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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A
(Amendment No. 1)

(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, 2008

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 |_|

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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 |_| No |X|

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 $25,717,416.

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. April 14, 2009 - 2,356,875

DOCUMENTS INCORPORATED BY REFERENCE

PART III. Portions of the Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 20, 2009.

Explanatory Note

This Amendment No. 1 on Form 10-K/A ("Form 10-K/A") to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, initially filed with the Securities and Exchange Commission ("SEC") on April 15, 2009, is being filed to correct certain inadvertent omissions as applicable, as well as enhancing the identification and discussion of Management's Discussion and Analysis of Financial Condition and Results of Operation and certain footnotes to the Registrant's Consolidated Financial Statements. These changes were intended to be included in the Registrant's Form 10-K filing on April 15, 2009 however due to an oversight, these changes were not included such filing.

This Form 10-K/A hereby amends:

- Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation to reflect the following:

    - Enhanced the Allowance For Loan and Lease Losses discussion to more clearly describe what constitutes the "specific component and general component" of the allowance for loan and lease losses.

    - Revised the Financial Condition discussion to clarify that the volume of loan growth during 2008 was realized primarily in commercial mortgages and commercial loans and leases.

    - Revised the Rate/Volume Analysis to reflect that the tax equivalent net interest income for 2008 increased by $1,733,320.

    - Revised the discussion regarding Non-Accrual, Past Due, Restructured Loans and Leases and Other Real Estate Owned to reference the statement of operations.

    - Revised the Noninterest (Loss) Income discussion to reference 2007 results.

- Part II, Item 8, Financial Statements and Supplementary Data. Revised Note A - Nature of Operations and Significant Accounting Policies, to reflect the following:

    - Removed the definition of Other-Than-Temporary Impairment as such Policy is duplicative.

    - Enhanced the definition of Allowance for Loan and Lease Losses to more clearly describe what constitutes the "specific component" of the allowance for loan and lease losses.

    - Revised the definition of Foreclosed Real Estate to reference the statement of operations.

    - Revised the definition of Earnings Per Share to clarify the description of how basic earnings per share is computed.

- Part II, Item 8, Financial Statements and Supplementary Data. Revised Note C -Securities, to expand the description of equity securities to include the fair value of a money market fund.

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- Part II, Item 8, Financial Statements and Supplementary Data. Revised Note I - Borrowings and Federal Home Loan Bank Stock, to expand the description of the Bank's Federal Home Loan Bank Borrowings and Federal Home Loan Bank Stock. In addition, the footnote has been revised to include a description of Repurchase Agreements with Customers.

- o Part II, Item 8, Financial Statements and Supplementary Data. Revised Note J - Income Taxes, to include a reference to the statement of operations in the description of the income tax provision.

- o Part II, Item 8, Financial Statements and Supplementary Data. Revised Note O - Financial Instruments with Off-Balance-Sheet Risk, to clarify that collateral for loans is primarily residential property. Collateral for leases is primarily equipment.

- o Part II, Item 8, Financial Statements and Supplementary Data. Revised Note R - Fair Value of Financial Instruments and Interest Rate Risk, to add the explanation that loans and leases held for sale are valued at quoted market prices. Revised to also reflect that carrying value of securities measured using Level 2 inputs was $108,297,630 at December 31, 2008.

- o Part II, Item 8, Financial Statements and Supplementary Data. Revised Note V - Fourth Quarter Adjustments - to amend the information regarding the Company's reported net loss for the year ended December 31, 2008, and to correct the figure for impaired loans at December 31, 2008.

This Form 10-K/A speaks as of the end of our fiscal year ended December 31, 2008 or as of the date of the original filing, as applicable. The foregoing items have not been updated to reflect other events occurring after the original filing or to modify or update those disclosures affected by subsequent events.

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PART II

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following is Management's discussion of financial condition of the Company on a consolidated basis as of December 31, 2008 and 2007 and results of operations and analysis of the Company on a consolidated basis for the two years ended December 31, 2008 and 2007. 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, 2008 and 2007, and for the twelve month periods ended December 31, 2008 and 2007, are the accounts of First Litchfield Leasing Corporation; a subsidiary in which the Bank owns a majority interest. This discussion should be read in conjunction with the consolidated financial statements and the related notes of the Company presented elsewhere herein.

Critical Accounting Policies

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 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,

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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.

ALLOWANCE FOR LOAN AND LEASE LOSSES: 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 impaired. For impaired loans and leases 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-impaired 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 concentrations or loan and lease quality that had a significant affect on the allowance for loan and lease losses calculation at December 31, 2008. 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 Company recorded a provision of $1,836,000 for 2008 as compared to a provision of $204,000 for 2007. The increased provision is reflective of specific allocations related to certain impaired or substandard loans. Additionally the increased provision was attributable to the weakness in the economic environment.

OTHER THAN TEMPORARY IMPAIRMENT ("OTTI"): The Company's investment securities portfolio is comprised of available-for-sale and held-to-maturity investments. The available-for-sale portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in shareholders' equity. The held-to-maturity portfolio is carried at amortized cost. Management determines the classification of a security at the time of its purchase.

The Company conducts a periodic review of our investment securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. If such decline is deemed other-than-temporary, the security is written down to a new cost basis and the resulting loss is reported within non-interest income in the consolidated statement of income.

Significant judgment is involved in determining when a decline in fair value is other-than-temporary. The factors considered by Management include, but are not limited to:

- The Company's intent and ability to retain the investment for a period of time sufficient to allow for the anticipated recovery in market value, which may be until maturity;

- Percentage and length of time by which an issue is below book value;

- Financial condition and near-term prospects of the issuer including their ability to meet contractual obligations in a timely manner;

- Credit ratings of the security;

- Whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions;

- Whether the decline is due to interest rates and spreads or credit risk; and

- The value of underlying collateral.

Adverse changes in Management's assessment of the factors used to determine that a security was not OTTI could lead to additional impairment charges. Conditions affecting a security that the Company determined to be temporary could become other than temporary and warrant an impairment charge. Additionally, a security that had no apparent risk could be affected by a sudden or acute market condition and necessitate an impairment charge. During 2008, the Company recorded OTTI losses totaling $9,422,650 related to the Company's investments in

Freddie Mac and Fannie Mae preferred stock/auction rate securities holding such stock, and two pooled trust preferred securities.

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FINANCIAL CONDITION

Total assets as of December 31, 2008 were $532,257,607, an increase of $24,603,978, or 4.9% from year-end 2007 total assets of $507,653,629.

The net loan and lease ("loan") portfolio as of December 31, 2008 totaled $366,392,079 and increased by 11.9% or $38,916,708, from the December 31, 2007 balance of $327,475,371. The volume of loan growth during 2008 was realized primarily in commercial mortgages and commercial loans and leases. Construction mortgages totaled $38,153,503 as of December 31, 2008 which is an increase of $3,344,519 or 9.6% over the year-end 2007 balance. The commercial mortgage portfolio totaled $67,454,925 as of December 31, 2008, increasing over the year-end 2007 balance of $55,752,240. 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 2008. Commercial loans totaled $46,249,689 as of December 31, 2008 which was an increase of $12,608,010 or 37.5% from the December 31, 2007 balance of $33,641,679. 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 equipment financing leases to middle market companies during 2007. In its second year of operation the subsidiary funded over $16 million of loans and leases. Leases were in amounts ranging from $7,000 to $2,600,000. Lease receivables were $19,785,870 at December 31, 2008. Management attributes the second 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, 2008, the installment loan portfolio totaled $5,113,400, a decrease of 21.6% from the year-end 2007 balance of $6,519,812. The decline in this portfolio is related to the amortization of a small pool of consumer auto loans purchased by the Company during 2006.

The securities portfolio totaled $113,502,751 as of December 31, 2008, a decrease of 12.0% from the December 31, 2007 balance of $129,013,733. 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. In addition, during the year ended December 31, 2008, the Company recorded a loss of $9,422,650 related to the other-than-temporary impairment of the Company's investments in Freddie Mac and Fannie Mae preferred stock/auction rate securities holding such stock, and two pooled trust preferred securities.

Cash and cash equivalents totaled $9,238,783, as of December 31, 2008, which was a decrease of $12,258,411, or 57.0% compared to the balance of $21,497,194 as of December 31, 2007. Much of the decrease is due to a lower 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 $7,370,252 as of December 31, 2008, decreasing by $388,509 from the year-end 2007 balance of $7,758,761. Decreases in premises and equipment during 2008 were primarily related to the disposals of equipment as well as depreciation expense. During 2008, depreciation and amortization of bank premises and equipment totaled $734,020 and net purchases totaled $347,699.

Deferred tax assets totaled $5,082,957 as of December 31, 2008, which is an increase of $3,755,422, or 282.9% from the December 31, 2007 balance of $1,327,535. Most of the increase was associated with the increase in the allowance for loan and lease losses, and the aforementioned OTTI write downs of the Bank's investments in Freddie Mac and Fannie Mae preferred stock/auction rate securities holding such stock and two pooled trust preferred securities.

Total liabilities were $499,790,343 as of December 31, 2008, an increase of $20,499,326 from the December 31, 2007 balance of $479,291,017.

Deposits as of December 31, 2008 were $343,326,624, increasing $7,708,960, or 2.3%, from the December 31, 2007 balance of $335,617,664. Non-interest bearing demand deposits totaled $69,548,261 as of December 31, 2008, which was a 1.4% decrease from the year-end 2007 balance. Savings deposits totaled $58,582,375, which was an increase of $2,237,497, or 4.0% from the December 31, 2007 balance. Growth in savings deposits was due to increases in traditional savings products including a business savings account. Additionally contributing to the growth in savings deposits was the popularity of the Bank's health savings accounts (HSA). Money market deposits totaled $93,085,126, which was an increase of $14,346,420, or 18.2% from the December 31, 2007 balance of $78,738,706. This increase is primarily due to continued growth in the competitively priced "Synergy" relationship money market product introduced during 2006. Higher balances held for the Bank's trust customers also contributed to this increase. Time certificates of deposit totaled $122,110,861 as of December 31, 2008, which was a decrease of 6.1%, or $7,858,953 from year-end 2007. Much of this decrease was due to lower levels of brokered certificates of deposit through financial institution counterparties. There were no brokered deposits at year end 2008, compare to brokered deposits totaling $3,000,000 at year-end 2007. The remaining cause of the decrease in time certificates of deposit is due to the consumer's preference for liquidity in their investments.

As of December 31, 2008, Federal Home Loan Bank (FHLBB) advances totaled $81,608,000 as compared to $91,500,000 as of December 31, 2007. At December 31, 2008, borrowings under repurchase agreements totaled $44,672,571, an increase of $8,979,798 from the year-end 2007 balance of $35,692,773. As of December 31, 2008 and 2007, included in repurchase agreements was $18,222,571 and $14,142,773, respectively, of balances in the overnight investment product offered to the Bank's commercial and municipal cash management customers. At December 31, 2008, total borrowings under repurchase agreements with financial institutions and FHLBB advances totaled $108,058,000 compared to the balance of $113,050,000 at December 31, 2007. As of

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December 31, 2008 and 2007, 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 2008 and 2007, the ratio of borrowed funds to total assets remained at similar levels of 26.0% and 27.6%, respectively.

Collateralized borrowings totaled $1,375,550 and $1,699,336 as of December 31, 2008 and 2007, respectively. 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.

RESULTS OF OPERATIONS - 2008 COMPARED TO 2007

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.

For the year ended December 31, 2008 the Company reported a net loss available to common shareholders of $4,516,773 as compared to earnings of $1,947,342 for the same period in 2007. Basic and diluted loss per common share for the year ended December 31, 2008 was $1.92, compared to basic and diluted income per common share of $.82 for the year ended December 31, 2007. The net loss in 2008 is due to the OTTI write-down on Freddie Mac and Fannie Mae preferred stock/auction rate securities holding such stock, and two trust preferred debt securities, recorded during the year. The net after tax effect of these charges reduced 2008 earnings by $6,218,949. Additionally the 2008 provision for loan and lease losses totaled $1,836,299 and contributed to the loss.

The Company's return on average shareholders' equity totaled (17)% for 2008 versus 7% for 2007.

Net Interest Income

Net interest income for the year of 2008 totaled $14,939,585, an increase of 13.1% or $1,726,526, from 2007. See "Rate/Volume Analysis" below 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 $497 million for 2008, which was a 7.3% increase over the 2007 average of $463 million. Additionally, the change in the composition of earning assets was significant. Average loans and leases increased from $311,594,000 and 67% of average earning assets in 2007 to $346,113,000 and 70% of the average earning assets in 2008. The loan and lease growth was realized in the commercial lending, leasing and mortgage portfolios and was funded primarily by growth in savings and money market deposits as well as increases in borrowed money.

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, 2008 and 2007. 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.

	2008	2007
Interest and dividend income	$ 28,188,882	$ 28,098,261
Tax-equivalent adjustments	618,353	611,559
Interest expense	(13,249,297)	(14,885,202)
Net interest income	$ 15,557,938	$ 13,824,618

As shown below, the 2008 net interest margin increased 14 basis points from the 2007 level of 2.99% to 3.13%. The net interest spread also increased from the 2007 level of 2.43% to 2.70% primarily due to less expensive funding costs.

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

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	2008			2007		
	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 and leases	$ 346,113,000	$21,593,992	6.24%	$ 311,594,000	$21,057,941	6.76%
Investment securities	141,356,000	6,992,756	4.95%	142,460,000	7,250,336	5.09%
Other interest earning assets	9,187,000	220,487	2.40%	9,032,000	401,543	4.45%
Total interest earning assets	496,656,000	28,807,235	5.80%	463,086,000	28,709,820	6.20%
Allowance for loan and lease losses	(2,214,000)			(2,130,000)		
Cash and due from banks	10,899,000			12,268,000		
Premises and equipment	7,533,000			7,679,000		
Net unrealized losses on securities	(3,629,000)			(2,815,000)		
Other assets	17,832,000			17,097,000		
Total Average Assets	$ 527,077,000			$ 495,185,000		
Liabilities and Shareholders' Equity						
Interest Bearing Liabilities:						
Savings deposits	$ 58,788,000	$ 609,306	1.04%	$ 55,026,000	752,024	1.37%
Money Market deposits	83,116,000	1,563,305	1.88%	75,832,000	2,241,181	2.96%
Time deposits	132,813,000	4,907,151	3.69%	136,764,000	6,280,686	4.59%
Borrowed funds	152,108,000	6,169,535	4.06%	127,716,000	5,611,311	4.39%
Total interest bearing liabilities	426,825,000	13,249,297	3.10%	395,338,000	14,885,202	3.77%
Demand deposits	68,864,000			68,278,000		
Other liabilities	5,128,000			4,705,000		
Shareholders' Equity	26,260,000			26,864,000		
Total liabilities and equity	$ 527,077,000			$ 495,185,000		
Net interest income		$15,557,938			$13,824,618	
Net interest spread			2.70%			2.43%
Net interest margin			3.13%			2.99%

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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, 2008 when compared to the year ended December 31, 2007 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.

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	2008 Compared to 2007 Increase (Decrease) Due to		
	Volume	Rate	Total
<S>	<C>	<C>	<C>
Interest earned on:			
Loans and leases	$ 2,227,018	$(1,690,967)	$ 536,051
Investment securities	(56,528)	(201,052)	(257,580)
Other interest earning assets	6,777	(187,833)	(181,056)
Total interest earning assets	2,177,267	(2,079,852)	97,415
Interest paid on:			
Deposits	239,956	(2,434,085)	(2,194,129)
Borrowed money	1,012,966	(454,742)	558,224
Total interest bearing liabilities	1,252,922	(2,888,827)	(1,635,905)
Increase (decrease) in net interest income	$ 924,345	$ 808,975	$ 1,733,320

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Tax equivalent net interest income for 2008 increased $1,733,320 or 12.5% over 2007. The increase in net interest income was due to increased margin resulting mainly from reduced funding costs in 2008. The 2008 net interest margin (net interest income divided by average earning assets) increased from the previous year's level of 2.99% by 14 basis points to 3.13%. Interest income on average earning assets for 2008 totaled $28,807,235, which was an increase of .3%, or $97,415 from 2007 interest income on average earning assets of $28,709,820. Interest expense totaled $13,249,297 for 2008, which was a decrease of $1,635,905 or 11.0% from 2007.

As shown in the Rate/Volume Analysis above, the improvement in the net interest margin and increase in net interest income was reflective of the ability to decrease funding costs at a quicker pace than the corresponding decrease in yield on earning assets. The 2008 yield on average earning assets was 5.8% which was a decrease of 40 basis points from the 2007 yield of 6.2%. The related interest cost from average interest bearing liabilities was 3.1% which was a decrease of 67 basis points from the 2008 cost of 3.77%. Management's ability to decrease rates paid on money market and time certificates of deposit was the critical reason for the improvement in margin. The decrease in costs is attributed to the decreases in short term rates in the interest rate environment.

Additionally, mitigating the overall decrease in yield on earning assets was the additional yield and income resulting from the changes in the earning asset mix. As shown in the Rate/Volume Analysis above, the increase in net interest income due to volume totaled $924,345. This increase is due to interest income on loans which increased by $2,227,018 reflecting increased volume in the loan portfolio which, on average, was $34.5 million higher than 2007. The related costs for funding the higher level of earning assets totaled $1,252,922, resulting in a $924,345 net increase from volume considerations. Funding through borrowed money averaged $152,108,000 which was an increase of $24,392,000, or 19.1% from the 2007 average.

Noninterest (Loss) Income

Non-interest loss for 2008 totaled $5,362,105, which is a difference of $8,793,581, or 256.3% from 2007 non-interest income of $3,431,476. The decrease in noninterest income is the direct result of the $9,422,650 third and fourth quarter OTTI write downs of the Bank's investments in Freddie Mac and Fannie Mae preferred stock/auction rate securities holding such stock and two pooled trust preferred securities. There were no similar balance sheet transactions during 2007. Also during 2008, available for sale securities were sold for the purpose of enhancing credit quality, shortening the duration of the portfolio and to deleverage the balance sheet. These sales resulted in net gains totaling $537,790. Sales of available for sale securities transacted in 2007 for yield and price volatility maintenance purposes resulted in gains totaling $19,632.

Other areas of non-interest income contributed to the decrease from 2007 results. Fees from trust services for 2008 totaled $1,300,162, a decrease of $72,837, or 5.3% from the previous year's fees of $1,372,999. This decrease is the result of the weakened economic and market conditions in spite of new business growth experienced in the Bank's wealth management business. Additionally other non-interest income was slightly below 2007 results due to lower fees from retail investment income. Offsetting these declines were fees from banking service charges which were up $180,761 or 13.3% from 2007.

Noninterest Expenses

Noninterest expenses totaled $15,340,149 in 2008, an increase of 7.5%, or $1,072,658 from 2007 noninterest expenses of $14,267,491. The increase in noninterest expense is due to higher costs in personnel, occupancy, equipment, and other noninterest expenses. Increased salary and benefits expenses were due to additional compliance personnel and an increased emphasis on commercial and small business development. Occupancy cost increases are due to a larger branch network and its related maintenance costs. The increase in other noninterest expenses is a result of higher 2008 costs for exam and audit fees as they relate to regulatory reporting compliance and internal audit initiatives. Also contributing to the increase were costs for placement fees for key personnel during the first quarter of 2008.

Salary and benefits costs totaled $8,401,740, increasing $471,580, or 5.9% from 2007 costs of $7,930,160. This increase reflects the staffing for the compliance, and commercial and small business lending. The increase in these costs, however was mitigated by cost containment strategies for staffing and group insurance.

Computer services costs totaled $1,028,106 for 2008 which was an increase of $167,506, or 19.5% from 2007 costs of $860,600. This increase is primarily due to vendor credits from the Bank's core processor which were used during 2007. Net occupancy and equipment costs totaled $1,847,298, which was an increase of $62,649, or 3.5% above 2007 costs. Depreciation, building maintenance, property taxes and utilities expenses caused increases in these expenses. Advertising fees totaled $589,733 which was an increase of $120,348 over 2007 costs. This increase is due primarily to the Bank's image campaign which was launched during the fourth quarter of 2007 as well as product and publicity promotions. Commissions, services and fees expenses totaled $396,050, decreasing $109,362, from 2007. The majority of this expense for 2008 was advice and consulting relating to corporate initiatives, investment and interest rate risk, lending, trust, retail and personnel. Other noninterest expenses totaled $2,228,737 and increased 16.3% over the 2007 expenses. This expense includes costs for telephone, software, travel, contributions, exam and audit, regulatory assessments and insurance.

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, 2004 through 2008 are presented below.

<TABLE>
<CAPTION>

	2008	2007	December 31, 2006	2005	2004
<S>	<C>	<C>	<C>	<C>	<C>
Nonaccrual loans and leases	$5,639,735	$2,959,074	$1,504,551	$ 273,330	$1,634,999
Other real estate owned	--	--	--	--	--
Total nonperforming assets	$5,639,735	$2,959,074	$1,504,551	$ 273,330	$1,634,999
Loans and leases past due in excess of 90 days and accruing interest	$ 19,603	$ 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 operations.

Restructured loans and leases on non-accrual status are included in the table above. As of December 31, 2008 and 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, 2008 and 2007 would have increased by approximately $163,000 and $88,000, 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.

<PAGE>

The following table summarizes the Bank's OREO, past due and non-accrual loans and leases, and non-performing assets as of December 31, 2008, 2007, 2006, 2005 and 2004.

<TABLE>
<CAPTION>

	2008	2007	December 31, 2006	2005	2004
<S>	<C>	<C>	<C>	<C>	<C>
Non-accrual loans and leases	$ 5,639,735	$ 2,959,074	$ 1,504,551	$ 273,330	$ 1,634,
Other real estate owned	--	--	--	--	

Total non-performing assets	$ 5,639,735	$ 2,959,074	$ 1,504,551	$ 273,330	$ 1,634,
Loans and leases past due in excess of ninety days and accruing interest	$ 19,603	$ 3,111	$ 343	$ 4,884	$
Ratio of non-performing assets to total loans, leases and OREO	1.52%	0.90%	0.51%	0.11%	0
Ratio of non-performing assets to total loans, leases past due in excess of ninety days accruing interest to total loans, leases and OREO	1.53%	0.90%	0.51%	0.11%	0
Ratio of allowance for loan and lease losses to total loans and leases	1.00%	0.65%	0.71%	0.73%	0
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	65.36%	72.64%	139.95%	632.47%	85
Ratio of non-performing assets, loans and leases in excess of ninety days past due and accruing interest to total shareholders' equity	17.46%	10.46%	5.74%	1.07%	6

</TABLE>

Total non-performing assets increased by $2,680,661, or 90.59%, to $5,639,735 at December 31, 2008, from $2,959,074 at December 31, 2007. The increase in non-performing assets from year-end 2007 is due mostly to the addition of a small number of mid-size mortgages and commercial loans and leases during 2008. Additionally, as of December 31, 2008 there was approximately $170,000 in purchased sub-prime consumer loans included in nonperforming loans which was a decrease of $97,000 from December 31, 2007. As of December 31, 2008 and 2007, loans and leases past due in excess of ninety days and accruing interest totaled $19,603 and $3,111, respectively.

Total non-performing assets represented 1.52% of total loans, leases and other real estate owned at year-end December 31, 2008 compared to .90% at year-end 2007. The allowance for loan and lease losses as of December 31, 2008 was 1.00% of total loans and leases. As compared to the level from 2007 when the allowance was approximately .65% of total loans and leases. The allowance for loan and lease losses was equivalent to 65.36% of non-accrual loans and leases at December 31, 2008, as compared to 72.64% at December 31, 2007. The decrease in the coverage ratio is a result of increased level of non-performing assets at year end 2008.

Potential Problem Loans and Leases

As of December 31, 2008, there were eight loans totaling $3.2 million which are not disclosed above which cause Management to have concern as to the ability of the borrowers to comply with the present loan repayment terms. The Bank's carrying value of these loans totaled $3.2 million at December 31, 2008. These loans are still accruing interest but are classified as impaired. Although these loans are currently performing, Management views them as having potential and well-defined weaknesses that could jeopardize the liquidation of the debt.

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, 2004 through 2008. The allowance is maintained at a level consistent with the identified loss potential and the perceived risk in the portfolio.

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<PAGE>

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	(Dollar Amounts in Thousands) December 31,				
	2008	2007	2006	2005	200
<S>	<C>	<C>	<C>	<C>	<C>
Balance, at beginning of period	$ 2,152	$ 2,106	$ 1,760	$ 1,390	$ 1,
Loans and Leases charged-off:					
Commercial and financial	90	16	--	37	
Real estate	--	--	--	--	
Installment loans to individuals	287	160	96	60	
	377	176	96	97	
Recoveries on loans and leases charged-off:					
Commercial and financial	--	--	1	81	
Real estate	--	--	--	--	
Installment loans to individuals	88	18	21	44	
	88	18	22	125	
Net loan charge-offs/(recoveries)	289	158	74	(28)	
Provisions charged to operations	1,836	204	420	342	
Balance, at the end of period	$ 3,699	$ 2,152	$ 2,106	$ 1,760	$ 1,
Ratio of net charge-offs/(recoveries) during the period to average loans and leases outstanding during the period	0.08%	0.05%	0.03%	-0.01%	0

Ratio of allowance for loan and lease losses to total loans and leases	1.00%	0.65%	0.71%	0.73%	0

</TABLE>

During 2008, net charge-offs totaled $289,000, which is an increase of $131,000 from 2007 net chargeoffs of $158,000. The increase in net charge-offs was due to a higher level of net charge-offs in the installment loan portfolio. During 2008 and 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 $199,000 from installment loans in 2008 increasing $57,000 from 2007. The increased level of net charge-offs is related to losses on loans whereby the collateral asset value was considerably less than the loan amount.

The following table reflects the allowance for loan and lease losses as of December 31, 2008, 2007, 2006, 2005 and 2004.

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

<TABLE>
<CAPTION>

Loans and Leases by Type	2008		2007		2006	
	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
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial	$ 981	12.52%	$ 317	10.23%	$ 204	9.13%
Real Estate						
Construction	570	10.32%	231	10.58%	480	10.36%
Residential	1,068	52.13%	863	57.61%	769	59.97%
Commercial	678	18.26%	465	16.94%	401	18.05%
Installment	210	1.38%	180	1.98%	181	2.43%
Other	18	0.03%	16	0.03%	17	0.06%
Commercial Leases	174	5.36%	80	2.63%	--	--
Unallocated	--	--	--	--	54	--
Total	$3,699	100%	$2,152	100%	$2,106	100%

<CAPTION>

Loans and Leases by Type	2005		2004	
	Allocation of Allowance for Loan and Lease Losses	Percentage of Loans Each Category to Total Loans	Allocation of Allowance for Loan and Lease Losses	Percentage of Loans Each Category to Total Loans
<S>	<C>	<C>	<C>	<C>
Commercial	$ 357	8.73%	$ 261	8.21%
Real Estate				
Construction	224	11.79%	82	5.31%
Residential	411	60.26%	550	68.13%
Commercial	518	17.40%	379	15.42%
Installment	54	1.79%	58	2.89%
Other	38	0.03%	39	0.04%
Commercial Leases	--	--	--	--
Unallocated	158	--	21	--
Total	$1,760	100%	$1,390	100%

</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, ("FHLB") 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. The Company is aware of recent news and FHLB member bank press releases regarding the financial strength of the FHLB system. The Company is actively monitoring its ability to borrow from the FHLB Bank of Boston and has determined additional sources of liquidity as part of the aforementioned liquidity policy.

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:

	2008	2007
Balance at December 31,	$ 1,608,000	$ --
Maximum Month-End Borrowings	17,300,000	17,307,000
Average Balance	4,156,000	3,090,000
Average Rate at Year-End	0.46%	--
Average Rate during the Period	1.73%	3.99%

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

	2008	2007
Balance at December 31,	$18,222,571	$14,142,773
Maximum Month-End Borrowings	23,151,139	15,342,920
Average Balance	13,499,884	10,259,208
Average Rate at Year-End	1.42%	3.34%
Average Rate during the Period	1.93%	3.47%

OFF-BALANCE SHEET ARRANGEMENTS

See Note O on page F-30 of the consolidated financial statements for the disclosure of off-balance sheet arrangements.

CAPITAL

At December 31, 2008, total shareholders' equity was $32,413,389 compared to $28,312,612 at December 31, 2007. From a regulatory perspective, with the exception of the total risk-based capital ratio, the Bank's capital ratios place the Bank in the well-capitalized categories under applicable regulations. As of December 31, 2008, the Bank's total risk-based capital ratio was 9.41%. The various capital ratios of the Company and the Bank are as follows as of December 31, 2008:

<TABLE>
<CAPTION>

<S>	Minimum Regulatory Capital Level <C>	The Company <C>	The Bank <C>
Tier 1 leverage capital ratio	4%	7.85%	6.10%
Tier 1 risk-based capital ratio	4%	10.74%	8.43%
Total risk-based capital ratio	8%	11.74%	9.43%

</TABLE>

Included in the Company's capital used to determine these ratios at December 31, 2008 and December 31, 2007 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, 2008 and 2007, 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. On December 12, 2008 the Company participated in the CPP (also known as TARP capital), and issued $10,000,000 of cumulative perpetual preferred stock with a common stock warrant attached to the U. S. Treasury. The Company's purpose in participating in the TARP Capital Purchase program was to insure that the Company and the Bank maintained its well-capitalized status given the uncertain economic environment.

<PAGE>

On December 12, 2008, under the TARP CPP, the Company sold 10,000 shares of senior preferred stock to the Treasury, having a liquidation amount equal to $1,000 per share, or $10,000,000. Although the Company is currently well-capitalized under regulatory guidelines, the Board of Directors believed it was advisable to take advantage of the TARP CPP to raise additional capital to ensure that during these uncertain times, the Company is well-positioned to support the Company's existing operations as well as anticipated future growth. Additional information concerning the TARP CPP is included elsewhere in this Form 10-K and in Note L to the Consolidated Financial Statements.

The Company expects that it (and the banking industry as a whole) may be required by market forces and/or regulation to operate with higher capital ratios than in the recent past. In addition, on the preferred stock issued in the CPP capital preferred dividend increases from 5% to 9% in 2013, making it much more expensive as a source of capital if not redeemed at or prior to that time. Therefore, in addition to maintaining higher levels of capital, the Company's capital structure may be subject to greater variation over the next few years than has been true historically.

INCOME TAXES

The income tax benefit for 2008 totaled $3,112,459 in comparison to income tax expense of $225,702 in 2007. The change in income tax expense between 2008 and 2007 is due to the pretax loss in 2008, as a result of the OTTI charges during the year. The effective tax rates for 2008 and 2007 were (41) % and 10%, respectively. Also, in both 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.

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Item 8. Financial Statements and Supplementary Data

Annual Financial Information

Report of Independent Registered Public Accounting Firm F-1

Consolidated Balance Sheets at December 31, 2008 and 2007 F-2

Consolidated Statements of Operations for the Years Ended December 31, 2008 and 2007 F-3

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2008 and 2007 F-4

Consolidated Statements of Cash Flows for the Years Ended December 31, 2008 and 2007 F-5 to F-6

Notes to Consolidated Financial Statements F-7 to F-38

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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, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended. 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, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note A to the consolidated financial statements, during 2008 the Company adopted EITF No. 06-4, "Accounting for Endorsement Split-Dollar Life Insurance Arrangements."

We were not engaged to examine management's assertion about the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 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
April 14, 2009

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<PAGE>

<TABLE>
<CAPTION>
CONSOLIDATED BALANCE SHEETS

As of December 31,	2008	2007
<S>	<C>	<C>
ASSETS		
Cash and due from banks	$ 9,238,320	$ 10,876,445
Interest - bearing accounts due from banks	463	10,620,749
CASH AND CASH EQUIVALENTS	9,238,783	21,497,194
Securities:		
Available for sale securities, at fair value	113,486,201	128,979,548
Held to maturity securities (fair value $16,553-2008 and $33,712-2007)	16,550	34,185
TOTAL SECURITIES	113,502,751	129,013,733
Federal Home Loan Bank stock, at cost	5,427,600	5,067,400
Federal Reserve Bank stock, at cost	225,850	225,850
Other restricted stock, at cost	100,000	95,000
Loans held for sale	1,013,216	--
Loan and lease receivables, net of allowance for loan and lease losses of $3,698,820 -2008, $2,151,622 -2007		
NET LOANS AND LEASES	366,392,079	327,475,371
Premises and equipment, net	7,370,252	7,758,761
Deferred income taxes	5,082,957	1,327,535
Accrued interest receivable	2,262,918	2,609,606
Cash surrender value of insurance	10,416,651	10,020,540
Due from broker for security sales	9,590,823	--
Other assets	1,633,727	2,562,639
TOTAL ASSETS	$ 532,257,607	$ 507,653,629
LIABILITIES		
Deposits:		
Noninterest bearing	$ 69,548,261	$ 70,564,267
Interest bearing	273,778,363	265,053,397
TOTAL DEPOSITS	343,326,624	335,617,664
Federal Home Loan Bank advances	81,608,000	91,500,000
Repurchase agreements with financial institutions	26,450,000	21,550,000
Repurchase agreements with customers	18,222,571	14,142,773
Junior subordinated debt issued by unconsolidated trust	10,104,000	10,104,000
Collateralized borrowings	1,375,550	1,699,336
Capital lease obligation	1,065,563	1,083,567
Due to broker for security purchases	12,994,945	--
Accrued expenses and other liabilities	4,643,090	3,593,677
TOTAL LIABILITIES	499,790,343	479,291,017
Minority interest	53,875	50,000
SHAREHOLDERS' EQUITY		
Preferred stock $.00001 par value; 1,000,000 shares authorized 2008 -10,000 shares issued and outstanding		

2007 - no shares issued and outstanding	--	--
Common stock $.01 par value; 5,000,000 shares authorized		
2008 - Issued - 2,506,622 shares, outstanding - 2,356,875 shares		
2007 - Issued - 2,501,229 shares, outstanding - 2,368,200 shares	25,038	25,012
Additional paid-in capital	37,892,831	27,858,841
(Accumulated deficit) retained earnings	(3,325,920)	2,623,110
Less: Treasury stock at cost- 149,747 in 2008, 133,029 in 2007	(1,154,062)	(926,964)
Accumulated other comprehensive loss, net of taxes	(1,024,498)	(1,267,387)
TOTAL SHAREHOLDERS' EQUITY	32,413,389	28,312,612
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 532,257,607	$ 507,653,629

</TABLE>

See Notes to Consolidated Financial Statements.

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<TABLE>
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CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31,	2008	2007
<S>	<C>	<C>
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans and leases	$ 21,579,957	$ 21,053,610
Interest and dividends on securities:		
Mortgage-backed securities	3,320,225	2,564,052
US Treasury and other securities	1,580,125	2,129,407
State and municipal securities	1,118,924	1,355,523
Trust Preferred and other securities	369,164	594,126
Total interest on securities	6,388,438	6,643,108
Other interest income	220,487	401,543
TOTAL INTEREST AND DIVIDEND INCOME	28,188,882	28,098,261
INTEREST EXPENSE		
Interest on deposits:		
Savings	609,306	752,024
Money market	1,563,305	2,241,181
Time certificates of deposit in denominations of $100,000 or more	1,918,298	2,618,965
Other time certificates of deposit	2,988,853	3,661,721
TOTAL INTEREST ON DEPOSITS	7,079,762	9,273,891
Interest on Federal Home Loan Bank advances	3,970,574	3,270,982
Interest on repurchase agreements	1,430,176	1,395,488
Interest on subordinated debt	606,396	791,523
Interest on collateralized borrowings	105,393	95,395
Interest on capital lease obligation	56,996	57,923
TOTAL INTEREST EXPENSE	13,249,297	14,885,202
NET INTEREST INCOME	14,939,585	13,213,059
PROVISION FOR LOAN AND LEASE LOSSES	1,836,299	204,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	13,103,286	13,009,059
NONINTEREST INCOME		
Banking service charges and fees	1,543,519	1,362,758
Trust	1,300,162	1,372,999
(Losses) gains on available for sale securities	(8,884,860)	19,632
Increase in cash surrender value of insurance	396,110	384,079
Other	282,964	292,008
TOTAL NONINTEREST (LOSS) INCOME	(5,362,105)	3,431,476
NONINTEREST EXPENSE		
Salaries	6,670,676	6,351,946
Employee benefits	1,731,064	1,578,214
Net occupancy	1,233,420	1,157,703
Equipment	613,878	626,946
Legal fees	307,004	246,815
Directors fees	198,400	208,403
Computer services	1,028,206	860,600
Supplies	193,217	202,381
Commissions, services and fees	396,050	505,412
Postage	149,864	143,070
Advertising	589,733	469,385
Other	2,228,637	1,916,616
TOTAL NONINTEREST EXPENSE	15,340,149	14,267,491
(LOSS) INCOME BEFORE INCOME TAXES	(7,598,968)	2,173,044
(BENEFIT) PROVISION FOR INCOME TAXES	(3,112,459)	225,702

NET (LOSS) INCOME BEFORE MINORITY INTEREST	(4,486,509)	1,947,342
MINORITY INTEREST	(3,875)	--
NET (LOSS) INCOME	(4,490,384)	1,947,342
DIVIDENDS ON PREFERRED SHARES	26,389	--
NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS	(4,516,773)	1,947,342
INCOME (LOSS) PER COMMON SHARE		
BASIC NET (LOSS) INCOME PER COMMON SHARE	$ (1.92)	$ 0.82
DILUTED NET (LOSS) INCOME PER COMMON SHARE	$ (1.92)	$ 0.82
DIVIDENDS PER COMMON SHARE	$ 0.60	$ 0.60

</TABLE>

See Notes to Consolidated Financial Statements.

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FIRST LITCHFIELD FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

<S>	Preferrred Stock <C>	Common Stock <C>	Additional Paid-In Capital <C>	Retained Earnings (Accumulated Deficit) <C>
Balance, December 31, 2006	--	23,724	25,840,623	3,953,216
Comprehensive income:				
Net income	--	--	--	1,947,342
Other comprehensive income, net of taxes				
Net unrealized holding gain on available for sale securities	--	--	--	--
Net actuarial gain for pension benefits	--	--	--	--
Other comprehensive income				
Total comprehensive income				
Cash dividends declared: $0.60 per share	--	--	--	(1,371,563)
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)
Purchase of treasury shares- 8,263 shares	--	--	--	--
Stock options exercised - 9,922 shares	--	99	87,388	--
Tax benefit on stock options exercised	--	--	30,051	--
Balance, December 31, 2007	--	25,012	27,858,841	2,623,110
Comprehensive loss:				
Net loss	--	--	--	(4,490,384)
Other comprehensive income, net of taxes:				
Net unrealized holding gain on available for sale securities	--	--	--	--
Net actuarial loss for pension benefits	--	--	--	--
Other comprehensive income				
Total comprehensive loss				
Cash dividends declared: $0.60 per share	--	--	--	(1,416,888)
Preferred stock dividends		--	--	(26,389)
Purchase of treasury shares - 16,718 shares	--	--	--	--
Stock options exercised - 1,893 shares	--	19	20,463	--
Tax benefit on stock options exercised	--	--	2,025	--
Restricted stock grants and expense	--	7	8,405	--
Issuance of preferred stock and warrants	--	--	10,000,000	--
Accretion of preferred stock	--	--	3,097	(3,097)
Adoption of EITF 06-4	--	--	--	(12,272)
Balance, December 31, 2008	$ --	$ 25,038	$ 37,892,831	$ (3,325,920)

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<S>	Treasury Stock <C>	Accumulated Other Comprehensive Loss <C>	Total Shareholders' Equity <C>
Balance, December 31, 2006	(794,756)	(2,816,613)	26,206,194

Comprehensive income:			
Net income	--		1,947,342
Other comprehensive income, net of taxes			
Net unrealized holding gain on available for sale securities	--	1,286,413	1,286,413
Net actuarial gain for pension benefits	--	262,813	262,813
Other comprehensive income			1,549,226
Total comprehensive income			3,496,568
Cash dividends declared: $0.60 per share	--	--	(1,371,563)
5% stock dividend declared November 29,2007-118,873 shares including 6,334 treasury shares	--	--	--
Fractional shares paid in cash	--	--	(3,917)
Purchase of treasury shares- 8,263 shares	(132,208)	--	(132,208)
Stock options exercised - 9,922 shares	--	--	87,487
Tax benefit on stock options exercised	--	--	30,051
Balance, December 31, 2007	(926,964)	(1,267,387)	28,312,612
Comprehensive loss:			
Net loss	--		(4,490,384)
Other comprehensive income, net of taxes:			
Net unrealized holding gain on available for sale securities	--	927,584	927,584
Net actuarial loss for pension benefits	--	(684,695)	(684,695)
Other comprehensive income			242,889
Total comprehensive loss			(4,247,495)
Cash dividends declared: $0.60 per share	--	--	(1,416,888)
Preferred stock dividends	--	--	(26,389)
Purchase of treasury shares - 16,718 shares	(227,098)	--	(227,098)
Stock options exercised - 1,893 shares	--	--	20,482
Tax benefit on stock options exercised	--	--	2,025
Restricted stock grants and expense	--	--	8,412
Issuance of preferred stock and warrants	--	--	10,000,000
Accretion of preferred stock	--	--	--
Adoption of EITF 06-4	--	--	(12,272)
Balance, December 31, 2008	$ (1,154,062)	$ (1,024,498)	$ 32,413,389

</TABLE>

See Notes to Consolidated Financial Statements.

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FIRST LITCHFIELD FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31,

<TABLE>
<CAPTION>

<S>	2008 <C>	2007 <C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (4,490,384)	$ 1,947,342
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Minority interest in earnings at subsidiary	3,875	--
Amortization and accretion of premiums and discounts on investment securities, net	146,828	177,406
Provision for loan and lease losses	1,836,299	204,000
Depreciation and amortization	734,020	751,259
Deferred income taxes	(3,868,274)	47,413
Loss on impairment write-down of available for sale securities	9,422,650	--
Gains on sales of available for sale securities	(537,790)	(19,632)
Loans originated for sale	(4,225,152)	(4,015,817)
Proceeds from sales of loans held for sale	3,232,832	5,093,056
Gains on sales of loans held for sale	(20,896)	(35,056)
Losses on sale of repossessed assets	32,024	--
Losses (gains) on disposals of bank premises and equipment	2,188	(17,677)
Stock based compensation	8,412	--
Decrease (increase) in accrued interest receivable	346,688	(10,880)
Decrease in other assets	863,573	182,315
Increase in cash surrender value of insurance	(396,111)	(384,079)
Increase in deferred loan origination costs	(116,571)	(70,494)
(Decrease) increase in accrued expenses and other liabilities	(292,494)	38,125
Net cash provided by operating activities	2,681,717	3,887,281

CASH FLOWS FROM INVESTING ACTIVITIES

Available for sale securities:		
Proceeds from principal payments	45,521,948	10,224,784
Purchases	(77,949,889)	(5,928,540)
Proceeds from sales	43,699,152	16,295,820
Held to maturity securities:		
Proceeds from maturities and principal payments	17,635	6,331
Purchase of restricted stock	(5,000)	(15,000)
Purchase of Federal Home Loan Bank stock	(360,200)	(634,500)
Redemption of Federal Home Loan Bank stock	--	10,500
Net increase in loans and leases	(40,604,639)	(33,779,870)
Proceeds from sales of repossessed assets	256,873	--
Purchases of premises and equipment	(347,699)	(1,074,027)
Proceeds from sale of premises and equipment	--	22,000
Net cash used in investing activities	(29,771,819)	(14,872,502)

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FIRST LITCHFIELD FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS, Cont.

<TABLE>
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<S>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in savings, money market and demand deposits	15,567,912	20,761,499
Net decrease in certificates of deposit	(7,858,952)	(18,572,709)
Proceeds from Federal Home Loan Bank advances	--	112,000,000
Repayments on Federal Home Loan Bank advances	(11,500,000)	(86,500,000)
Net increase (decrease) in overnight Federal Home Loan Bank borrowings	1,608,000	(1,000,000)
Net increase (decrease) in repurchase agreements with financial institutions	4,900,000	(25,650,000)
Net increase in repurchase agreements with customers	4,079,798	1,936,750
Net (decrease) increase in collateralized borrowings	(323,786)	1,699,336
Proceeds from issuance of preferred stock and warrants	10,000,000	--
Principal repayments on capital lease obligation	(18,004)	(17,077)
Purchase of treasury shares	(227,098)	(132,208)
Distribution in cash for fractional shares of common stock	--	(3,917)
Proceeds from exercise of stock options	20,482	87,487
Tax benefit of stock options exercised	2,025	30,051
Dividend paid on common stock	(1,418,686)	(1,354,434)
Net cash provided by financing activities	14,831,691	3,284,778
Net decrease in cash and cash equivalents	(12,258,411)	(7,700,443)
CASH AND CASH EQUIVALENTS, at the beginning of year	21,497,194	29,197,637
CASH AND CASH EQUIVALENTS, at end of year	$ 9,238,783	$ 21,497,194
SUPPLEMENTAL INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 13,368,965	$ 15,155,901
Income taxes	$ 1,000	$ 750
Noncash investing and financing activities:		
Due to broker for securities purchased	$ 12,994,945	$ --
Due from broker for securities purchased	$ 9,590,823	$ --
Transfer of loans to repossessed assets	$ 224,481	$ 71,018
Accrued dividends declared	$ 379,820	$ 355,229
Increase in leases and other liabilities for equipment payable related to financed leases	$ 256,278	$ --
Increase in liabilities and decrease in retained earnings for adoption of EITF 06-4	$ 12,272	$ --
Change in other assets and other liabilities related to unfunded pension liability	$ (1,037,417)	$ 398,201

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See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

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, 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 (`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 (`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. 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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan and lease losses and the evaluation of investment securities for other-than-temporary impairment.

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 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, 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 impaired. For such loans and leases that are 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-impaired 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.

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Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized.

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 operations.

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 associated with unrecognized tax benefits, if any, would be classified as additional provision for income taxes in the statement of income.

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. Subsequent to December 31, 2006, changes in the under funded status of the plan are recognized as a component of other comprehensive income.

SFAS 158 also requires an employer to measure the funded status of a plan as of the employer's year-end reporting date. The Company adopted the measurement date provisions of SFAS No. 158 in 2008 and there was no impact to the financial statements upon adoption.

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).

EARNINGS PER SHARE: Basic earnings per share represents income available to common shareholders and is computed by dividing net income available to common shareholders 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 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.

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FAIR VALUE

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, the three categories within the hierarchy are as follows:

Level 1	Quoted prices in active markets for identical assets and liabilities.
Level 2	Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active; and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157, which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis.

In October 2008, the FASB issued Staff Positions No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active ("FSP No. 157-3"). FSP No. 157-3 amends SFAS No. 157 and clarifies its application in an inactive market. In reaction to the recent financial crisis, this FSP provides clarification as to whether to use direct market information or internally generated estimates of the fair value of financial assets when a market is not active. Application issues addressed by FSP No. 157-3 include: i) how management's internal assumptions should be considered when measuring fair value when relevant observable data do not exist, ii) how observable market information in a market that is not active should be considered when measuring fair value, and iii) how the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value. FSP No. 157-3 was effective upon its October 10, 2008 issuance. This FSP did not have an impact on the Company's financial statements.

The Company adopted SFAS No. 157 for the fiscal year beginning January 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted as described above. The adoption of SFAS No. 157 did not have an impact on the Company's financial statements, and the adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the Company's financial statements.

See Note R for additional information regarding fair value.

RECENT ACCOUNTING PRONOUNCEMENTS: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 adoption of EITF 06-4 resulted in a decrease to retained earnings of $12,272.

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In February 2007, the FASB issued SFAS No, 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No, 115 (Statement 159) which permits an entity to choose to measure certain financial instruments and certain other items at fair value, on an instrument-by-instrument basis. Once an entity has elected to record eligible items at fair value, the decision is irrevocable and the entity should report unrealized gains and losses on items for which the fair value option has been elected in earnings. Statement 159 is effective for fiscal years beginning after November 15, 2007. At the effective date, an entity may elect the fair value option for eligible items that exist at that date with the effect of the first measurement to fair value reported as a cumulative-effect adjustment to the opening balance of retained earnings. There was no impact on the consolidated financial statements of the Company as a result of the adoption of Statement 159 during the first quarter of 2008 since the Company has not elected the fair value option for any eligible items, as defined in Statement 159.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," ("SFAS 141(R)") which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141(R) is effective for acquisitions by the Company taking place on or after January 1, 2009. Early adoption is prohibited. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing accounting guidance until January 1, 2009. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Before this statement, limited guidance existed for reporting noncontrolling interests (minority interest). As a result, diversity in practice exists. In some cases minority interest is reported as a liability and in others it is reported in the mezzanine section between liabilities and equity. Specifically, SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financials statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interests. SFAS 160 is effective for the Company on January 1, 2009. Earlier adoption is prohibited. The Company is currently evaluating the impact, if any, the adoption of SFAS 160 will have on its financial position, results of operations and cash flows.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings per Share. This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this FSP. Early application is not permitted. The Company does not expect this FSP to have a significant effect on the Company's financial statements.

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" ("FSP FAS 132(R)-1"). FSP FAS 132(R)-1 requires more detailed disclosures about employers' plan assets in a defined benefit pension or other postretirement plan, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and inputs and valuation techniques used to measure the fair value of plan assets. FSP FAS 132(R)-1 also requires, for fair value measurements using significant unobservable inputs (Level 3), disclosure of the effect of the measurements on changes in plan assets for the period. The disclosures about plan assets required by FSP FAS 132(R)-1 must be provided for fiscal years ending after December 15, 2009. As this pronouncement is only disclosure-related, it will not have an impact on the Company's financial statements.

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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, 2008 and 2007 the Bank was required to have cash and liquid assets of approximately $235,000 and $148,000, 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, 2008 and 2007.

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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, 2008 and 2007 are as follows:

<TABLE>
<CAPTION>

AVAILABLE FOR SALE	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
Debt Securities:				
U.S. Treasury securities	$ 3,110,574	$ 107,876	$ --	$ 3,218,450
U.S. Government Agency securities	26,500,000	65,763	(3,386)	26,562,377
State and Municipal Obligations	19,931,000	77,501	(376,069)	19,632,432
Trust Preferred Securities	493,615	--	--	493,615
	50,035,189	251,140	(379,455)	49,906,874
Mortgage-Backed Securities:				
GNMA	9,495,917	12	(8,094)	9,487,835
FNMA	35,675,421	467,875	(263,567)	35,879,729
FHLMC	14,994,269	210,723	(9,228)	15,195,764
	60,165,607	678,610	(280,889)	60,563,328
Marketable Equity Securities	3,045,878	--	(29,879)	3,015,999
Total available for sale securities	$ 113,246,674	$ 929,750	$ (690,223)	$ 113,486,201

<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
Trust Preferred Securities	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

<CAPTION>

HELD TO MATURITY	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
Mortgage-Backed Securities:				
GNMA	$ 16,550	$ 3	$ --	$ 16,553

<CAPTION>

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

</TABLE>

<PAGE>

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, 2008:

<TABLE>
<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unreal Loss
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Investment Securities						
U.S. Government Agency securities	$ 7,996,614	$ 3,386	$ --	$ --	$ 7,996,614	$ 3
State & Municipal obligations	8,804,717	303,267	2,574,433	72,802	11,379,150	376
	16,801,331	306,653	2,574,433	72,802	19,375,764	379
Mortgage-Backed Securities						
GNMA	--	--	465,643	8,094	465,643	8
FNMA	10,067,156	112,219	4,209,833	151,348	14,276,989	263
FHLMC	--	--	1,351,769	9,228	1,351,769	9
	10,067,156	112,219	6,027,245	168,670	16,094,401	280
Marketable Equity Securities	--	--	1,970,122	29,879	1,970,122	29
Total	$26,868,487	$ 418,872	$10,571,800	$ 271,351	$37,440,287	$ 690

</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, 2007:

<TABLE>
<CAPTION>

	Less than 12 Months	12 Months or More	Total

<S>	Fair Value <C>	Unrealized Losses <C>	Fair Value <C>	Unrealized Losses <C>	Fair Value <C>	Unreal Loss <C>
Investment Securities						
U.S. Government Agency securities	$ --	$ --	$21,893,564	$ 106,435	$21,893,564	$ 106
State & Municipal obligations	8,077,673	49,871	--	--	8,077,673	49
Corporate & Other bonds	4,453,000	445,731	--	--	4,453,000	445
	12,530,673	495,602	21,893,564	106,435	34,424,237	602
Mortgage-Backed Securities						
GNMA	348,421	6,769	327,981	9,752	676,402	16
FNMA	110,712	817	27,637,383	995,780	27,748,095	996
FHLMC	--	--	9,546,400	295,091	9,546,400	295
	459,133	7,586	37,511,764	1,300,623	37,970,897	1,308
Marketable Equity Securities	--	--	1,971,989	28,011	1,971,989	28
Total	$12,989,806	$ 503,188	$61,377,317	$ 1,435,069	$74,367,123	$ 1,938

</TABLE>

At December 31, 2008, thirty-seven securities have unrealized losses. The following summarizes, by investment security type, the basis for the conclusion that the applicable investment securities within the Company's available for sale portfolio were not other-than-temporarily impaired at December 31, 2008:

Trust Preferred Securities--As of December 31, 2008 there were no unrealized losses on the Company's investment in corporate bonds and notes. This compares to the unrealized losses of $445,731 at December 31, 2007. As of December 31, 2008, this portfolio consisted of two pooled trust preferred securities. During the third quarter of 2008, the Company recorded an other-than-temporary impairment charge of $1,916,100 on one of these securities due to a credit rating downgrade at that time. Subsequent to December 31, 2008, both securities were downgraded to a rating of Ca, indicating a more severe deterioration in the creditworthiness of the underlying issuers of these securities. As a result, the Company recorded additional other-than-temporary impairment charges of $2,476,552 as of December 31, 2008 related to these securities.

Equity securities--The unrealized losses on the Company's investment in four marketable equity securities totaled $29,879 which was similar to the unrealized loss of $28,011 as of December 31, 2007. The unrealized loss as of December 31, 2008 is after the other-than-temporary impairment charges of $5.0 million for the year ended December 31, 2008. This portfolio consists of two marketable investment funds with a total fair value of $2,970,171, a money market fund with a fair value of $45,828, and perpetual preferred stock of government sponsored enterprises which have been written down to a fair value of $2

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at December 31, 2008. Given the small unrealized loss remaining in this segment of the portfolio, and the Company's ability and intent to hold the investments for a reasonable period of time sufficient for a forecasted recovery of amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

Mortgage-backed securities--The unrealized losses on the Company's investment in mortgage-backed securities decreased from $1,308,209 at December 31, 2007 to $280,889 at December 31, 2008. There were no other-than-temporary impairment charges for mortgage-backed securities for the year ended December 31, 2008. These securities are U.S. Government Agency or sponsored agency securities and the contractual cash flows for these investments are performing as expected. Management believes the decline in fair value is attributable to investors' perception of credit and the lack of liquidity in the marketplace. The Company expects to collect all principal and interest on these securities and has the ability and intent to hold these investments until a recovery of amortized cost, which may be at maturity. The Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

State and Municipal Obligations--The unrealized losses on the Company's investment in state and municipal obligations increased from $49,871 at December 31, 2007 to $376,069 at December 31, 2008. There were no other-than-temporary impairment charges for these securities during 2008. The increase in the unrealized loss at December 31, 2008 is attributable to concerns about the economy, credit, lack of bank participation in this market and downgrades of the monoline insurers as well as some perceived lack of credibility of the credit rating agencies. At this point, all securities are performing, the Company is receiving all interest and principal payments as contractually agreed, and all these securities are rated as investment grade. The Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

U.S. Government Agency Securities--The unrealized losses on the Company's investment in these securities decreased from $106,435 at December 31, 2007 to $3,386 at December 31, 2008. Given the small unrealized loss remaining in this segment of the portfolio, and the Company's ability and intent to hold the investments for a reasonable period of time sufficient for a recovery of amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

The amortized cost and fair value of debt securities at December 31, 2008, 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 31,2008			
	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	$ --	$ --	$ --	$ --
Due after one year through five years	25,110,576	25,272,025	--	--
Due after five years through ten years	6,403,590	6,443,810	--	--
Due after ten years	18,521,023	18,191,039	--	--
	50,035,189	49,906,874	--	--
Mortgage-backed securities	60,165,607	60,563,328	16,550	16,553
TOTAL DEBT SECURITIES	$110,200,796	$110,470,202	$ 16,550	$ 16,553

</TABLE>

For the years ended December 31, 2008 and 2007, proceeds from the sales of available for sale securities were $43,699,152 and $16,295,820 , respectively. Gross gains of $825,103 and gross losses of $287,313 were realized on sales in 2008 and gross gains of $19,632 were realized on sales in 2007. In addition, during the year ended December 31, 2008, the Company recorded a loss of $9,422,650 related to the other-than-temporary impairment of the Company's investments in Freddie Mac and Fannie Mae preferred stock auction rate securities holding such stock, and two pooled trust preferred securities.

Investment securities with a carrying value of $76,450,000 and $62,582,000 were pledged as collateral to secure treasury tax and loan, trust assets, securities sold under agreements to repurchase and public funds at December 31, 2008 and 2007, respectively.

During 2008 and 2007, 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.

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The OTTI charge in the fourth quarter was related to the impairment write-down on two trust preferred investment securities. The write-down was the result of the significant downgrading of these investments by Moody's credit rating agency. The downgrades were the result of continued weak economic conditions, the number of interest payment deferrals and the exposure of these securities issued by small to medium sized U. S. community banks and insurance companies to the crisis in the financial industry.

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, 2008 and 2007, 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:

	2008	2007
Balance at the beginning of year	$ 2,219,055	$ 2,471,904
Advances	383,945	596,691
Repayments	(406,636)	(792,962)
Other changes	(118,491)	(56,578)
Balance at the end of year	$ 2,077,873	$ 2,219,055

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.

NOTE E - LOAN AND LEASE RECEIVABLES

A summary of loans and leases receivable at December 31, 2008 and 2007 is as follows:

<TABLE>
<CAPTION>

	2008	2007

<S>

Real estate- residential mortgage	$ 192,561,108	$ 189,556,668
Real estate- commercial mortgage	67,454,925	55,752,240
Real estate- construction	38,153,503	34,808,984
Commercial loans	46,249,689	33,641,679
Commercial leases (net of unearned discount of $2,657,871)	19,785,870	8,634,199
Installment	5,113,400	6,519,812
Other	128,574	99,357
TOTAL LOANS AND LEASES	369,447,069	329,012,939
Net deferred loan origination costs	562,242	445,671
Premiums on purchased loans	81,588	168,383
Allowance for loan and lease losses	(3,698,820)	(2,151,622)
NET LOANS AND LEASES	$ 366,392,079	$ 327,475,371

</TABLE>

Changes in the allowance for loan and lease losses for the years ended December 31, 2008 and 2007, were as follows:

<TABLE>
<CAPTION>

	2008	2007
Balance at the beginning of year	$ 2,151,622	$ 2,106,100
Provision for loan and lease losses	1,836,299	204,000
Loans and leases charged off	(377,071)	(176,777)
Recoveries of loans and leases previously charged off	87,970	18,299
BALANCE AT END OF YEAR	$ 3,698,820	$ 2,151,622

</TABLE>

A summary of nonperforming loans and leases follows:

<TABLE>
<CAPTION>

	2008	2007
Non-accrual loans and leases	$ 5,639,735	$ 2,959,074
Accruing loans and leases contractually past due 90 days or more	19,603	3,111
TOTAL	$ 5,659,338	$ 2,962,185

</TABLE>

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If interest income on non-accrual loans and leases throughout the year had been recognized in accordance with their contractual terms, approximately $163,000 and $88,000 of additional interest would have been recorded for the years ended December 31, 2008 and 2007, 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, 2008 and 2007:

<TABLE>
<CAPTION>

	2008	2007
Loans and leases receivable for which there is a related allowance for loan and lease losses	$6,225,481	$ 327,027
Loans and leases receivable for which there is no related allowance for loan and lease losses	$2,657,655	$2,632,047
Allowance for loan and lease losses related to impaired loans and leases	$ 939,066	$ 181,119

</TABLE>

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

<TABLE>
<CAPTION>

	2008	2007
Average recorded investment in impaired loans and leases	$4,646,000	$1,865,000
Interest income recognized	$ 600,000	$ 228,000
Cash interest received	$ 540,000	$ 186,000

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</TABLE>

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, 2008 and 2007 are as follows:

<TABLE>
<CAPTION>

<S>	2008 <C>	2007 <C>
Land	$ 1,245,465	$ 1,245,465
Buildings and improvements	7,740,270	7,584,199
Furniture and fixtures	3,617,064	3,597,603
Leasehold improvements	220,761	212,106
	12,823,560	12,639,373
Less accumulated depreciation and amortization	5,453,308	4,880,612
	$ 7,370,252	$ 7,758,761

</TABLE>

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2008 and 2007 was

<PAGE>

$734,020 and $751,259, respectively.

Included in buildings and improvements, premises under capital lease totaled $1,100,644, and related accumulated amortization as of December 31, 2008 and 2007 totaled $110,202 and $55,101, 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, 2008, 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 index. The Company also pays certain executory costs under these leases. Net rent expense under operating leases was approximately $240,000 and $242,000 for 2008 and 2007, respectively. The future minimum payments under the capital lease and operating leases are as follows:

<TABLE>
<CAPTION>

<S>	Capital Lease <C>	Operating Leases <C>
2009	$ 75,000	$ 151,053
2010	75,000	108,742
2011	75,917	112,018
2012	86,000	115,365
2013	86,000	118,819
2014 and thereafter	1,320,833	301,630
	1,718,750	$ 907,627

		===========
Less amount representing interest	(653,187)	
Present value of future minimum lease payments-capital lease obligation	$ 1,065,563	

</TABLE>

NOTE H - DEPOSITS

A summary of deposits at December 31, 2008 and 2007 is as follows:

<TABLE>
<CAPTION>

<S>	2008 <C>	2007 <C>
Noninterest bearing:		
Demand	$ 69,548,261	$ 70,564,267
Interest bearing:		
Savings	58,582,376	56,344,878
Money market	93,085,126	78,738,706
Time certificates of deposit in denominations of $100,000 or more	41,003,855	52,345,036
Other time certificates of deposit	81,107,006	77,624,777
Total interest bearing	273,778,363	265,053,397
	$343,326,624	$335,617,664

</TABLE>

Included in deposits as of December 31, 2008 are approximately $15,902,000 of brokered deposits which have varying maturities through December 2009.

The following is a summary of time certificates of deposits by contractual maturity as of December 31, 2008:

2009	95,891,432
2010	24,494,209
2011	528,997
2012	556,922
2013	639,301
Total	122,110,861

Deposit accounts of officers, directors and their associates aggregated $4,965,692 and $9,015,747 at December 31, 2008 and 2007, respectively.

<PAGE>

NOTE I - BORROWINGS AND FEDERAL HOME LOAN BANK STOCK

Federal Home Loan Bank Borrowings and Stock

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 $360,200 during 2008 and $634,500 during 2007. There were no redemptions during 2008. Redemptions during 2007 amounted to $10,500. The 2008 and 2007 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 Company views its investment in the FHLBB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: 1) the significance of the decline in net assets of the FHLBB as compared to the capital stock amount and length of time a decline has persisted; 2) impact of legislative and regulatory changes on the FHLBB and 3) the liquidity position of the FHLBB. The FHLBB announced in February 2009 that it will suspend its dividend for the first quarter of 2009, will likely not pay any dividends for the remainder of 2009, and will continue its moratorium on excess stock repurchases announced in December 2008. The FHLBB noted their primary concern related to the impact of other-than-temporary impairment charges recorded on private label mortgage-backed securities (MBS) as of December 31, 2008. In addition, in March 2009, the FHLBB announced that it was filing its Form 10-K with the SEC late because of the need to further evaluate potential additional losses on its MBS.

While the FHLBB announced that it remained adequately capitalized as of December 31, 2008 in its February announcement, the Company is unable to determine if the potential additional charges to earnings will change this regulatory capital classification. The Company does not believe that its investment in the FHLBB is impaired as of this date. However, this estimate could change in the near term as a result of any of the following events: 1) additional significant impairment losses are incurred on the MBS causing a significant decline in the FHLBB's regulatory capital status; 2) the economic losses resulting from credit deterioration on the MBS increases significantly and 3) capital preservation strategies being utilized by the FHLBB become ineffective.

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, 2008, advances under the Federal Home Loan Bank line of credit totaled $1,608,000. At December 31, 2007, there were no advances under the Federal Home Loan Bank line of credit. At December 31, 2008 and 2007, other outstanding advances from the FHLBB aggregated $80,000,000 and $91,500,000, respectively, at interest rates ranging from 3.95% to 4.59%, and 3.27% to 4.70%, respectively.

Repurchase Agreements with Financial Institutions

At December 31, 2008 and 2007, securities sold under agreements to repurchase totaled $26,450,000 and $21,550,000, respectively, at interest rates ranging from 3.19% to 3.635%, and 3.20% to 4.19%, respectively.

Repurchase Agreements with Customers

At December 31, 2008 and 2007, the balance of securities sold under repurchase agreements with customers was $18,222,571 and $14,142,773, respectively. Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transactions.

Collateralized Borrowings

Collateralized borrowings amounted to $1,375,550 and $1,699,336 as of December 31, 2008 and 2007, respectively. Pursuant to FASB Statement No. 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 collateralized 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.

<PAGE>

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, 2008:

<TABLE>
<CAPTION>

<S>	First Litchfield Statutory Trust I <C>	First Litchfield Statutory Trust II <C>
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 1,2033	June 1,2006
Distribution dates (1)	Quarterly	Quarterly

(1) All cash distributions are cumulative
</TABLE>

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.

<PAGE>

The contractual maturities of the Company's borrowings at December 31, 2008, by year, are as follows:

	Fixed Rate	Floating Rate	Total
2009	$ 15,034,000	$ --	$ 15,034,000
2010	15,090,000	--	15,090,000
2011	97,000	--	97,000
2012	5,104,000	--	5,104,000
2013	22,612,000	--	22,612,000
Thereafter	49,889,000	10,104,000	59,993,000
TOTAL LONG-TERM DEBT	$107,826,000	$ 10,104,000	$117,930,000

NOTE J - INCOME TAXES

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

	2008	2007
Current Provision: Federal	$ 755,815	$ 178,289
Deferred (Benefit) Provision	(3,868,274)	47,413
Federal	$(3,112,459)	$ 225,702

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 (benefit) provision for income taxes as reported in the statements of operations is as follows:

<TABLE>
<CAPTION>

<S>	2008 <C>	<C>	2007 <C>	<C>
(Benefit) provision for income taxes at statutory Federal rate	$(2,583,649)	(34)	$ 738,835	34%
Increase (decrease) resulting from:				
Tax exempt interest income	(451,306)	(6)%	(464,076)	(21)%
Nondeductable interest expense	47,273	1%	62,718	3%
Tax exempt income from insurance policies	(134,677)	(2)%	(130,587)	(6)%
Other	9,900	--	18,812	--
(Benefit) Provision for income taxes	$(3,112,459)	(41)	$ 225,702	10%

</TABLE>

<PAGE>

The tax effects of temporary differences that give rise to significant components of the deferred tax assets and deferred tax liabilities at December

31, 2008 and 2007 are presented below:

<TABLE>
<CAPTION>

<S>	2008 <C>	2007 <C>
Deferred tax assets:		
Allowance for loan and lease losses	$ 1,257,598	$ 731,552
Depreciation	207,789	140,883
Accrued expenses	387,740	282,836
Alternative minimum taxes	452,992	261,503
Unfunded pension liability	609,211	256,490
Unrealized loss on available for sale securities	--	396,407
Securities write-downs	3,203,701	--
Total gross deferred tax assets	6,119,031	2,069,671
Deferred tax liabilities:		
Tax bad debt reserve	(153,536)	(153,536)
Prepaid pension costs	(268,902)	(246,976)
Net deferred loan and lease costs	(191,162)	(151,528)
Leases	(338,328)	(151,856)
Unrealized gain on available for sale securities	(81,439)	--
Prepaid expenses and other	(2,707)	(38,240)
Total gross deferred tax liabilities	(1,036,074)	(742,136)
Net deferred tax asset	$ 5,082,957	$ 1,327,535

</TABLE>

Based on the Company's income taxes paid in prior years and expected future earnings, 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 2008 and 2007.

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.

<PAGE>

The following table sets forth the Plan's funded status and amounts recognized in the consolidated balance sheets at December 31, 2008 and 2007 using a measurement date of December 31:

<TABLE>
<CAPTION>

<S>	2008 <C>	2007 <C>
Change in benefit obligation		
Benefit obligation, beginning	$ 3,270,153	$ 3,408,732
Service Cost	--	--
Interest Cost	187,272	184,166
Actuarial loss	(19,938)	(31,536)
Benefits paid	(441,864)	(291,209)
Benefit obligation, ending	2,995,623	3,270,153
Change in plan assets:		
Fair value of plan assets, beginning	3,242,172	2,939,118
Actual return on plan assets	(905,594)	494,263
Employer contribution	100,000	100,000
Benefits paid	(441,864)	(291,209)
Fair value of plan assets, ending	1,994,714	3,242,172

Funded status at end of year included in accrued expenses and other liabilities	$(1,000,909)	$ (27,981)

</TABLE>

The accumulated benefit obligation was $2,995,623 and $3,270,153 at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, $1,791,798 and $754,381, respectively of net actuarial losses are included in accumulated other comprehensive loss. The estimated net loss that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2009 is $95,741.

<TABLE>
<CAPTION>

<S>	2008 <C>	2007 <C>
Components of net periodic benefit cost and other amounts recognized in other comprehensive income:		
Service cost	$ --	$ --
Interest cost	187,272	184,166
Expected to return on plan assets	(206,533)	(200,249)
Amortization of unrealized loss	54,772	72,651
Net periodic benefit cost	35,511	56,568
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Net loss (gain)	1,037,417	(398,201)
Total recognized in net periodic benefit cost and other comprehensive loss (income)	$ 1,072,928	$ (341,633)

</TABLE>

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

	2008	2007
Discount rate	6.00%	6.00%
Rate of compensation increase	N/A	N/A

<PAGE>

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

	2008	2007
Discount rate	6.00%	6.00%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

The pension expense for the Plan was $35,511 and $56,568 for the years ended December 31, 2008 and 2007, 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, 2008 and 2007 by asset category are as follows:

Asset Category	Percentage of Plan Assets as of December 31, 2008	2007
Cash and receivables	10%	7%
Corporate debt and equity securities	63%	66%
Pooled funds/ Mutual funds	8%	13%
Government securities	19%	14%
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. The Bank made a $100,000 contribution to the Plan during both 2008 and

2007, Contributions of $54,167 are anticipated to be made in 2009.

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:

2009	$	191,000
2010		203,000
2011		241,000
2012		239,000
2013		234,000
2014-2018		1,178,000

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, 2008 and 2007, 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 $273,483 and $237,461 for 2008 and 2007, respectively.

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OTHER BENEFIT PLANS: 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 fair value of the related trust assets and corresponding liability of $93,234 and $180,951 at December 31, 2008, and 2007, 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, 2008 and 2007, $53,001 and $72,702, respectively, were charged to operations under this plan. The related liability, of $465,237 and $419,187 at December 31, 2008 and 2007, respectively, is included in accrued expenses and other liabilities. At December 31, 2007, unvested benefits earned under this plan were approximately $19,000.

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, 2008 and 2007, there were no expenses incurred under the ESOP. During 2006, the Company contributed 2,414 shares to the ESOP, and no shares were contributed to the ESOP during 2008 or 2007. 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, 2008 is less than $25,000.

Effective January 1, 2006, the Bank entered into supplemental retirement agreements with three of the Bank's Senior Officers. At December 31, 2008 and 2007, accrued supplemental retirement benefits of $377,000 and $214,000, 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 $10,417,000 and $10,021,000 at December 31, 2008 and 2007, 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.

The Company has agreements under split-dollar life insurance arrangements with certain members of management which provide for the payment of fixed amounts to such individual's beneficiaries. In conjunction with the adoption of EITF 06-4 on January 1, 2008, the Company recorded an increase to accrued expenses of $12,272 related to these agreements. At December 31, 2008, $41,431 is included in accrued expenses related to these agreements.

<PAGE>

NOTE L - SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

In November 2007, the Board of Directors declared 5% stock dividends payable on December 31, 2007. Payment of these dividends resulted in the issuance of 118,873 additional common shares in December 2007. There were no stock dividends declared in 2008. 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. Weighted-average shares and per share data have been restated to give effect to all stock dividends and splits.

On December 12, 2008 the Company issued Fixed-Rate Cumulative Perpetual Preferred Stock to the U. S. Department of the Treasury for $10 million in a private placement exempt from registration. The EESA authorized the U. S. Treasury to appropriate funds to eligible financial institutions participating in the TARP Capital Purchase Program. The capital investment included the issuance of preferred shares of the Company and a warrant to purchase common shares pursuant to a Letter Agreement and a Securities Purchase Agreement (collectively the "Agreement"). The dividend rate of 5% increases to 9% after the first five years. Dividend payments are made on the 15th day of February, May, August and November of each year. The warrant allows the holder [to purchase up to 199,203 shares of the Company's common stock over a 10-year period at an exercise price per share of $7.53. The preferred shares and the warrant qualify as Tier 1 regulatory capital. The Agreement subjects the Company to certain restrictions and conditions including those related to common dividends, share repurchases, executive compensation, and corporate governance.

The following is information about the computation of net (loss) income per share for the years ended December 31, 2008 and 2007. Shares outstanding include all shares contributed to the ESOP as all such shares have been allocated to the participants.

<TABLE>
<CAPTION>

	For the Year Ended December 31, 2008		
	Net Loss	Weighted Average Shares	Per Share Amount
<S>	<C>	<C>	<C>
Basic Net Loss Per Share			
Loss available to common stockholders	$ (4,516,773)	2,362,897	$ (1.92)
Effect of Dilutive Securitites			
Options/unvested restricted shares outstanding	--	--	--
Diluted Net Loss Per Share			
Loss available to common stockholders plus assumed conversions	$ (4,516,773)	2,362,897	$ (1.92)

<CAPTION>

	For the Year Ended December 31, 2007		
	Net Income	Weighted Average Shares	Per Share Amount
<S>	<C>	<C>	<C>
Basic Net Income Per Share			
Income available to common stockholders	$ 1,947,342	2,369,210	$ 0.82

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	$ 0.82

</TABLE>

For the year ended December 31, 2008, the effect of stock options and unvested restricted shares was not considered because the effect would have been anti-dilutive.

NOTE M - STOCK OPTION PLANS

At December 31, 2008, 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.

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STOCK COMPENSATION PLAN: During 2007 the Company approved a restricted stock plan (the "2007 Plan") for senior management. 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 measures 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. For the year ended December 31, 2008, $8,412 was recognized as compensation expense under the 2007 Plan. At December 31, 2008, unrecognized compensation cost of $37,473 related to these awards is expected to vest over a weighted average period of 4 years.

A summary of unvested shares as of and for the year ended December 31, 2008 is as follows:

<TABLE>
<CAPTION>

<S>	Shares <C>	Weighted Average Grant Date Fair Value <C>
Unvested shares, beginning of year	--	$ --
Shares granted during the year	3,500	13.11
Shares vested during the year	--	--
Unvested shares, end of year	3,500	$ 13.11

</TABLE>

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 2008 and 2007 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>

	2008		2007	
	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share

<S>	<C>	<C>	<C>	<C>
Options outstanding at the beginning of the year	7,327	$11.64	17,744	$ 9.74
Granted	--	--	--	--
Exercised	1,893	10.82	10,417	8.40
Cancelled	--	--	--	--
Options outstanding and exercisable at end of year	5,434	$11.93	7,327	$11.64

</TABLE>

At December 31, 2008, the remaining contractual life was 1 month.

Shares reserved for issuance of common stock under all the option plans is equal to the amount of options outstanding at the end of 2008 or 5,434.

The intrinsic value of options outstanding and exercisable at December 31, 2008 and 2007 is $0 and $20,932, respectively. The intrinsic value of options exercised during the years ended December 31, 2008 and 2007 was $0 and $63,571, respectively.

<PAGE>

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 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, 2008, the Bank had retained earnings of approximately $26,102,000, of which there was no undistributed net income available for distribution to the Company as dividends.

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, 2008, 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, 2008 and 2007 related to these items are summarized below:

<TABLE>
<CAPTION>

<S>	2008 Contract Amount <C>	2007 Contract Amount <C>
Loan and lease commitments:		
Approved loan and lease commitments	$ 18,336,000	$ 16,791,000
Unadvanced portion of:		
Construction loans	13,979,000	15,061,000
Commercial lines of credit	76,817,000	49,189,000
Home equity lines of credit	34,932,000	31,922,000
Overdraft protection and other consumer lines	961,000	994,000
Credit cards	3,618,000	3,362,000
Standby letters of credit	2,173,000	2,773,000
	$ 150,816,000	$ 120,092,000

</TABLE>

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 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, 2008 and 2007.

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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.

NOTE P - RELATED PARTY TRANSACTIONS

For the years ended December 31, 2008 and 2007, the Bank paid approximately $8,500 and $25,000, 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, 2008 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, 2008 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. Due to the increased provision for loan and lease losses as well as the OTTI losses, as of December 31, 2008 the Bank was not considered well capitalized. During the first quarter of 2009 the Company contributed $4,000,000 in capital to the Bank. As a result of this action, as of March 31, 2009, the Bank met all conditions to be considered well capitalized. 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	
As of December 31, 2008:	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
The Company						
Total Capital to Risk Weighted Assets	$ 43,361,000	11.74%	$ 29,548,000	8%	N/A	N/A
Tier I Capital to Risk Weighted Assets	39,662,000	10.74%	14,772,000	4%	N/A	N/A
Tier I Capital to Average Assets	39,662,000	7.85%	20,210,000	4%	N/A	N/A
The Bank						

Total Capital to Risk Weighted Assets	$ 34,778,000	9.43%	$ 29,504,000	8%	$ 36,880,000	10%
Tier I Capital to Risk Weighted Assets	31,079,000	8.43%	14,747,000	4%	22,120,000	6%
Tier I Capital to Average Assets	31,079,000	6.10%	20,380,000	4%	25,475,000	5%

</TABLE>

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<PAGE>

<TABLE>
<CAPTION>

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Correctiv Action Purposes	
As of December 31, 2007:	Amount	Ratio	Amount	Ratio	Amount	Rati
<S>	<C>	<C>	<C>	<C>	<C>	
The Company						
Total Capital to Risk Weighted Assets	$ 41,561,000	12.61%	$ 25,367,000	8%	$ N/A	N
Tier I Capital to Risk Weighted Assets	39,409,000	11.96%	13,180,000	4%	N/A	N
Tier I Capital to Average Assets	39,409,000	8.04%	19,606,000	4%	N/A	N
The Bank						
Total Capital to Risk Weighted Assets	$ 38,312,000	11.65%	$ 26,309,000	8%	$ 32,886,000	1
Tier I Capital to Risk Weighted Assets	36,160,000	11.00%	13,149,000	4%	19,724,000	
Tier I Capital to Average Assets	36,160,000	7.36%	19,652,000	4%	24,565,000	

</TABLE>

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

Effective January 1, 2008, the Company adopted SFAS No. 157, which, defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. As defined in SFAS No. 157, 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 at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy described in Note A. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

A description of the valuation methodologies used for assets and liabilities recorded at fair value, and for estimating fair value for financial instruments not recorded at fair value in accordance with SFAS No. 107, "Disclosures About Fair Values of Financial Instruments" ("SFAS No. 107"), is set forth below.

Cash and Due From Banks, Federal Funds Sold, Interest Income Receivable, Accrued Interest Payable, Collateralized Borrowings, and Short-term Borrowings: These assets and liabilities are short-term, and therefore, book value is a reasonable estimate of fair value. These financial instruments are not carried at fair value on a recurring basis.

Federal Home Loan Bank Stock, Federal Reserve Bank Stock and Other Restricted Stock: Such stock is estimated to equal the carrying value, due to the historical experience that these stocks are redeemed at par. These financial instruments are not carried at fair value on a recurring basis.

Available for Sale and Held to Maturity Securities: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities and certain equity securities that are traded in an active exchange market. If quoted prices are not available, then fair values are estimated by using pricing models (i.e., matrix pricing) or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments include U.S. Government agency and sponsored agency bonds, mortgage-backed and debt securities, state and municipal obligations, corporate and other bonds and equity securities in markets that are not active, and certain collateral dependent loans. Available for sale securities are recorded at fair value on a recurring basis, and held to maturity securities are only disclosed at fair value.

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

Loans: For variable rate loans which reprice frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolios. The fair value of fixed rate loans is estimated by discounting the future cash flows using the year end rates, estimated using local market data, at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the portfolios. Loans are generally not recorded at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral-dependent impaired loans are recorded to reflect partial write-downs based on the observable market price or current appraised value of collateral.

<PAGE>

Deposits: The fair value of demand deposits, savings and money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities to a schedule of aggregated expected maturities on such deposits. Deposits are not recorded at fair value on a recurring basis.

Long-term debt: The fair value of long-term debt is estimated using a discounted cash flow calculation that applies current interest rates for borrowings of similar maturity to a schedule of maturities of such advances. Long-term debt is not recorded at fair value on a recurring basis.

Off-balance-sheet instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. Off-balance sheet instruments are not recorded at fair value on a recurring basis.

The following table details the financial instruments that are carried at fair value and measured at fair value on a recurring basis as of December 31, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value.

The Company uses models when quotations are not available for certain securities or in markets where trading activity has slowed or ceased. When quotations are not available, and are not provided by third party pricing services, management's judgment is necessary to determine fair value. In situations involving management judgment, fair value is determined using discounted cash flow analysis or other valuation models which incorporate available market information, including appropriate benchmarking to similar instruments, analysis of default and recovery rates, estimation of prepayment characteristics and implied volatilities.

Fair Value Measurements at December 31, 2008, Using

<TABLE>
<CAPTION>

<S>	December 31, 2008 Total <C>	Quoted Prices in Active Markets for Identical Assets (Level 1) <C>	Significant Other Observable Inputs (Level 2) <C>	Significant Unobservable Inputs (Level 3) <C>
Assets:				
Available for sale securities	$ 113,486,201	$ 5,188,571	$ 108,297,630	$ --

</TABLE>

U.S. Treasury securities and one equity security, with a carrying value of $5,188,571 at December 31, 2008, are the only assets whose fair values are measured on a recurring basis using Level 1 inputs (active market quotes).

The fair values of other U. S. Government and agency mortgaged backed securities and debt securities, State and Municipal obligations, other corporate bonds, and certain equity securities are measured on a recurring basis, using Level 2 inputs of observable market data on similar securities. The carrying value of these securities totaled $108,297,630 as of December 31, 2008.

The following table details the financial instruments carried at fair value and measured at fair value on a nonrecurring basis as of December 31, 2008 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

<TABLE>
<CAPTION>

	December 31, 2008			
<S>	Balance as of December 31, 2008 <C>	Quoted Prices in Active Markets for Identical Assets (Level 1) <C>	Significant Observable Inputs (Level 2) <C>	Significant Unobservable Inputs (Level 3) <C>
Financial assets held at fair value				
Impaired Loans (1)	$ 3,271,452	$ --	$ 694,650	$ 2,576,802

</TABLE>

(1) Represents carrying value and related write-downs for which adjustments are based on the appraised value

<PAGE>

The Company will apply the fair value measurement and disclosure provisions of SFAS No. 157 effective January 1, 2009 to nonfinancial assets and liabilities measured on a nonrecurring basis. The Company may measure the fair value of the following on a nonrecurring basis: (1) long-lived assets; and (2) other real estate owned.

SFAS No. 107 requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition, for which it is practicable to estimate that value. 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.

The estimated fair value amounts for 2008 and 2007 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 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 estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

The recorded book balances and estimated fair values of the Company's financial instruments at December 31, 2008 and 2007 are as follows:

<TABLE>
<CAPTION>

	2008		2007	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
Financial Assets:				
Cash and due from banks	$ 9,238,783	9,238,783	$ 21,497,194	21,497,194
Available for sale securities	113,486,201	113,486,201	128,979,548	128,979,548
Held to maturity securities	16,550	16,553	34,185	33,712
Federal Home Loan Bank Stock	5,427,600	5,427,600	5,067,400	5,067,400
Federal Reserve Bank Stock	225,850	225,850	225,850	225,850
Other restricted stock	100,000	100,000	95,000	95,000
Loans held for sale	1,013,216	1,013,216	--	--
Loans and leases, net	366,392,079	365,191,872	327,475,371	335,526,483
Accrued interest receivable	2,262,918	2,262,918	2,609,606	2,609,606
Financial Liabilities:				
Savings deposits	58,582,376	58,582,376	56,344,878	56,344,878
Money market and demand deposits	162,633,387	162,633,387	149,302,973	149,302,973
Time certificates of deposit	122,110,861	122,607,975	129,969,813	130,267,235
Federal Home Loan Bank advances	81,608,000	86,044,755	91,500,000	96,219,124
Repurchase agreements with financial institutions	26,450,000	26,316,528	21,550,000	21,421,552
Repurchase agreements with customers	18,222,571	18,222,571	14,142,773	14,142,773
Subordinated debt	10,104,000	10,104,000	10,104,000	10,104,000
Accrued interest payable	611,829	611,829	731,496	731,496
Collateralized borrowings	1,375,550	1,375,550	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, 2008 and 2007.

<PAGE>

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.

NOTE S - OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive loss is comprised of the following at December 31, 2008 and 2007:

<TABLE>

	2008	2007
<S>	<C>	<C>
Unrealized (gains) losses on available for sale securities, net of taxes	$ (158,088)	$ 769,496

Unfunded pension liability, net of taxes	1,182,586	497,891
	$ 1,024,498	$ 1,267,387

</TABLE>

Other comprehensive income for the years ended December 31, 2008 and 2007 is as follows:

<TABLE>
<CAPTION>

	2008		
	Before- Tax Amount	Taxes	Net-of-Tax Amount
<S>	<C>	<C>	<C>
Unrealized holding losses arising during the period	$(7,479,430)	$ 2,543,006	$(4,936,424)
Less: reclassification adjustment for losses recognized in net loss	8,884,860	(3,020,852)	5,864,008
Unrealized holding gain on available for sale securities, net of taxes	1,405,430	(477,846)	927,584
Net pension loss	(1,037,417)	352,722	(684,695)
Total other comprehensive income, net of taxes	$ 368,013	$ (125,124)	$ 242,889

<CAPTION>

	2007		
	Before- Tax Amount	Taxes	Net-of-Tax Amount
<S>	<C>	<C>	<C>
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

</TABLE>

<PAGE>

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

<TABLE>
<CAPTION>
FIRST LITCHFIELD FINANCIAL CORPORATION

Condensed Balance Sheets	December 31,	
	2008	2007
<S>	<C>	<C>
Assets		
Cash and due from banks	$ 8,564,235	$ 3,114,290
Investment in The First National Bank of Litchfield	33,629,067	34,863,604
Investment in the First Litchfield Statutory Trusts I, II	304,000	304,000
Other assets	408,973	501,838
Total Assets	$ 42,906,275	$ 38,783,732
Liabilities and Shareholders' Equity		
Liabilities:		
Subordinated Debt	$ 10,104,000	$ 10,104,000
Other liabilities	388,886	367,120
Total Liabilites	10,492,886	10,471,120
Shareholders' equity	32,413,389	28,312,612
Total Liabilities and Shareholders' Equity	$ 42,906,275	$ 38,783,732

<CAPTION>

Condensed Statements of Operations	Years Ended December 31,	
	2008	2007
<S>	<C>	<C>
Dividends from subsidary	$ 1,425,000	$ 1,900,000
Other expenses, net	682,166	877,608
Income before taxes and equity in earnings of subsidiary	742,834	1,022,392
Income tax benefit	231,936	298,386
Income before equity in undistributed (losses) earnings of subsidary	974,770	1,320,778

	2008	2007
Equity in undistributed (losses) earnings of subsidiary	(5,465,154)	626,564
Net (loss) income	$ (4,490,384)	$ 1,947,342

<CAPTION>

Condensed Statements of Cash Flows

	Years Ended December 31,	
	2008	2007
<S>	<C>	<C>
Cash flows from operating activities:		
Net (loss) income	$ (4,490,384)	$ 1,947,342
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Equity in undistributed losses (earnings) of subsidiary	5,465,154	(626,564)
Other, net	98,679	135,247
Cash provided by operating activities	1,073,449	1,456,025
Cash flows from investing activities:		
Investment in the First National Bank of Litchfield	(4,000,000)	--
Cash used in investing activities	(4,000,000)	--
Cash flows from financing activities:		
Stock options exercised	20,482	87,487
Distribution in cash for financial shares of common stock	--	(3,917)
Proceeds from issuance of preferred shares	10,000,000	--
Purchase of treasury shares	(227,098)	(132,208)
Dividends paid on common stock	(1,416,888)	(1,354,434)
Cash provided by (used in) financing activities	8,376,496	(1,403,072)
Net increase in cash and due from banks	5,449,945	52,953
Cash and due from banks at the beginning of the year	3,114,290	3,167,243
Cash and due from banks at the end of the year	$ 8,564,235	$ 3,114,290

</TABLE>

<PAGE>

NOTE U - 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 years ended December 31, 2008 and 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, 2008			
	Community Banking	Leasing	Elimination Entries	Consolidated Total
<S>	<C>	<C>	<C>	<C>
Net interest income	$ 14,274,471	$ 665,114	$ --	$ 14,939,585
Provision for loan and lease losses	1,742,186	94,113	--	1,836,299
Net interest income after provision for loan and lease losses	12,532,285	571,001	--	13,103,286
Noninterest (loss) income	(5,366,133)	4,028	--	(5,362,105)
Noninterest expense	14,970,593	369,556	--	15,340,149
Income (loss) before income taxes	(7,804,441)	205,473	--	(7,598,968)
Income tax provision (benefit)	(3,175,720)	63,261	--	(3,112,459)
Minority Interest	3,875	--	--	3,875
Net income (loss)	$ (4,632,596)	$ 142,212	$ --	$ (4,490,384)
Total assets as of December 31, 2008	$ 509,370,298	$ 23,089,258	$ (201,949)	$ 532,257,607

<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 loan and lease losses	123,726	80,274	--	204,000
Net interest income after provision for loan and lease losses	12,828,034	181,025	--	13,009,059
Noninterest income	3,431,476	--	--	3,431,476
Noninterest expense	13,948,648	318,843	--	14,267,491
Income (loss) before income taxes	2,310,862	(137,818)	--	2,173,044
Income tax provision (benefit)	274,159	(48,457)	--	225,702
Net income (loss)	$ 2,036,703	$ (89,361)	$ --	$ 1,947,342
Total assets as of December 31, 2007	$ 535,136,271	$ 10,972,121	$ (38,454,763)	$ 507,653,629

</TABLE>

NOTE V - FOURTH QUARTER ADJUSTMENTS

The Company reported a net loss of $4,490,384 or $1.92 diluted loss per common share for the year ended December 31, 2008 and a net loss of $205,853 or $.09 diluted loss per common share for the fourth quarter of 2008. During the fourth quarter the Company recorded a $1,469,299 provision for loan and lease losses and an impairment charge on available for sale securities of $2,476,552. Additionally during the fourth quarter the Company recognized the $1,710,200 deferred tax benefit on third quarter impairment losses related to Fannie Mae and Freddie Mac preferred stock and auction rate securities holding such stock.

<PAGE>

The increased fourth quarter provision for loan and lease losses was primarily attributable to the increase in impaired loans during the fourth quarter as a result of the deteriorating market conditions. Impaired loans increased from $4,719,588 at September 30, 2008 to $8,883,136 at December 31, 2008, most of which was concentrated in Connecticut. In addition, the Company increased its general allowance for loan and lease losses component to reflect the current market conditions and increases in delinquent loans.

During the three months and quarter ended September 30, 2008, the Company incurred a $5,030,000 loss from the other-than-temporary impairment of Fannie Mae and Freddie Mac preferred stock and auction rate preferred securities holding such stock. As of September 30, 2008, these losses were considered capital losses for Federal income tax purposes, which are only deductible if such losses are offset against capital gains. Because the Company did not have any such capital gains in the tax carryback period, and because there were no tax strategies available to generate future capital gains to utilize such losses, a deferred tax valuation allowance of $1,710,200 was recorded at September 30, 2008, which represented the amount of deferred tax benefit related to the impairment losses. Subsequent to September 30, 2008, the passage of the Federal Emergency Economic Stabilization Act changed the Federal tax laws to allow the deductions of losses to be treated as ordinary losses for Federal Income tax purposes. Therefore, the Company in the fourth quarter of 2008, recognized the deferred tax benefit of $1,710,200 in the fourth quarter of 2008.

<PAGE>

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.
3.1.1	Certificate of Designations for the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, filed December 9, 2008. Exhibit is incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 18, 2008.

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 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 Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on August 13, 2003.

4.2 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 Quarterly report on Form 10-QSB for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on August 13, 2003.

4.3 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.

4.4 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.

4.5 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.

4.6 Warrant to purchase Common Stock dated December 12, 2008. Exhibit is incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 18, 2008.

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 Annual Report 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 on 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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10.5 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 on 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 on Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

10.8 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 on 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 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 on 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 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 on 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 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 on 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 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 on 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 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 on 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 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 on 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 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 on 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 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 on 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 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 on 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 on Form 10-KSB for the fiscal year ended December 31, 2002 as filed with the Securities and Exchange Commission on March 31, 2003.

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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 on 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 on 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 Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on August 13, 2003.

10.21 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 Annual Report on Form 10-KSB for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on March 30, 2004.

10.22 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 Quarterly Report on Form 10-QSB for the quarter ended September 30, 2004 as filed with the Securities and Exchange Commission on November 14, 2004.

10.23 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 Quarterly Report on Form 10-QSB for the quarter ended September 30, 2004 as filed with the Securities and Exchange Commission on November 14, 2004.

10.24 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 Annual Report Form 10-K for the year ended December 31, 2005 as filed with the Securities and Exchange Commission on March 30, 2006.

10.25 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 Annual Report on Form 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.26 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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.27 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 Quarterly Report on Form 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 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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on August 14, 2006.

10.29 Executive Change in Control Agreement between Joseph J. Greco and the Company and the Bank dated May 29, 2008. Exhibit is incorporated by reference to Exhibit 10.1 set forth in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 4, 2008

10.30 Executive Change in Control Agreement between Carroll A. Pereira and the Company and the Bank dated May 29, 2008. Exhibit is incorporated by reference to Exhibit 10.1 set forth in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 4, 2008.

10.31 Executive Change in Control Agreement between Joelene E. Smith and the Company and the Bank dated May 29, 2008. Exhibit is incorporated by reference to Exhibit 10.1 set forth in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 4, 2008.

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10.32 Executive Change in Control Agreement between Robert E. Teittinen and the Company and the Bank dated May 29, 2008. Exhibit is incorporated by reference to Exhibit 10.1 set forth in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 4, 2008.

10.33 Executive Change in Control Agreement between Frederick F. Judd, III and the Company and the Bank dated May 29, 2008. Exhibit is incorporated by reference to Exhibit 10.1 set forth in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 4, 2008

10.34 Form of Employee Change in Control Agreement. Exhibit is incorporated by reference to Exhibit 10.2 set forth in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 4, 2008

10.35	First Litchfield Financial Corporation 2008 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 7, 2008 (File No. 333-144951).
10.36	Form of First Amended and Restated Executive Incentive Retirement Agreement dated November 20, 2008 entered with Joseph J. Greco, Frederick F. Judd III and Carroll A. Pereira. Exhibit is incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on November 24, 2008.
10.37	Form of First Amended and Restated Director Incentive Retirement Agreements dated November 20, 2008 entered with Perley H. Grimes, Jr., George M. Madsen, Alan B. Magary, Gregory S. Oneglia, Charles E. Orr, William J. Sweetman, H. Ray Underwood, Jr., and Patricia D. Werner. Exhibit is incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on November 24, 2008.
10.38	Form of First Amended and Restated Supplemental Executive Retirement Agreement dated November 20, 2008 entered with Joseph J. Greco and Carroll A. Pereira. Exhibit is incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on November 24, 2008.
10.39	Form of Amended and Restated Executive Incentive Retirement Agreement dated November 20, 2008 entered with Matthew R. Robison.
10.40	Form of Amended and Restated Executive Incentive Retirement Agreement dated November 20, 2008 entered with Joelene E. Smith.
10.41	Form of Amended and Restated Executive Incentive Retirement Agreement dated November 20, 2008 entered with Robert E. Teittinen.
10.42	Form of First Amended and Restated Supplemental Executive Retirement Agreement dated November 20, 2008 entered with Joelene E. Smith.
10.43	Executive Change in Control Agreement between Matthew R. Robison and the Company and the Bank dated May 29, 2008. Exhibit is incorporated by reference to Exhibit 10.1 set forth in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 4, 2008
10.44	Employee Change in Control Agreement between Linda R. Parady and the Company and the Bank dated February 9, 2009.
10.45	Executive Change in Control Agreement between Glenn M. Mason and the Company and the Bank dated February 9, 2009.
10.46	Form of Amended and Restated Director Incentive Retirement Agreement dated November 20, 2008 entered with Richard E. Pugh. 10.47 Form of Amended and Restated Executive Incentive Retirement Agreement dated November 20, 2008 entered with Patrick J. Boland.
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.

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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.

First Litchfield Financial Corporation

By: /s/ Joseph J. Greco April 22, 2009

President and CEO

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