166	193,161	210,062
Expected return on plan assets	(200,249)	(214,862)	(233,238)
Amortization of unrealized loss	72,651	67,839	52,887
Net periodic benefit cost	56,568	46,138	29,711
Other changes in Plan Assets and Benefit Obligations recognized in Other Comprehensive Income:			
Net gain	(398,201)		
Total recognized in net periodic benefit cost and other comprehensive income	$ (341,633)		

</TABLE>

Weighted-average assumptions used to determine benefit obligations at December 31:

	2007	2006
Discount rate	6.00%	5.50%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

	2007	2006
Discount rate	6.00%	5.50%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

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The pension expense for the Plan was $56,568, $46,138 and $29,711 for the years ended December 31, 2007, 2006 and 2005, respectively, and is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on Plan assets of 7.50% each year. In developing the expected long-term rate of return assumption, management evaluated input from its investment advisor and actuaries, including their review of asset class return expectations as well as long-term inflation assumptions. Management anticipates that investments will continue to generate long-term returns averaging at least 7.50%. Management regularly reviews the asset allocations and periodically rebalances investments when considered appropriate. Management continues to believe that 7.50% is a conservatively reasonable long-term rate of return on Plan assets. Management will continue to evaluate the actuarial assumptions, including the expected rate of return, at least annually, and will adjust as necessary.

The Bank's pension plan weighted average asset allocations at December 31, 2007 and 2006 by asset category are as follows:

Asset Category	Percentage of Plan Assets as of December 31, 2007	2006
Cash and receivables	5%	2%
Corporate debt and equity securities	18%	13%
Pooled funds/Mutual funds	60%	66%
Government securities	17%	19%
Total	100%	100%

The purpose of the pension investment program is to provide the means to pay retirement benefits to participants and their beneficiaries in the amounts and at the times called for by the Plan. Plan benefits were frozen effective May 1, 2005. No contributions are expected to be made in 2008.

Plan assets are diversified and invested in accordance with guidelines established by the Bank's Compensation and Trust Committees. The portfolio is managed according to a standard Growth and Income Investment Objective model. The target asset allocation is 60% equity and 40% fixed income exposure. Rebalancing takes place when the investment mix varies more than 5% of its Investment Objective model. Equity plan assets are further diversified in investment styles ranging from large cap, mid cap, small cap and international. Individual corporate, government agency and municipal bonds/notes, fixed income mutual funds and exchange traded funds, as well as certificates of deposits, provide fixed income for the plan and are diversified by type, credit quality and duration. The fixed income investments are laddered by maturity in order to mitigate interest rate sensitivity and income fluctuations over time.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2008	$ 202,000
2009	202,000
2010	214,000
2011	252,000
2012	258,000
2013-2017	1,292,000

EMPLOYEE SAVINGS PLAN: The Bank offers an employee savings plan under section 401(k) of the Internal Revenue Code. Under the terms of the Plan, employees may contribute up to 10% of their pre-tax compensation. For the years ended December 31, 2007, 2006 and 2005, the Bank made matching contributions equal to 50% of participant contributions up to the first 6% of pre-tax compensation of a contributing participant. The Bank also made a contribution of 3% of pre-tax compensation for all eligible participants regardless of whether the participant made voluntary contributions to the 401(k) plan. Participants vest immediately in both their own contributions and the Bank's contributions. Employee savings plan expense was $237,461, $202,563 and $178,279 for 2007, 2006 and 2005, respectively.

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OTHER BENEFIT PLANS: Effective December 31, 1996, the Bank entered into a supplemental retirement plan with the Bank's Senior Lending Officer, who retired in 1997. At December 31, 2006, accrued supplemental retirement benefits of $5,000 is recognized in the Company's balance sheet related to this plan. The Bank completed all payments to this retiree in 2007 and therefore no liability is recognized as of December 31, 2007.

Beginning in 1996, the Company offered directors the option to defer their directors' fees. If deferred, the fees are held in a trust account with the Bank. The Bank has no control over the trust. The market value of the related trust assets and corresponding liability of $180,951 and $198,960 at December 31, 2007, and 2006, respectively are included in the Company's balance sheet. During 2005, the plan was amended to cease the deferral of any future fees.

In 2000, the Bank adopted a long-term incentive compensation plan for its executive officers and directors. Under this plan, officers and directors are awarded deferred incentive compensation annually based on the earnings performance of the Bank. Twenty percent of each award vests immediately and the remainder vests ratably over the next four years, however, awards are immediately vested upon change of control of the Bank, or when the participants reach their normal retirement date or early retirement age, as defined. In addition, interest is earned annually on the vested portion of the awards. Upon retirement, the participants' total deferred compensation, including earnings thereon, may be paid out in one lump sum, or paid in equal annual installments over fifteen years for executive officers and ten years for directors. For the years ended December 31, 2007, 2006 and 2005, $72,702, $54,620 and $132,938, respectively, were charged to operations under this plan. The related liability, of $419,187 and $347,115 at December 31, 2007 and 2006, respectively, is included in accrued expenses and other liabilities. At December 31, 2006 and 2005, unvested benefits earned under this plan were approximately $58,000 and $107,000, respectively.

In 2005, the Bank established an Employee Stock Ownership Plan ("ESOP"), for the benefit of its eligible employees. The ESOP invests in the stock of the Company providing participants with the opportunity to participate in any increases in the value of Company stock. Under the ESOP, eligible employees, which represent substantially all full-time employees, are awarded shares of the Company's stock which are allocated among participants in the ESOP in proportion to their compensation. The Board determines the total amount of compensation to be awarded under the plan. That amount of compensation divided by the fair value of the Company's shares at the date the shares are transferred to the plan determines the number of shares contributed to the plan. Dividends are allocated to participant accounts in proportion to their respective shares. For the years ended December 31, 2007, 2006 and 2005, $0, $0 and $67,592 was charged to operations under the ESOP. During 2006, the Company contributed 2,414 shares to the ESOP which are held by the ESOP at December 31, 2006. The Company did not contribute any shares to the ESOP during 2007 or 2005. Under the terms of the ESOP, the Company is required to repurchase shares from participants upon death or termination. The fair value of shares subject to repurchase at December 31, 2007 is approximately $15,000.

Effective January 1, 2006, the Bank entered into supplemental retirement agreements with three of the Bank's Senior Officers. At December 31, 2007 and 2006, accrued supplemental retirement benefits of $214,000 and $104,000, respectively, are recognized in the Company's balance sheet related to these plans. Upon retirement, the plans provide for payments to these individuals ranging from 10% to 25% of the three year average of the executive's compensation prior to retirement for the life expectancy of the executive at the retirement date.

The Bank has an investment in, and is the beneficiary of, life insurance policies on the lives of certain current and former directors and officers. The purpose of these life insurance investments is to provide income through the appreciation in cash surrender values of the policies, which is used to offset the costs of the long-term incentive compensation plan as well as other employee benefit plans. These policies have aggregate cash surrender values of approximately $10,021,000 and $9,636,000 at December 31, 2007 and 2006, respectively. In addition, these assets are unsecured and are maintained with four insurance carriers.

The Company has agreements with certain members of senior management which provide for cash severance payments equal to two times annual compensation for the previous year, upon involuntary termination or reassignment of duties inconsistent with the duties of a senior executive officer, within 24 months following a "change in control" (as such terms are defined in the agreements). In addition, the agreements provide for the continuation of health and other insurance benefits for a period of 24 months following a change in control. The Company has similar agreements with other members of management which provide for cash severance of six months annual compensation if termination or reassignment of duties occurs within six months following a change of control, and provide for the continuation of health and other insurance benefits for a period of six months following a change in control.

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STOCK COMPENSATION PLAN: During 2007 the Company approved a restricted stock plan ("the 2007 Plan") for senior management. As of December 31, 2007 no restricted stock award had been granted. On February 15, 2008, the Company granted 3,500 restricted stock awards to senior management from the 2007 Plan. These awards vest at the end of a five-year period, or earlier if the senior manager ceases to be a senior manager for any reason other than cause, for example, retirement. The holders of these awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights. The senior managers are not required to pay any consideration to the Company for the restricted stock awards. The Company measured the fair value of the awards based on the average of the high price and low price at which the Company's common stock traded on the date of the grant.

NOTE L - SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

In November 2007, 2006 and 2005, the Board of Directors declared 5% stock dividends payable on December 31, 2007, December 29, 2006, and December 30, 2005, respectively. Payment of these dividends resulted in the issuance of 118,873, 112,755 and 106,787 additional common shares in December 2007, 2006 and 2005, respectively. The market value of the shares issued was charged to retained earnings, the par value of the shares issued was credited to common stock and the remainder was credited to additional paid-in capital. Fractional shares were payable in cash on an equivalent share basis of $16.00 for the 2007 stock dividend, $23.00 for the 2006 stock dividend and $27.80 for the 2005 stock dividend. Weighted-average shares and per share data have been restated to give effect to all stock dividends and splits.

The following is information about the computation of net income per share for the years ended December 31, 2007, 2006 and 2005. Shares outstanding include all shares contributed to the ESOP as all such shares have been allocated to the participants. The 2006 and 2005 information has been restated to give retroactive effect to all stock dividends and stock splits for the periods presented.

<TABLE>

<CAPTION>

	For the Year Ended December 31, 2007		
	Net Income	Shares	Per Share Amount
Basic Net Income Per Share			
Income available to common stockholders	$ 1,947,342	2,369,210	$ .82
Effect of Dilutive Securities			
Options Outstanding	--	3,513	
Diluted Net Income Per Share			
Income available to common stockholders plus assumed conversions	$ 1,947,342	2,372,723	$ .82

</TABLE>

<TABLE>
<CAPTION>

	For the Year Ended December 31, 2006		
	Net Income	Shares	Per Share Amount
Basic Net Income Per Share			
Income available to common stockholders	$ 1,408,903	2,361,765	$ .60
Effect of Dilutive Securities			
Options Outstanding	--	11,018	
Diluted Net Income Per Share			
Income available to common stockholders plus assumed conversions	$ 1,408,903	2,372,783	$ .59

</TABLE>

<TABLE>
<CAPTION>

	For the Year Ended December 31, 2005		
	Net Income	Shares	Per Share Amount
Basic Net Income Per Share			
Income available to common stockholders	$ 4,035,891	2,349,472	$ 1.72
Effect of Dilutive Securities			
Options Outstanding	--	25,423	
Diluted Net Income Per Share			
Income available to common stockholders plus assumed conversions	$ 4,035,891	2,374,895	$ 1.70

</TABLE>

<PAGE>

NOTE M - STOCK OPTION PLANS

At December 31, 2007, the Company had one fixed option plan, which is described below. Effective January 1, 2006, the Company adopted SFAS No. 123(R) utilizing the modified prospective approach. Prior to the adoption of SFAS No. 123(R), the Company accounted for the stock options grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" (the intrinsic value method), and accordingly, recognized no compensation expense for stock option grants. Because there were no unvested share-based awards at January 1, 2006, the adoption of this statement had no initial effect on the Company's financial statements.

OPTION PLAN FOR OFFICERS AND OUTSIDE DIRECTORS

A stock option plan for officers and outside directors was approved by the shareholders during 1994. The price and number of options in the plan have been adjusted for all stock dividends and splits.

The stock option plan for directors automatically granted each director an initial option of 3,721 shares of the Company's common stock. Automatic annual grants of an additional 631 shares for each director were given for each of the four following years.

The stock option plan for officers, grants options based upon individual officer performance.

Under both the director and officer plans, the price per share of the option is the fair market value of the Company's stock at the date of the grant. No option may be exercised until 12 months after it is granted at which time options fully vest. Options are exercisable for a period of ten years from the grant thereof.

Activity in the option plan for officers and outside directors for 2007 and 2006 and 2005 is summarized as follows: (The number of shares and price per share have been adjusted to give retroactive effect to all stock dividends and splits.)

<TABLE>
<CAPTION>

	2007		2006		2005	
	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding at the beginning of the year	17,744	$ 9.74	31,922	$ 9.74	42,549	$ 9.04
Granted	--	--	--	--	--	--
Exercised	10,417	8.40	14,178	9.75	10,627	6.94
Cancelled	--	--	--	--	--	--
Options outstanding and exercisable at end of year	7,327	$ 11.64	17,744	$ 9.74	31,922	$ 9.74

</TABLE>

At December 31, 2007, exercise prices ranged from $10.82 to $11.93 with an average remaining contractual life of 11 months and a weighted average exercise price of $11.64.

Shares reserved for issuance of common stock under all the option plans is equal to the amount of options outstanding at the end of the year or 7,327.

The intrinsic value of options outstanding and exercisable at December 31, 2007 and 2006 is $20,932 and $180,120, respectively. The intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005 was $63,571, $143,805 and $202,090, respectively.

NOTE N - RESTRICTIONS ON SUBSIDIARY DIVIDENDS, LOANS OR ADVANCES

Dividends are paid by the Company from its assets which are mainly provided by dividends from the Bank. However, certain restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends, loans or

<PAGE>

advances. The approval of the Comptroller of the Currency is required to pay dividends in excess of the Bank's earnings retained in the current year plus retained net profits for the preceding two years. As of December 31, 2007, the Bank had retained earnings of approximately $27,337,000, of which approximately $3,417,000 was available for distribution to the Company as dividends without prior regulatory approval.

Under Federal Reserve regulation, the Bank is also limited in the amount it may loan to the Company, unless such loans are collateralized by specified obligations. At December 31, 2007, the amount available for transfer from the Bank to the Company in the form of loans is limited to 10% of the Bank's capital stock and surplus.

NOTE O - COMMITMENTS AND CONTINGENCIES

FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank is party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These instruments include commitments to extend credit and unused lines of credit, and expose the Bank to credit risk in excess of the amounts recognized in the balance sheets.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should: the contract be fully drawn upon; the customer default; and the value of any existing collateral become worthless. The Bank uses the same credit policies in making off-balance-sheet commitments and conditional obligations as it does for on-balance-sheet instruments. Management believes that the Bank controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary. Total credit exposures at December 31, 2007 and 2006 related to these items are summarized below:

<TABLE>
<CAPTION>

	2007	2006
	Contract Amount	Contract Amount

Loan and lease commitments:		
Approved loan and lease commitments	$ 16,791,000	$ 12,285,000
Unadvanced portion of:		
Construction loans	15,061,000	8,701,000
Commercial lines of credit	49,189,000	24,158,000
Home equity lines of credit	31,922,000	31,535,000
Overdraft protection and other consumer lines	994,000	712,000
Credit cards	3,362,000	2,612,000
Standby letters of credit	2,773,000	2,211,000
	$ 120,092,000	$ 82,214,000

Loan and lease commitments 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. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness 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 counterparty. Collateral for loans and leases held is primarily residential property. Collateral for leases is primarily equipment. Interest rates on the above are primarily variable. Standby letters of credit are written commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan and lease facilities to customers. As of January 1, 2003, newly issued or modified guarantees that are not derivative contracts have been recorded on the Company's consolidated balance sheet at their fair value at inception. No liability related to guarantees was required to be recorded at December 31, 2007 and 2006.

LEGAL PROCEEDINGS

The Company is involved in various legal proceedings which arose during the course of business and are pending against the Company. Management believes the ultimate resolution of these actions and the liability, if any, resulting from such actions will not materially affect the financial condition or results of operations of the Company.

<PAGE>

NOTE P - RELATED PARTY TRANSACTIONS

For the years ended December 31, 2007 and 2006, the Bank paid approximately $25,000 and $73,000, respectively, for rent and legal fees, to companies, the principals of which are Directors of the Company. During the year ended December 31, 2007, the Company paid approximately $421,000 to a company, the principal which is a Director of the Company, for rent and the purchase of branch property.

NOTE Q - REGULATORY CAPITAL

The Company (on a consolidated basis) and the Bank are 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 Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the 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 Company and 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 Company and the Bank meet all capital adequacy requirements to which it is subject.

Tier 1 capital consists of common shareholders' equity, noncumulative and cumulative perpetual preferred stock, and minority interests less goodwill. Total capital includes the allowance for loan and lease losses (up to a certain amount), perpetual preferred stock (not included in Tier 1), hybrid capital instruments, term subordinated debt and intermediate-term preferred stock. Trust preferred securities are currently considered regulatory capital for purposes of determining the Company's Tier I capital ratios. Risk adjusted assets are assets adjusted for categories of on and off-balance sheet credit risk.

As of December 31, 2007 the most recent notification from the OCC 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 were no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and Bank's actual capital amounts and ratios compared to required regulatory amounts and ratios are presented below:

<TABLE>
<CAPTION>

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Purposes	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of December 31, 2007:						
The Company						
Total Capital to Risk Weighted Assets	$ 41,561,000	12.61%	$ 26,367,000	8%	N/A	N/A
Tier I Capital to Risk Weighted Assets	39,409,000	11.96	13,180,000	4	N/A	N/A
Tier I Capital to Average Assets	39,409,000	8.04	19,606,000	4	N/A	N/A
The Bank						
Total Capital to Risk Weighted Assets	$ 38,312,000	11.65%	$ 26,309,000	8%	$ 32,886,000	10%
Tier I Capital to Risk Weighted Assets	36,160,000	11.00	13,149,000	4	19,724,000	6
Tier I Capital to Average Assets	36,160,000	7.36	19,652,000	4	24,565,000	5
As of December 31, 2006:						
The Company						
Total Capital to Risk Weighted Assets	$ 40,824,000	13.25%	$ 24,556,000	8%	N/A	N/A
Tier I Capital to Risk Weighted Assets	38,719,000	12.57	12,278,000	4	N/A	N/A
Tier I Capital to Average Assets	38,719,000	7.55	20,500,000	4	N/A	N/A
The Bank						
Total Capital to Risk Weighted Assets	$ 37,599,000	12.24%	$ 24,494,000	8%	$ 30,618,000	10%
Tier I Capital to Risk Weighted Assets	35,493,000	11.55	12,250,000	4	18,374,000	6
Tier I Capital to Average Assets	35,493,000	6.94	20,457,000	4	25,571,000	5

</TABLE>

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NOTE R - FAIR VALUE OF FINANCIAL INSTRUMENTS AND INTEREST RATE RISK

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. 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 rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at either December 31, 2007 or 2006. The estimated fair value amounts for 2007 and 2006 have been measured as of their respective year-ends, and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The information presented should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Company's disclosures and those of other companies or banks may not be meaningful.

Cash and due from banks, federal funds sold, interest income receivable, accrued interest payable, collateralized borrowings, and short-term borrowings are short-term, and therefore, book value is a reasonable estimate of fair value.

The fair value of the Federal Home Loan Bank stock, Federal Reserve Bank stock and other restricted stock is estimated to equal the carrying value, due to the historical experience that these stocks are redeemed at par.

The fair value of securities is based on quoted market prices or dealer quotes, if available, or if not available, on dealer quotes for similar instruments.

The fair value of loans and leases held for sale is based on quoted market prices.

Fair values are estimated for portfolios of loans and leases with similar financial characteristics. Loans and leases are segregated by type such as residential mortgages, commercial mortgages, construction mortgages, commercial, installment and other loans and leases. Each category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories.

Fixed rate loans and leases were priced using the discounted cash flow method. The fair value was determined using a discount rate equivalent to the prevailing market interest rate for similar loans and leases.

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Variable rate loans and leases were valued at carrying value due to the frequent repricing characteristics of the portfolio. The fair value of fees associated with off-balance-sheet lending commitments is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counter parties' credit standings.

Nonperforming loans and leases were valued using either the discounted cash flow method or collateral value, if collateral dependent. Discounted cash flows were determined using a discount rate commensurate with the anticipated risks and repayment period.

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings, and money market accounts, is equal to the amount payable on demand at the reporting date. The fair value of certificates of deposit and other borrowings is based on the discounted value of contractual cash flows that applies interest rates currently offered or that would be paid for deposits or borrowings of similar remaining maturities to a schedule of aggregate expected maturities.

The recorded book balances and estimated fair values of the Company's financial instruments at December 31, 2007 and 2006 are as follows:

<TABLE>
<CAPTION>

	2007		2006	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
Financial Assets:				
Cash and due from banks	$ 21,497,194	$ 21,497,194	$ 29,197,637	$ 29,197,637
Available for sale securities	128,979,548	128,979,548	147,780,275	147,780,275
Held to maturity securities	34,185	33,712	40,516	39,974
Federal Home Loan Bank stock	5,067,400	5,067,400	4,443,400	4,443,400
Federal Reserve Bank stock	225,850	225,850	225,850	225,850
Other restricted stock	95,000	95,000	80,000	80,000
Loans and leases held for sale	--	--	1,042,183	1,044,269
Loans and leases, net	327,475,371	335,526,483	293,900,025	287,636,158
Accrued interest receivable	2,609,606	2,609,606	2,598,726	2,598,726
Financial Liabilities:				
Savings deposits	56,344,878	56,344,878	45,304,667	45,304,667
Money market and demand deposits	149,302,973	149,302,973	139,581,685	139,581,685
Time certificates of deposit	129,969,813	130,267,235	148,542,522	148,804,248
Federal Home Loan Bank advances	91,500,000	96,219,124	67,000,000	66,045,391
Repurchase agreements with financial institutions	21,550,000	21,421,552	47,200,000	46,447,584
Repurchase agreements with customers	14,142,773	14,142,773	12,206,023	12,206,023
Subordinated debt	10,104,000	10,104,000	10,104,000	10,104,000
Accrued interest payable	731,496	731,496	1,002,194	1,002,194
Collateralized borrowings	1,699,336	1,699,336	--	--

</TABLE>

Loan and lease commitments, rate lock derivative commitments and other commitments, on which the committed interest rate is less than the current market rate are insignificant at December 31, 2007 and 2006.

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans, leases and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

<PAGE>

NOTE S - OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive loss is comprised of the following at December 31, 2007 and 2006:

	2007	2006
Unrealized losses on available for sale securities, net of taxes	$ 769,496	$ 2,055,909
Unfunded pension liability, net of taxes	497,891	760,704
	$ 1,267,387	$ 2,816,613

Other comprehensive income for the years ended December 31, 2007, 2006 and 2005 is as follows:

	2007		
	Before-Tax Amount	Taxes	Net-of-Tax Amount
Unrealized holding gains arising during the period	$ 1,968,743	$ (669,373)	$ 1,299,370
Less: reclassification adjustment for gains recognized in net income	(19,632)	6,675	(12,957)
Unrealized holding gain on available for sale securities, net of taxes	1,949,111	(662,698)	1,286,413
Net pension gain	398,201	(135,388)	262,813
Total other comprehensive income, net of taxes	$ 2,347,312	$ (798,086)	$ 1,549,226

	2006		
	Before-Tax Amount	Taxes	Net-of-Tax Amount
Unrealized holding gains arising during the period	$ 445,798	$ (151,571)	$ 294,227
Add: reclassification adjustment for losses recognized in net income	666,702	(226,679)	440,023
Total other comprehensive income, net of taxes	$ 1,112,500	$ (378,250)	$ 734,250

	2005		
	Before-Tax Amount	Taxes	Net-of-Tax Amount
Unrealized holding losses on available for sale securities arising during the period	$ (2,296,237)	$ 780,721	$ (1,515,516)
Less: reclassification adjustment for gains recognized in net income	(78,949)	26,842	(52,107)
Total other comprehensive loss, net of taxes	$ (2,375,186)	$ 807,563	$ (1,567,623)

NOTE T - FIRST LITCHFIELD FINANCIAL CORPORATION PARENT COMPANY ONLY FINANCIAL INFORMATION

FIRST LITCHFIELD FINANCIAL CORPORATION
Condensed Balance Sheets

<TABLE>
<CAPTION>

December 31,

	2007	2006
<S>	<C>	<C>
Assets		
Cash and due from banks	$ 3,114,290	$ 3,167,243
Investment in The First National Bank of Litchfield	34,863,604	32,687,814
Investment in First Litchfield Statutory Trusts I,II	304,000	304,000
Other assets	501,838	503,388
Total Assets	$ 38,783,732	$ 36,662,445
Liabilities and Shareholders' Equity		
Liabilities:		
Subordinated debt	$ 10,104,000	$ 10,104,000
Other liabilities	367,120	352,251
Total Liabilities	10,471,120	10,456,251
Shareholders' equity	28,312,612	26,206,194
Total Liabilities and Shareholders' Equity	$ 38,783,732	$ 36,662,445

</TABLE>

<PAGE>

Condensed Statements of Income

<TABLE>
<CAPTION>

	Years Ended December 31,		
	2007	2006	2005
<S>	<C>	<C>	<C>
Dividends from subsidiary	$ 1,900,000	$ 1,900,000	$ 1,600,000
Other expenses, net	877,608	764,705	516,979
Income before taxes and equity in earnings of subsidiary	1,022,392	1,135,295	1,083,021
Income tax benefit	298,386	259,919	175,772
Income before equity in undistributed earnings of subsidiary	1,320,778	1,395,214	1,258,793
Equity in undistributed earnings of subsidiary	626,564	13,689	2,777,098
Net income	$ 1,947,342	$ 1,408,903	$ 4,035,891

</TABLE>

Condensed Statements of Cash Flows

<TABLE>
<CAPTION>

	Years Ended December 31,		
	2007	2006	2005
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net Income	$ 1,947,342	$ 1,408,903	$ 4,035,891
Adjustments to reconcile net income to cash provided by operating activities:			
Equity in undistributed earnings of subsidiary	(626,564)	(13,689)	(2,777,098)
Other, net	135,247	(9,766)	127,013
Cash provided by operating activities	1,456,025	1,385,448	1,385,806
Cash flows from investing activities:			
Investment in First Litchfield Statutory Trust II	--	(93,000)	--
Investment in The First National Bank of Litchfield	--	(3,000,000)	--
Cash used in investing activities	--	(3,093,000)	--
Cash flows from financing activities:			
Stock options exercised	87,487	138,197	73,747
Distribution in cash for fractional shares of common stock	(3,917)	(5,266)	(5,952)
Proceeds from issuance of subordinated debt	--	3,093,000	--
Contribution of treasury shares to ESOP	--	67,592	--
Purchase of treasury shares	(132,208)	(109,000)	--
Dividends paid on common stock	(1,354,434)	(1,282,890)	(1,136,010)
Cash (used in) provided by financing activities	(1,403,072)	1,901,633	(1,068,215)
Net increase in cash and due from banks	52,953	194,081	317,591
Cash and due from banks at the beginning of the year	3,167,243	2,973,162	2,655,571

Cash and due from banks at the end of the year	$ 3,114,290	$ 3,167,243	$ 2,973,162

</TABLE>

<PAGE>

NOTE S - SEGMENT REPORTING

Beginning in 2007, with First Litchfield Leasing Corporation fully operational, the Company has two operating segments for purposes of reporting business line results. These segments are Community Banking and Leasing. The Community Banking segment is defined as all the operating results of The First National Bank of Litchfield. The Leasing segment is defined as the results of First Litchfield Leasing Corporation. Because First Litchfield Leasing Corporation is a new subsidiary, methodologies and organizational hierarchies are newly developed and will be subject to periodic review and revision. The following presents the operating results and total assets for the segments of First Litchfield Financial Corporation for the year ended December 31, 2007. The Company uses an internal reporting system to generate information by operating segment. Estimates and allocations are used for noninterest expenses and income taxes. The Company uses a matched maturity funding concept to allocate interest expense to First Litchfield Leasing Corporation. The matched maturity funding concept utilizes the origination date and the maturity date of the lease to assign an interest expense to each lease.

<TABLE>
<CAPTION>

For the Year Ended December 31, 2007	Community Banking	Leasing	Elimination Entries	Consolidated Total
<S>	<C>	<C>	<C>	<C>
Net interest income	$ 12,951,760	$ 261,299	--	$ 13,213,059
Provision for credit losses	123,726	80,274	--	204,000
Net interest income after provision for credit losses	12,828,034	181,025	--	13,009,059
Noninterest income	3,431,476	--	--	3,431,476
Noninterest expense	13,977,928	318,843	(29,280)	14,267,491
Income (loss) before income taxes	2,281,582	(137,818)	29,280	2,173,044
Income tax provision (benefit)	274,159	(48,457)	--	225,702
Net income (loss)	$ 2,007,423	$ (89,361)	$ 29,280	$ 1,947,342
Total assets as of December 31, 2007	$ 535,136,271	$ 10,972,121	$ (38,454,762)	$ 507,653,629

</TABLE>

<PAGE>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with the accountants of the Company during the 24 month period prior to December 31, 2007, or subsequently.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act report is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit of possible controls and procedures.

The Company's Management, under the supervision and with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2007. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

ITEM 9A(T). CONTROLS AND PROCEDURES

(a) Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining, for the Company, adequate internal control over financial reporting, as such term is defined in Exchange act Rule 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation under the framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2007. There were no material weaknesses in the Company's internal control over financial reporting identified by management.

The annual report does not include an attestation report of the Company's, registered public accounting firm, regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only Management's report in this annual report.

(b) Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's fourth quarter of 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated into this Form 10-K by reference to the Company's Definitive Proxy Statement (the "Definitive Proxy Statement") for its 2008 Annual Meeting of Shareholders.

Code of Ethics
- --------------

The Company has adopted a Code of Ethics that applies to the Company's Chief (Principal) Executive Officer and Chief (Principal) Financial Officer. Such Code of Ethics may be obtained by any person, without charge, upon request, by writing to: Carroll A. Pereira, Treasurer, First Litchfield Financial Corporation, 13 North Street, Litchfield, CT 06759.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 and paragraph (e)(4) and (e)(5) of item 407 of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 201(d) and Item 403 of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Items 404 of Regulation S-K and Item 407(a) of Regulation S-K is incorporated into this Form 10-K by reference to the Definitive Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A is incorporated into this Form 10-K by reference to the Company's Definitive Proxy Statement.

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PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

A. Exhibits

EXHIBIT INDEX

Exhibit No.	Exhibit
3.1	Certificate of Incorporation of First Litchfield Financial Corporation, as amended. Exhibit is incorporated by reference to Exhibit 3.1 set forth in the Company's Registration Statement on Form 10-SB as filed with the Securities and Exchange Commission on January 7, 2000.
3.2	Bylaws of First Litchfield Financial Corporation, as amended. Exhibit is incorporated by reference to Exhibit 3.2 set forth in the Company's Registration Statement on Form 10-SB as filed with the Securities and Exchange Commission on January 7, 2000.
4.	Specimen Common Stock Certificate. Exhibit is incorporated by reference to Exhibit 4. set forth in the Company's Registration Statement on Form 10-SB as filed with the Securities and Exchange Commission on January 7, 2000.
4.1	Indenture dated June 16, 2006, between First Litchfield Financial Corporation, as issuer, and Wilmington Trust Company, as indenture trustee. Exhibit is incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-K/A as filed with the Securities and Exchange Commission on June 30, 2006.
4.2	Guarantee Agreement dated as of June 16, 2006, between First Litchfield Financial Corporation, and Wilmington Trust Company. Exhibit is incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form 8-K/A as filed with the Securities and Exchange Commission on June 30, 2006.
4.3	Form of Junior Subordinated Note. Exhibit is incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form 8-K/A as filed with the Securities and Exchange Commission on June 30, 2006.
10.1	1994 Stock Option Plan for Officers and Outside Directors. Exhibit is incorporated by reference to Exhibit 10.2 set forth in the Company's Registration Statement on Form 10-SB as filed with the Securities and Exchange Commission on January 7, 2000.
10.2	Supplemental Employee Retirement Agreement between the Company and Walter Hunt. Exhibit is incorporated by reference to Exhibit 10.9 set forth in the Company's Registration Statement on Form 10-SB as filed with the Securities and Exchange Commission on January 7, 2000.
10.3	Deferred Directors' Fee Plan. Exhibit is incorporated by reference to Exhibit 10.10 set forth in the Company's Registration Statement on Form 10-SB as filed with the Securities and Exchange Commission on January 7, 2000.
10.4	Split Dollar Agreement with Salisbury Bank as Trustee dated November 21, 2000. Exhibit is incorporated by reference to Exhibit 10.13 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.
10.5	The Rabbi Trust Agreement with Salisbury Bank as Trustee dated November 21, 2000. Exhibit is incorporated by reference to Exhibit 10.14 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.
10.6	The First National Bank of Litchfield Executive Incentive Retirement Agreement between Jerome J. Whalen and the Bank dated December 28, 2000. Exhibit is incorporated by reference to Exhibit 10.15 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.
10.7	The First National Bank of Litchfield Executive Incentive Retirement Agreement between Carroll A. Pereira and the Bank dated November 30, 2000. Exhibit is incorporated by reference to Exhibit 10.16 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

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10.8	The First National Bank of Litchfield Executive Incentive Retirement Agreement between Philip G. Samponaro and the Bank dated December 19, 2000. Exhibit is incorporated by reference to Exhibit 10.17 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

10.9 The First National Bank of Litchfield Executive Incentive Retirement Agreement between Revere H. Ferris and the Bank dated November 30, 2000. Exhibit is incorporated by reference to Exhibit 10.18 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

10.10 The First National Bank of Litchfield Executive Incentive Retirement Agreement between John S. Newton and the Bank dated December 21, 2000. Exhibit is incorporated by reference to Exhibit 10.19 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

10.11 The First National Bank of Litchfield Director Incentive Retirement Agreement between Charles E. Orr and the Bank dated November 29, 2000. Exhibit is incorporated by reference to Exhibit 10.20 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

10.12 The First National Bank of Litchfield Director Incentive Retirement Agreement between Patricia D. Werner and the Bank dated November 30, 2000. Exhibit is incorporated by reference to Exhibit 10.21 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

10.13 The First National Bank of Litchfield Director Incentive Retirement Agreement between George M. Madsen and the Bank dated December 7, 2000. Exhibit is incorporated by reference to Exhibit 10.23 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

10.14 The First National Bank of Litchfield Director Incentive Retirement Agreement between William J. Sweetman and the Bank dated December 20, 2000. Exhibit is incorporated by reference to Exhibit 10.24 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

10.15 The First National Bank of Litchfield Director Incentive Retirement Agreement between H. Ray Underwood and the Bank dated December 20, 2000. Exhibit is incorporated by reference to Exhibit 10.25 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

10.16 The First National Bank of Litchfield Director Incentive Retirement Agreement between Perley H. Grimes and the Bank dated December 27, 2000. Exhibit is incorporated by reference to Exhibit 10.29 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

10.17 The First National Bank of Litchfield Director Incentive Retirement Agreement between Alan B. Magary and the Bank dated December 19, 2002. Exhibit is incorporated by reference to Exhibit 10.38 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2002 as filed with the Securities and Exchange Commission on March 31, 2003.

10.18 The First National Bank of Litchfield Director Incentive Retirement Agreement between Gregory S. Oneglia and the Bank dated December 19, 2002. Exhibit is incorporated by reference to Exhibit 10.39 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2002 as filed with the Securities and Exchange Commission on March 31, 2003.

10.19 The First National Bank of Litchfield Executive Incentive Retirement Agreement between Joseph J. Greco and the Bank dated December 19, 2002. Exhibit is incorporated by reference to Exhibit 10.40 set forth in the Company's Annual Report in Form 10-KSB for the fiscal year ended December 31, 2002 as filed with the Securities and Exchange Commission on March 31, 2003.

10.20 Split dollar life agreement between Joelene E. Smith and the Company. Exhibit is incorporated by reference to Exhibit 10.47 set forth in the Company's 10-QSB for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on August 13, 2003.

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10.21 Amended and Restated Declaration of Trust of First Litchfield Statutory Trust I. Exhibit is incorporated by reference to Exhibit

10.52 set forth in the Company's 10-QSB for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on August 13, 2003.

10.22 Indenture for the Company's Floating Rate Junior Subordinated Deferrable Interest Debentures due 2033. Exhibit is incorporated by reference to Exhibit 10.53 set forth in the Company's 10-QSB for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on August 13, 2003.

10.23 The First National Bank of Litchfield Executive Incentive Retirement Agreement between Joelene E. Smith and the Bank dated December 22, 2003. Exhibit is incorporated by reference to Exhibit 10.54 set forth in the Company's 10-KSB for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on March 30, 2004.

10.24 The First National Bank of Litchfield Director Incentive Retirement Agreement between Kathleen A. Kelley and the Bank dated September 1, 2004. Exhibit is incorporated by reference to Exhibit 10.56 set forth in the Company's 10-QSB for the quarter ended September 30, 2004 as filed with the Securities and Exchange Commission on November 14, 2004.

10.25 Amendment to The First National Bank of Litchfield Director Incentive Retirement Agreement between Alan B. Magary and the Bank dated August 26, 2004. Exhibit is incorporated by reference to Exhibit 10.57 set forth in the Company's 10-QSB for the quarter ended September 30, 2004 as filed with the Securities and Exchange Commission on November 14, 2004.

10.26 The First National Bank of Litchfield Executive Incentive Retirement Agreement between Robert E. Teittinen and the Bank dated November 21, 2005. Exhibit is incorporated by reference to Exhibit 10.59 set forth in the Company's 10-K for the year ended December 31, 2005 as filed with the Securities and Exchange Commission on March 30, 2006.

10.27 The First National Bank of Litchfield Supplemental Executive Retirement Agreement between Joseph J. Greco and the Bank dated April 27, 2006. Exhibit is incorporated by reference to Exhibit 10.60 set forth in the Company's 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.28 The First National Bank of Litchfield Supplemental Executive Retirement Agreement between Carroll A. Pereira and the Bank dated April 27, 2006. Exhibit is incorporated by reference to Exhibit 10.61 set forth in the Company's 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.29 The First National Bank of Litchfield Supplemental Executive Retirement Agreement between Joelene E. Smith and the Bank dated April 27, 2006. Exhibit is incorporated by reference to Exhibit 10.62 set forth in the Company's 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.30 The First National Bank of Litchfield Executive Incentive Retirement Agreement between Frederick F. Judd, III and the Bank dated April 28, 2006. Exhibit is incorporated by reference to Exhibit 10.63 set forth in the Company's 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.31 Executive Change in Control Agreement between Joseph J. Greco and the Company and the Bank dated May 26, 2006. Exhibit is incorporated by reference to Exhibit 10.64 set forth in the Company's 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.32 Executive Change in Control Agreement between Carroll A. Pereira and the Company and the Bank dated May 26, 2006. Exhibit is incorporated by reference to Exhibit 10.65 set forth in the Company's 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.33 Executive Change in Control Agreement between Joelene E. Smith and the Company and the Bank dated May 26, 2006. Exhibit is incorporated by reference to Exhibit 10.66 set forth in the Company's 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.34 Executive Change in Control Agreement between Robert E. Teittinen and the Company and the Bank dated May 26, 2006. Exhibit is incorporated by reference to Exhibit 10.67 set forth in the Company's 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.35 Executive Change in Control Agreement between Frederick F. Judd, III and the Company and the Bank dated May 26, 2006. Exhibit is incorporated by reference to Exhibit 10.68 set forth in the Company's 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.36	Form of Employee Change in Control Agreement. Exhibit is incorporated by reference to Exhibit 10.69 set forth in the Company's 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.
10.37	First Litchfield Financial Corporation 2007 Restricted Stock Plan. Exhibit is incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 as filed with the Securities and Exchange Commission on July 30, 2007 (File No. 333-144951).

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21.	List of Subsidiaries of First Litchfield Financial Corporation
23.	Consent of McGladrey & Pullen, LLP.
31.1	Certification of Chief Executive Officer of the Company.
31.2	Certification of Chief Financial Officer of the Company.
32.0	Certification of Chief Executive Officer and the Chief Financial Officer of the Company, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 31, 2008 FIRST LITCHFIELD FINANCIAL CORPORATION

By: /s/ Joseph J. Greco
Joseph J. Greco, President and
Chief Executive Officer

Dated: March 31, 2008 By: /s/ Carroll A. Pereira
Carroll A. Pereira,
Principal Accounting Officer
and Treasurer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Joseph J. Greco Joseph J. Greco	President, Chief Executive Officer and Director	3/28/08
/s/ Patrick J. Boland Patrick J. Boland	Director	3/28/08
/s/ John A. Brighenti John A. Brighenti	Director	3/28/08
/s/ Perley H. Grimes, Jr. Perley H. Grimes, Jr.	Director	3/28/08
/s/ Kathleen A. Kelley Kathleen A. Kelley	Director	3/28/08
/s/ George M. Madsen George M. Madsen	Director	3/28/08
/s/ Alan B. Magary	Director	3/28/08

- ----------------------------
Alan B. Magary

/s/ Gregory Oneglia	Director	3/28/08
Gregory Oneglia		
/s/ Charles E. Orr	Director	3/28/08
Charles E. Orr		
/s/ Richard E. Pugh	Director	3/28/08
Richard E. Pugh		
/s/ William J. Sweetman	Director	3/28/08
William J. Sweetman		
/s/ H. Ray Underwood	Director	3/28/08
H. Ray Underwood		
/s/ Patricia D. Werner	Director	3/28/08
Patricia D. Werner		

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Exhibit 21.

Subsidiaries of First Litchfield Financial Corporation at December 31, 2007:

Subsidiary	Incorporated In The State of:	Percent Owned By First Litchfield Financial Corporation
The First National Bank of Litchfield	Connecticut	100%

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Exhibit No. 23

CONSENT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-36194 filed on May 3, 2000 and No. 333-144951 filed on July 30, 2007) of First Litchfield Financial Corporation and Subsidiary of our report dated March 31, 2008 relating to our audit of the consolidated financial statements, which appears in the Annual Report on Form 10-K of First Litchfield Financial Corporation and Subsidiary for the year ended December 31, 2007.

/s/ McGladrey & Pullen, LLP
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New Haven, Connecticut
March 31, 2008

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EXHIBIT 31.1
CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF THE COMPANY

I, Joseph J. Greco, certify that:

1. I have reviewed this annual report on Form 10-K of First Litchfield Financial Corporation.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2008

/s/ Joseph J. Greco

Joseph J. Greco
President and CEO

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EXHIBIT 31.2
CERTIFICATION OF CHIEF FINANCIAL OFFICER OF THE COMPANY

I, Carroll A. Pereira, certify that:

1. I have reviewed this annual report on Form 10-K of First Litchfield Financial Corporation.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2008

/s/ Carroll A. Pereira

Carroll A. Pereira
Principal Financial Officer

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EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of First Litchfield Financial Corporation (the "Company") on Form 10-K for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Joseph J. Greco, President and Chief Executive Officer of the Company, and Carroll A. Pereira, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph J. Greco	/s/ Carroll A. Pereira
- --------------------	-------------------------
Joseph J. Greco	Carroll A. Pereira
President and Chief Executive Officer	Principal Financial Officer
March 31, 2008	March 31, 2008

The foregoing certificate is furnished solely for purposes of complying with Section 906 of the Sarbanes-Oxley Act of 2002 and for no other purpose whatsoever. Notwithstanding anything to the contrary set forth herein or in any of the Company's previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate the Company's future filings, including this Report on Form 10-K, in whole or in part, this Certificate shall not be incorporated by reference into any such filings.

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-----END PRIVACY-ENHANCED MESSAGE-----