

**CHAMPLAIN BANK CORPORATION
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

With Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Champlain Bank Corporation and Subsidiary

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

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 consolidated 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 consolidated financial position of Champlain Bank Corporation and Subsidiary as of December 31, 2007 and 2006, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As disclosed in Note 11 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R) on December 31, 2007.

Portland, Maine
March 25, 2008

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2007 and 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents		
Cash and due from banks	\$ 4,788,292	\$ 4,753,042
Federal funds sold	448,499	4,800
Securities available-for-sale	70,806,100	64,245,537
Securities held-to-maturity	1,348,445	1,880,416
Loans held-for-sale	-	46,000
Loans receivable, net of allowance for loan losses of \$1,602,420 in 2007 and \$1,390,352 in 2006	92,931,005	83,761,994
Accrued interest receivable	903,752	843,792
Premises and equipment, net	3,196,736	3,253,755
Other assets	<u>8,367,108</u>	<u>7,831,215</u>
	<u>\$ 182,789,937</u>	<u>\$ 166,620,551</u>

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2007</u>	<u>2006</u>
Liabilities		
Deposits	\$ 153,875,344	\$ 146,369,783
Advances from Federal Home Loan Bank	10,000,000	2,060,000
Accrued expenses and other liabilities	<u>4,387,084</u>	<u>4,280,175</u>
Total liabilities	<u>168,262,428</u>	<u>152,709,958</u>
Commitments and contingencies (Notes 5, 9, 10, 11, 14 and 15)		
Stockholders' equity		
Preferred stock, \$1 par value; 100,000 shares authorized; none issued		
Common stock, \$1 par value; 200,000 shares authorized; 28,284 shares issued; 24,445 shares outstanding at December 31, 2007 and 24,443 shares outstanding at December 31, 2006	28,284	28,284
Surplus	1,070,883	1,070,883
Retained earnings	15,306,882	14,759,773
Accumulated other comprehensive loss		
Net unrealized depreciation on securities available-for-sale, net of deferred income taxes	(333,000)	(763,440)
Net unrealized loss on pension and other postretirement benefit costs, net of deferred income taxes	(361,401)	-
Treasury stock, at cost, 3,839 shares in 2007 and 3,841 shares in 2006	<u>(1,184,139)</u>	<u>(1,184,907)</u>
Total stockholders' equity	<u>14,527,509</u>	<u>13,910,593</u>
	<u>\$ 182,789,937</u>	<u>\$ 166,620,551</u>

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Consolidated Statements of Income

Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Interest and dividend income		
Loans	\$ 7,014,453	\$ 6,130,437
Investment securities		
Taxable	2,910,321	2,856,498
Tax-exempt	352,187	263,881
Other interest-earning assets	<u>98,537</u>	<u>101,856</u>
Total interest and dividend income	<u>10,375,498</u>	<u>9,352,672</u>
Interest expense		
Deposits	3,341,935	2,476,847
Borrowed funds	<u>178,503</u>	<u>110,654</u>
Total interest expense	<u>3,520,438</u>	<u>2,587,501</u>
Net interest income	6,855,060	6,765,171
Provision for loan losses	<u>244,250</u>	45,000
Net interest income after provision for loan losses	<u>6,610,810</u>	<u>6,720,171</u>
Noninterest income		
Service charges and fees	1,081,751	854,627
Loan servicing fees	85,614	52,074
Net (loss) gain on sales of securities available-for-sale	(53,052)	12,529
Other	<u>343,423</u>	<u>267,440</u>
Total noninterest income	<u>1,457,736</u>	<u>1,186,670</u>
Noninterest expenses		
Salaries and employee benefits	4,253,126	4,343,400
Occupancy	588,184	590,138
Other general and administrative	<u>2,096,484</u>	<u>2,106,271</u>
Total noninterest expenses	<u>6,937,794</u>	<u>7,039,809</u>
Income before income taxes	1,130,752	867,032
Income tax expense	<u>280,544</u>	206,924
Net income	<u>\$ 850,208</u>	<u>\$ 660,108</u>
Basic and diluted earnings per share	<u>\$ 34.78</u>	<u>\$ 27.01</u>

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

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2007 and 2006

	Common Stock	Surplus	Retained Earnings	Net Unrealized Depreciation on Securities Available- for-Sale	Net Unrealized Loss on Pension and Other Postretire- ment Benefit Costs	Treasury Stock	Total
Balance, December 31, 2005	\$ 28,284	\$ 1,070,883	\$ 14,402,758	\$ (889,260)	\$ -	\$ (1,184,907)	\$ 13,427,758
Net income	-	-	660,108	-	-	-	660,108
Unrealized holding gains arising	-	-	-	133,337	-	-	133,337
Reclassification adjustment for gains included in net income, net of tax of \$5,012	-	-	-	(7,517)	-	-	(7,517)
Change in net unrealized depreciation on securities available-for-sale, net of deferred income taxes of \$83,880	-	-	-	125,820	-	-	125,820
Total comprehensive income	-	-	660,108	125,820	-	-	785,928
Cash dividends declared	-	-	(303,093)	-	-	-	(303,093)
Balance, December 31, 2006	28,284	1,070,883	14,759,773	(763,440)	-	(1,184,907)	13,910,593
Net income	-	-	850,208	-	-	-	850,208
Unrealized holding gains arising	-	-	-	398,615	-	-	398,615
Reclassification adjustment for losses included in net income, net of tax of \$21,227	-	-	-	31,825	-	-	31,825
Change in net unrealized depreciation on securities available-for-sale, net of deferred income taxes of \$286,960	-	-	-	430,440	-	-	430,440
Total comprehensive income	-	-	850,208	430,440	-	-	1,280,648
Adjustment to initially apply Statement No. 158, net of deferred tax of \$240,933	-	-	-	-	(361,401)	-	(361,401)
Issuance of treasury stock (2 shares)	-	-	-	-	-	768	768
Cash dividends declared	-	-	(303,099)	-	-	-	(303,099)
Balance, December 31, 2007	\$ 28,284	\$ 1,070,883	\$ 15,306,882	\$ (333,000)	\$ (361,401)	\$ (1,184,139)	\$ 14,527,509

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

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Net income	\$ 850,208	\$ 660,108
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	470,746	526,649
Amortization of discounts and premiums on investments	164,204	187,864
Provision for loan losses	244,250	45,000
Net realized (gain) loss on sales of securities available-for-sale	53,052	(12,529)
Deferred income tax benefit	(100,000)	(48,469)
Increase in accrued income receivable	(59,960)	(56,786)
Increase in other assets	(374,362)	(1,149,657)
(Decrease) increase in accrued expenses and other liabilities	(308,684)	981,227
Net change in loans held-for-sale	46,000	(46,000)
Net cash provided by operating activities	<u>985,454</u>	<u>1,087,407</u>
Cash flows from investing activities		
Proceeds from sale of premises and equipment	11,432	-
Additions to premises and equipment	(425,159)	(554,372)
Loan originations and principal collections, net	(9,413,260)	(7,718,342)
Net (increase) decrease in federal funds sold	(443,699)	1,395,200
Purchase of Federal Home Loan Bank stock	(294,300)	-
Proceeds from sale of Federal Home Loan Bank stock	-	527,000
Purchase of securities available-for-sale	(16,729,698)	(7,885,159)
Proceeds from sales of securities available-for-sale	4,193,855	4,645,901
Maturities of securities available-for-sale	6,475,424	6,568,411
Purchase of securities held-to-maturity	(740,745)	(1,067,745)
Maturities of securities held-to-maturity	1,272,716	831,249
Purchase of life insurance policies	-	(2,500,068)
Net cash used by investing activities	<u>(16,093,434)</u>	<u>(5,757,925)</u>
Cash flows from financing activities		
Net increase in deposits	7,505,561	16,769,334
Net decrease in short-term borrowings	(2,060,000)	(7,940,000)
Proceeds from issuance of long-term debt	10,000,000	-
Repayment of long-term debt	-	(5,000,000)
Proceeds from issuance of treasury stock	768	-
Cash dividends paid on common stock	(303,099)	(303,093)
Net cash provided by financing activities	<u>15,143,230</u>	<u>3,526,241</u>
Net increase (decrease) in cash and cash equivalents	35,250	(1,144,277)
Cash and cash equivalents, beginning of year	<u>4,753,042</u>	5,897,319
Cash and cash equivalents, end of year	<u>\$ 4,788,292</u>	<u>\$ 4,753,042</u>
Supplementary cash flow information:		
Interest paid on deposits and borrowed funds	<u>\$ 3,523,069</u>	<u>\$ 2,449,235</u>
Income taxes paid	<u>\$ 423,739</u>	<u>\$ 255,439</u>

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

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Nature of Business

Champlain Bank Corporation (the Company) is a one-bank holding company organized in 1986 and headquartered in Willsboro, New York. It provides a variety of financial services to individuals and small businesses through its offices in the Essex and Clinton Counties of New York. Its primary deposit products are demand, savings and term certificate accounts and its primary lending products are consumer and commercial mortgage loans. The Company is subject to the regulations of certain federal and state agencies as well as examinations by those regulatory authorities.

1. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements of the Company and its wholly-owned subsidiary, Champlain National Bank (the Bank), conform to U.S. generally accepted accounting principles and to general practices within the banking industry. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

In preparing consolidated financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during 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 losses and the valuation of other real estate owned. In connection with the determination of the allowance for loan losses and the carrying value of other real estate owned, management obtains independent appraisals for significant properties.

Significant Group Concentrations of Credit Risk

Most of the Company's loans are collateralized by real estate in the Essex and Clinton Counties of New York. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is susceptible to changes in economic conditions in these areas.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks.

The Company's due from bank accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

Securities

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. Securities not classified as held-to-maturity, 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 or loss, net of related income taxes.

Purchased 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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Nonmarketable equity securities, such as Federal Home Loan Bank of New York stock and Federal Reserve Bank of New York stock, are stated at cost and are included in other assets. These securities are periodically evaluated for impairment. The investments in Federal Home Loan Bank of New York stock and Federal Reserve Bank of New York stock are required for membership.

Loans Held-for-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Loans past due 30 days or more are considered delinquent. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not collected, for loans that are placed on nonaccrual or charged off is reversed against interest income. Cash payments representing interest income are reported as such. Other cash payments are reported as reductions in carrying value. Increases or decreases in the carrying value, due to changes in estimates of future payments and due to the passage of time, are reported as provision for loan losses. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans 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 used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest, when due, according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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

Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under lines-of-credit. Such financial instruments are recorded when they are funded.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenues and expenses from operations and changes in the valuation allowance are included in net expenses from other real estate owned.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line and various accelerated methods over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the life of the improvement or the related lease term.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. The Company has a simple capital structure with no dilutive or potentially dilutive instruments outstanding as of December 31, 2007 and 2006. The weighted average number of shares outstanding for both basic and diluted earnings per share calculations was 24,445 in 2007 and 24,443 in 2006.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income or loss.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

2. Cash and Due from Banks

The Company is required to maintain certain reserves of vault cash or deposits with the Federal Reserve Bank. The amount of this reserve requirement, included in cash and due from banks, was approximately \$346,000 and \$2,127,000 as of December 31, 2007 and 2006, respectively.

3. Securities

The amortized cost and fair value of securities as of December 31 are as follows:

		<u>2007</u>		
	<u>Amortized</u>	Gross <u>Unrealized</u>	Gross <u>Unrealized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Gains</u>	<u>Losses</u>	<u>Value</u>
<u>Securities Available-for-Sale</u>				
Debt securities				
U.S. Government and government	\$ 4,000,000	\$ 2,220	\$ (9,130)	\$ 3,993,090
State and municipal	9,752,859	14,635	(87,422)	9,680,072
Corporate	6,073,874	127	(249,354)	5,824,647
Mortgage-backed	35,516,888	333,152	(249,965)	35,600,075
Collateral mortgage obligations	<u>16,017,479</u>	<u>39,487</u>	<u>(348,750)</u>	<u>15,708,216</u>
Total securities available-for-sale	<u>\$ 71,361,100</u>	<u>\$ 389,621</u>	<u>\$ (944,621)</u>	<u>\$ 70,806,100</u>
<u>Securities Held-to-Maturity</u>				
Debt securities				
State and municipal	<u>\$ 1,348,445</u>	<u>\$ 45,702</u>	<u>\$ (3,147)</u>	<u>\$ 1,391,000</u>
Total securities held-to-maturity	<u>\$ 1,348,445</u>	<u>\$ 45,702</u>	<u>\$ (3,147)</u>	<u>\$ 1,391,000</u>

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

		<u>2006</u>		
	<u>Amortized</u>	<u>Gross</u>	<u>Gross</u>	<u>Fair</u>
	<u>Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>Losses</u>	
<u>Securities Available-for-Sale</u>				
Debt securities				
U.S. Government and government	\$ 4,000,000	\$ -	\$ (65,300)	\$ 3,934,700
State and municipal	8,409,283	43,505	(117,920)	8,334,868
Corporate	5,187,202	-	(170,202)	5,017,000
Mortgage-backed	26,753,682	36,751	(605,046)	26,185,387
Collateral mortgage obligations	<u>21,167,770</u>	<u>12,501</u>	<u>(406,689)</u>	<u>20,773,582</u>
 Total securities available-for-sale	 <u>\$ 65,517,937</u>	 <u>\$ 92,757</u>	 <u>\$(1,365,157)</u>	 <u>\$ 64,245,537</u>
 <u>Securities Held-to-Maturity</u>				
Debt securities				
State and municipal	<u>\$ 1,880,416</u>	<u>\$ 68,882</u>	<u>\$ (3,760)</u>	<u>\$ 1,945,538</u>
 Total securities held-to-maturity	 <u>\$ 1,880,416</u>	 <u>\$ 68,882</u>	 <u>\$ (3,760)</u>	 <u>\$ 1,945,538</u>

At December 31, 2007 and 2006, securities with a carrying value of \$72,178,696 and \$65,070,950, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2007, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	\$ -	\$ -	\$ 737,045	\$ 739,080
Over 1 year through 5 years	7,252,426	7,088,371	367,300	374,282
After 5 years through 10 years	4,349,751	4,254,950	19,100	20,607
Over 10 years	<u>8,224,556</u>	<u>8,154,488</u>	<u>225,000</u>	<u>257,031</u>
	19,826,733	19,497,809	1,348,445	1,391,000
Mortgage-backed securities and collateral mortgage obligations	<u>51,534,367</u>	<u>51,308,291</u>	-	-
	<u>\$ 71,361,100</u>	<u>\$ 70,806,100</u>	<u>\$ 1,348,445</u>	<u>\$ 1,391,000</u>

For the years ended December 31, 2007 and 2006, proceeds from sales of securities available-for-sale amounted to \$4,193,855 and \$4,645,901, respectively. Gross realized gains amounted to \$4,448 and \$49,768 at December 31, 2007 and 2006, respectively. Gross realized losses amounted to \$57,500 and \$37,239 at December 31, 2007 and 2006, respectively.

There were no sales of securities held-to-maturity during 2007 and 2006.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Investments with continuous unrealized losses for a period of less than twelve months and twelve months or greater as of December 31, 2007 are as follows:

	<u>Less than 12 months</u>		<u>12 months or greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U.S. Government and government sponsored enterprises	\$ -	\$ -	\$ 990,870	\$ 9,130	\$ 990,870	\$ 9,130
State and municipal	3,772,636	37,267	2,831,590	53,302	6,604,226	90,569
Corporate	920,400	200	20,881,553	249,154	21,801,953	249,354
Mortgage-backed securities	44,672	73	16,511,387	249,892	16,556,059	249,965
Collateral mortgage obligations	<u>1,147,770</u>	<u>190,595</u>	<u>11,067,326</u>	<u>158,155</u>	<u>12,215,096</u>	<u>348,750</u>
	<u>\$ 5,885,478</u>	<u>\$ 228,135</u>	<u>\$ 52,282,726</u>	<u>\$ 719,633</u>	<u>\$ 58,168,204</u>	<u>\$ 947,768</u>

Investments with continuous unrealized losses for a period of less than twelve months and twelve months or greater as of December 31, 2006 are as follows:

	<u>Less than 12 months</u>		<u>12 months or greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U.S. Government and	\$ -	\$ -	\$ 3,934,700	\$ 65,300	\$ 3,934,700	\$ 65,300
State and municipal	2,620,788	29,431	2,423,981	92,249	5,044,769	121,680
Corporate	-	-	5,017,000	170,202	5,017,000	170,202
Mortgage-backed	920,475	6,793	19,760,576	598,253	20,681,051	605,046
Collateral mortgage obligations	<u>863,417</u>	<u>6,758</u>	<u>19,089,401</u>	<u>399,931</u>	<u>19,952,818</u>	<u>406,689</u>
	<u>\$ 4,404,680</u>	<u>\$ 42,982</u>	<u>\$ 50,225,658</u>	<u>\$ 1,325,935</u>	<u>\$ 54,630,338</u>	<u>\$ 1,368,917</u>

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

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Management evaluates securities for other-than-temporary impairment when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the 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 Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Management believes that the unrealized loss positions are primarily due to the changes in the interest rate environment, there is little risk of loss or default from the counterparties, and the Company has the ability and intent to hold the securities for the foreseeable future, therefore, the securities are not considered other-than-temporarily impaired.

4. Loans

A summary of the balances of loans as of December 31 is as follows:

	<u>2007</u>	<u>2006</u>
Real estate mortgages	\$ 8,961,570	\$ 8,640,707
Commercial loans	65,434,807	61,005,249
Home equity loans	10,099,781	8,619,534
Personal loans	<u>9,723,614</u>	<u>6,635,585</u>
	94,219,772	84,901,075
Allowance for loan losses	(1,602,420)	(1,390,352)
Net deferred loan costs	<u>313,653</u>	<u>251,271</u>
Loans, net	<u>\$ 92,931,005</u>	<u>\$ 83,761,994</u>

As of December 31, 2007 and 2006, nonaccrual loans were \$1,400,119 and \$365,782, respectively.

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An analysis of the allowance for loan losses is as follows:

	<u>Years Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 1,390,352	\$ 1,402,394
Provision for loan losses	244,250	45,000
Loans charged off	(55,228)	(64,002)
Recoveries of loans previously charged off	<u>23,046</u>	<u>6,960</u>
Balance at end of year	<u>\$ 1,602,420</u>	<u>\$ 1,390,352</u>

The following is a summary of information pertaining to impaired loans:

	<u>2007</u>	<u>2006</u>
Impaired loans without a valuation allowance	\$ 538,724	\$ 365,782
Impaired loans with a valuation allowance	<u>861,395</u>	<u>-</u>
Total impaired loans	<u>\$ 1,400,119</u>	<u>\$ 365,782</u>
Valuation allowance related to impaired loans	<u>\$ 274,942</u>	<u>\$ -</u>

	<u>Years Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Average investment in impaired loans	<u>\$ 673,132</u>	<u>\$ 379,396</u>
Interest income recognized on impaired loans, all on cash basis	<u>\$ 115,340</u>	<u>\$ 27,566</u>

No additional funds are committed to be advanced in connection with impaired loans.

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5. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 137,049	\$ 133,278
Buildings and improvements	3,563,799	3,536,032
Equipment	4,661,709	4,314,512
Construction in progress	<u>486,347</u>	<u>498,365</u>
	8,848,904	8,482,187
Accumulated depreciation	<u>(5,652,168)</u>	<u>(5,228,432)</u>
	<u>\$ 3,196,736</u>	<u>\$ 3,253,755</u>

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2007, pertaining to office space for two Plattsburgh branches and the Lake Placid branch, future minimum rent commitments under various operating leases are as follows:

2008	\$ 96,400
2009	54,700
2010	43,600
2011	43,700
2012	7,300
Thereafter	<u>-</u>
	<u>\$ 245,700</u>

The leases contain options to renew. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2007 and 2006 amounted to \$107,898 and \$102,528, respectively.

6. Deposits

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2007 and 2006 was \$23,947,352 and \$23,438,661, respectively.

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At December 31, 2007, the scheduled maturities of time deposits are as follows:

2008	\$	45,425,854
2009		1,440,251
2010		551,129
2011		38,471
2012		<u>36,426</u>
	\$	<u><u>47,492,131</u></u>

7. Advances from Federal Home Loan Bank

Pursuant to collateral agreements with the Federal Home Loan Bank of New York (FHLB), advances are collateralized by all stock in the FHLB, qualifying first mortgages and securities available-for-sale.

At December 31, 2007, the interest rates on fixed-rate advances ranged from 3.84 percent to 4.41 percent. At December 31, 2006, the interest rate on the one fixed-rate advance was 5.33 percent. The Bank had no floating rate advances at December 31, 2007 and 2006.

The contractual maturities of advances at December 31, 2007 are as follows:

2010	\$	5,000,000
2012		<u>5,000,000</u>
Total		<u>\$ 10,000,000</u>

The contractual maturities of advances at December 31, 2006 are as follows:

2007	\$	<u>2,060,000</u>
------	----	------------------

At December 31, 2007, the Bank's total FHLB borrowing capacity was \$23,488,700, of which \$13,488,700 was unused and available for additional borrowings.

The Bank's total borrowing capacity from the Federal Reserve Bank was \$547,000 at December 31, 2007. The Bank also had \$5,000,000 available under long-term lines of credit at December 31, 2007. There were no amounts outstanding at December 31, 2007 or 2006.

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8. Income Taxes

Allocation of federal and state income tax expense between current and deferred portions is as follows:

	<u>2007</u>	<u>2006</u>
Current tax expense		
Federal	\$ 300,493	\$ 196,170
State	<u>80,051</u>	<u>59,223</u>
	380,544	255,393
Deferred federal tax benefit	<u>(100,000)</u>	<u>(48,469)</u>
	<u>\$ 280,544</u>	<u>\$ 206,924</u>

The income tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes principally because of state income taxes, tax-exempt income and life insurance premiums.

The components of the net deferred tax asset, included in other assets are as follows:

	<u>2007</u>	<u>2006</u>
Deferred tax assets		
Net unrealized loss on securities available-for-sale	\$ 222,000	\$ 508,960
Allowance for loan losses	954,692	916,557
Employee benefit plans	2,259,083	2,004,982
Other	<u>117,437</u>	<u>59,606</u>
	<u>3,553,212</u>	<u>3,490,105</u>
Deferred tax liabilities		
Prepaid pension and other postretirement benefits	1,718,256	1,559,269
Depreciation	<u>633,615</u>	<u>783,468</u>
	<u>2,351,871</u>	<u>2,342,737</u>
	1,201,341	1,147,368
Valuation allowance	<u>(21,708)</u>	<u>(21,708)</u>
	<u>\$ 1,179,633</u>	<u>\$ 1,125,660</u>

The valuation allowance, as established by management, takes into consideration the historical level of taxable income in prior years as well as the time period in which the items giving rise to the deferred tax assets will be recognized.

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9. Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters-of-credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2007 and 2006, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>Contract Amount</u>	
	<u>2007</u>	<u>2006</u>
Commitments to grant loans	\$ 7,059,000	\$ 4,112,000
Unfunded commitments under lines-of-credit	16,949,000	15,892,000
Commercial and standby letters-of-credit	485,000	176,000

Commitments to extend credit 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. The commitments for equity lines-of-credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

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Standby letters-of-credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters-of-credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Company's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment and real estate.

10. Minimum Regulatory Capital Requirements

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 possible 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 their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

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 following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notification from the Office of the Comptroller of the Currency (OCC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2007 and 2006 are also presented in the table.

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	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>December 31, 2007</u>						
Total Capital to Risk Weighted Assets						
Consolidated	\$ 16,729,109	13.88%	\$ 9,644,858	8.00%	N/A	N/A
Bank	16,723,403	13.87	9,644,858	8.00	\$ 12,056,072	10.00%
Tier 1 Capital to Risk Weighted Assets						
Consolidated	15,222,100	12.63	4,822,429	4.00	N/A	N/A
Bank	15,216,394	12.62	4,822,429	4.00	7,233,643	6.00
Tier 1 Capital to Average Assets						
Consolidated	15,222,100	8.78	6,931,643	4.00	N/A	N/A
Bank	15,216,394	8.78	6,931,643	4.00	8,664,554	5.00
<u>December 31, 2006</u>						
Total Capital to Risk Weighted Assets						
Consolidated	\$ 16,035,942	14.72%	\$ 8,716,219	8.00%	N/A	N/A
Bank	16,032,095	14.71	8,716,219	8.00	\$ 10,895,274	10.00%
Tier 1 Capital to Risk Weighted Assets						
Consolidated	14,674,033	13.47	1,358,109	4.00	N/A	N/A
Bank	14,670,185	13.46	4,358,109	4.00	6,537,164	6.00
Tier 1 Capital to Average Assets						
Consolidated	14,674,033	9.04	6,491,716	4.00	N/A	N/A
Bank	14,670,185	9.04	6,491,716	4.00	8,114,645	5.00

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11. Employee Benefit Plans

401(k) Plan

The Company has a 401(k) plan whereby all employees are eligible to participate in the plan upon date of hire. Participants may contribute up to the maximum amount allowed by federal tax laws. The Company made matching contributions equal to 4 percent of compensation in 2007 and 2006. The Company may also make a profit-sharing contribution to the plan. There were contributions of 1 percent of each eligible employee's compensation in 2007 and no contributions in 2006. For the years ended December 31, 2007 and 2006, expense attributable to the plan amounted to \$132,431 and \$102,759, respectively.

Supplemental Retirement Plan

The Company sponsors an unfunded, non-qualified supplemental retirement plan for certain officers. The agreement provides supplemental retirement payments payable over 15-20 years upon retirement or death. The costs for this plan are recognized over the service periods of the participating officers.

The expenses of this supplemental plan were \$159,333 and \$113,800 in 2007 and 2006, respectively. As of December 31, 2007 and 2006, the accrued liability of this plan was \$1,015,658 and \$951,269, respectively.

Defined Benefit Retirement Plans

The Company is a member of the New York State Bankers Retirement System and offers a non-contributory defined benefit pension plan to substantially all full-time employees and part-time employees as required by law. Benefit payments to retired employees are based upon their length of service and a percentage of qualifying compensation during the final years of employment. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Assets of the plan are primarily invested in equity and debt securities. The costs for this plan are recognized over the service periods of the participating employees.

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The annual measurement date used to determine pension benefits is September 30, 2007. The following table sets forth the plan's funded status and amounts recognized in the Company's consolidated balance sheets as of December 31:

	<u>2007</u>	<u>2006</u>
Benefit obligation at December 31	\$ 5,664,514	\$ 5,273,160
Fair value of plan assets at December 31	<u>7,792,930</u>	<u>6,585,068</u>
Funded status	<u>\$ 2,128,416</u>	<u>\$ 1,311,908</u>
Accumulated benefit obligation	<u>\$ 4,792,365</u>	<u>\$ 4,419,898</u>
Prepaid pension cost included in the consolidated balance	<u>\$ 2,128,416</u>	<u>\$ 2,194,984</u>
Weighted average assumptions used to determine benefit obligation		
Discount rate	6.00%	6.00%
Rate of compensation increase	3.50%	3.50%
Weighted average assumptions used to determine net benefit cost		
Discount rate	6.00%	5.50%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	3.50%	3.50%

The following table discloses additional information regarding the pension plan for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Employer contributions	\$ 1,026,640	\$ 679,891
Benefits paid	340,448	217,166

The Company's estimate of contributions expected to be paid during 2008 is \$521,670.

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Future benefit payments are expected to be paid as follows:

Years ending December 31:

2008	\$	259,501
2009		256,455
2010		268,932
2011		269,818
2012		278,685
Years 2013 - 2017		1,498,505

The Company's pension plan weighted-average asset allocations by asset category are as follows:

<u>Asset Category</u>	<u>Plan Assets at September 30</u>	
	<u>2007</u>	<u>2006</u>
Equity securities	58.0%	59.8%
Debt securities	40.0%	39.9%
Other	<u>2.0%</u>	<u>0.3%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The New York State Bankers Retirement System (the "System") was established in 1938 to provide for the payment of benefits to employees of participating banks. The System is overseen by a Board of Trustees who meet quarterly and set the investment policy guidelines.

The System utilizes two investment management firms (which will be referred to as Firm I and Firm II), each investing approximately 50% of the total portfolio. The System's investment objective is to exceed the investment benchmarks in each asset category. Each firm operates under a separate written investment policy approved by the Trustees and designed to achieve an allocation approximating 60% invested in Equity Securities and 40% invested in Debt Securities.

Each Firm shall report at least quarterly to the Investment Committee of the System and semi-annually to the Board of the System.

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Equities: The target allocation percentage for equity securities is 60%, but may vary from 50%-70% at the investment manager's discretion.

Firm I is employed for its expertise as a Value Manager. It is allowed to invest a certain amount of the equity portfolio under its management in international securities and to hedge said international securities so as to protect against currency devaluations.

The equities managed by Firm II are in a commingled Large Cap Equity Fund. The Fund is invested in a diversified portfolio of common or capital stocks, or bonds, debentures, notes or preferred stocks convertible into common or capital stocks, or in other types of equity investments whether foreign or domestic. Short-term obligations of the U.S. Government or other short-term investments may be purchased and held pending the selection and purchase of suitable investments which meet the guidelines above. Investments may include units of participation in any other Fund established within this Fund which consists of assets of the nature described in the preceding paragraph.

Fixed Income: For both investment portfolios, the target allocation percentage for debt securities is 40%, but may vary from 30%-50% at the investment manager's discretion.

The Fixed Income Portfolio managed by Firm I operates with guidelines relating to types of debt securities, quality ratings, maturities, and maximum single and sector allocations.

The portfolio may trade foreign currencies in both spot and forward markets to effect securities transactions and to hedge underlying asset positions. The purchase and sale of futures and options on futures on foreign currencies and on foreign and domestic bonds, bond indices and short-term securities is permitted; however, purchases may not be used to leverage the portfolio.

The Fixed Income Portfolio managed by Firm II is in a commingled Fixed Income Fund. This style of fixed income management focuses on high quality securities drawn from various market sectors, including U.S. Treasuries and government-sponsored agencies, sovereigns, supranationals, residential mortgage-backed securities, corporates, commercial mortgage-backed securities, asset-backed securities, and municipals as set forth in its guidelines and the System's investment policy.

The expected long-term rate-of-return on plan assets reflects long-term earnings expectations on existing plan assets and those contributions expected to be received during the current plan year. In estimating that rate, appropriate consideration was given to historical returns earned by plan assets in the fund and the rates of return expected to be available for reinvestment. Average rates of return over the past one-, three-, five-, and ten-year periods were determined and, subsequently, adjusted to reflect current capital market assumptions and changes in investment allocations.

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Defined Benefit Postretirement Plan

In addition to the Company's non-contributory defined benefit pension plan, the Company provides a defined benefit postretirement plan which provides medical benefits and life insurance benefits to employees who were hired before January 1, 2005, and have attained 55 years of age with 10 years of service. The postretirement health care portion of the plan is contributory, with participants' contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. While the amount of a participant's contribution varies depending upon age and service, the Company has set a maximum dollar amount it will pay for medical benefits regardless of age or service. The funding policy of the plan is to pay claims and/or insurance premiums as they come due. The costs for this plan are recognized over the service periods of the participating employees.

The following table presents the amounts recognized in the Company's consolidated balance sheets as of December 31:

	<u>2007</u>	<u>2006</u>
Benefit obligation at December 31	\$ 791,757	\$ 767,087
Fair value of plan assets at December 31	<u>-</u>	<u>-</u>
Funded status	<u>\$ (791,757)</u>	<u>\$ (767,087)</u>
Accrued postretirement costs included in the consolidated		
	<u>\$ (791,757)</u>	<u>\$ (620,423)</u>
Weighted average assumption used to determine benefit obligation and benefit cost		
Discount rate	6.00%	6.00%

The following table discloses additional information regarding the postretirement plan for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Employer contributions	\$ 33,929	\$ 31,685
Benefits paid	(33,929)	(31,685)

The Company's estimate of contributions expected to be paid during 2008 is \$34,000.

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Future benefit payments are expected to be paid as follows:

Years ending December 31:

2008	\$	33,375
2009		34,084
2010		34,898
2011		36,379
2012		39,276
Years 2013 - 2017		257,513

The health care cost trend rate assumption does not have a significant effect on the reported amounts as a result of the Company's cap on the maximum contribution it will pay.

In December 2003, the President signed the federal Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) into law. The Act includes the following two new features to Medicare (Medicare Part D) that could affect the measurement of the accumulated postretirement benefit obligation (APBO) and net periodic postretirement benefit cost for the Plan:

- A subsidy to plan sponsors that is based on 28% of an individual beneficiary's annual prescription drug costs between \$250 and \$5,000
- The opportunity for a retiree to obtain a prescription drug benefit under Medicare

During 2004, the Financial Accounting Standards Board (FASB) Staff issued FASB Staff Position (FSP) FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." The FSP addresses employers' accounting for the effects of the Act and is effective for the Company beginning in 2005. The accounting for the Act depends on the Company's assessment as to whether the prescription drug benefits available under its plan are actuarially equivalent to Medicare Part D, among other factors. The Company has not determine that the benefit it provides is actuarially equivalent to the benefit provided under the Act and, accordingly, the impact of applying the FSP is not reflected in these financial statements.

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At December 31, 2007 the Company adopted Statement of Financial Accounting Standards (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)." This Statement requires an employer to recognize the overfunded or underfunded status of pension and defined benefit postretirement plans as an asset or a liability in its balance sheet and to recognize, through comprehensive income or loss, changes in the funded status in the year in which the changes occur. The funded status of a plan should be measured as of the date of the Company's year-end balance sheet, with limited exceptions. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end balance sheet is effective for fiscal years ending after December 15, 2008.

The adjustment to accumulated other comprehensive loss to recognize the funded status of the Company's pension and postretirement plans upon adoption of SFAS No. 158 on December 31, 2007 was \$361,401. Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss is as follows:

<u>At December 31,</u>	<u>2007</u>
Unamortized prior service cost	\$ 42,207
Unamortized net actuarial loss	451,477
Unrecognized transition obligation	<u>108,650</u>
	602,334
Deferred tax benefit at 40%	<u>240,933</u>
Net unrecognized pension benefits included in other accumulated comprehensive loss	<u>\$ 361,401</u>

The following amounts are expected to be reclassified from accumulated other comprehensive loss and recognized in net periodic benefit cost in 2008:

Unamortized prior service cost	\$ 3,857
Unamortized net actuarial loss	<u>15,521</u>
	<u>\$ 19,378</u>

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The incremental effect of applying SFAS No. 158 on individual line items in the consolidated balance sheet as of December 31, 2007, are as follows:

	Before <u>Application</u>	SFAS No. 158 <u>Adjustment</u>	After <u>Application</u>
Other assets	\$ 8,599,877	\$ (232,769)	\$ 8,367,108
Total assets	183,022,706	(232,769)	182,789,937
Other liabilities	4,258,452	128,632	4,387,084
Total liabilities	168,133,796	128,632	168,262,428
Accumulated other comprehensive loss	(333,000)	(361,401)	(694,401)
Total stockholders' equity	14,888,910	(361,401)	14,527,509

12. Other Noninterest Expenses

The components of other noninterest expenses, which are in excess of 1% of total revenues (total interest and dividend income and other income) and not shown separately in the consolidated statements of income, are as follows for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Audits and examinations	\$ 102,520	\$ 115,020
Software maintenance fees	181,699	165,837
Director fees	<u>112,650</u>	<u>106,100</u>
	<u>\$ 396,869</u>	<u>\$ 386,957</u>

13. Related Party Transactions

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to \$1,729,765 at December 31, 2007 and \$1,848,210 at December 31, 2006. During the years ended December 31, 2007 and 2006, total principal additions were \$41,109 and \$276,000, respectively, and total principal payments were \$159,554 and \$333,962, respectively. Deposits from related parties held by the Bank at December 31, 2007 and 2006 amounted to \$1,508,903 and \$1,458,581, respectively.

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14. Restrictions On Dividends

Income earned by the Bank is the primary source of funds available to the Company for payment of dividends to its stockholders and for other working capital needs. Applicable federal and state statutes, regulations, and guidelines impose restrictions on the amount of dividends that may be declared by the Bank. Under these restrictions, the dividends declared by the Bank to the Company in 2008 may not exceed the aggregate of the Bank's net profits in 2008 combined with its retained net profits from the two preceding years of approximately \$906,915.

In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

15. Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

16. Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. SFAS No. 107, which governs fair value disclosures for financial instruments, excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash, cash equivalents and federal funds sold: The carrying amounts of cash and short-term instruments approximate fair values.

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Securities: Fair values for securities, excluding Federal Home Loan Bank and Federal Reserve Bank stock, are based on quoted market prices. The carrying value of Federal Home Loan Bank and Federal Reserve Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank and Federal Reserve Bank.

Loans held-for-sale: Fair values of loans held-for-sale are based on commitments on hand from investors or prevailing market prices.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Cash surrender value of life insurance: The carrying amount of cash surrender value of life insurance approximates fair value.

Deposit liabilities: The fair values for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities on the certificates.

Advances from Federal Home Loan Bank: The fair values of these borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet instruments: The Company's off-balance-sheet instruments consist of loan commitments. Fair values for loan commitments have not been presented as the future revenue derived from such financial instruments is not significant.

The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments at December 31 are as follows:

	2007		2006	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets				
Cash and cash equivalents	\$ 4,788,292	\$ 4,788,292	\$ 4,753,042	\$ 4,753,042
Federal funds sold	448,499	448,499	4,800	4,800
Securities available-for-sale	70,806,100	70,806,100	64,245,537	64,245,537
Securities held-to-maturity	1,348,445	1,391,000	1,880,416	1,945,538
Federal Home Loan Bank	720,700	720,700	426,400	426,400
Loans and loans held-for-sale, net	92,931,005	92,405,738	83,807,994	87,242,057
Accrued interest receivable	903,752	903,752	843,792	843,792
Cash surrender value of life insurance	3,755,132	3,755,132	3,581,513	3,581,513
Financial liabilities				
Deposits	153,875,344	148,564,022	146,369,783	136,752,381
Advances from Federal Home Loan Bank	10,000,000	10,138,939	2,060,000	2,060,000
Accrued interest payable	283,732	283,732	286,363	286,363