

**CHAMPLAIN BANK CORPORATION
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

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, 2009 and 2008, 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, 2009 and 2008, 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.

Berry, Dunn, McNeil & Parker

Portland, Maine
March 24, 2010

**CHAMPLAIN BANK CORPORATION
AND SUBSIDIARY**

Consolidated Balance Sheets

December 31, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents		
Cash and due from banks	\$ 4,066,359	\$ 4,613,059
Federal funds sold	138,502	17,740
Securities available-for-sale	79,986,473	74,183,365
Securities held-to-maturity	453,580	586,700
Loans receivable, net of allowance for loan losses of \$1,908,963 in 2009 and \$1,780,111 in 2008	106,887,635	103,404,772
Accrued interest receivable	851,565	911,582
Federal Home Loan Bank stock, at cost	973,300	969,500
Premises and equipment, net	3,074,517	3,165,279
Prepaid FDIC assessment	892,373	-
Other assets	<u>7,167,641</u>	<u>7,814,234</u>
	<u>\$ 204,491,945</u>	<u>\$ 195,666,231</u>

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2009</u>	<u>2008</u>
Liabilities		
Deposits	\$ 169,349,179	\$ 159,946,904
Advances from Federal Home Loan Bank	15,000,000	16,500,000
Accrued expenses and other liabilities	<u>4,774,936</u>	<u>6,941,396</u>
Total liabilities	<u>189,124,115</u>	<u>183,388,300</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; 24,209 shares outstanding at December 31, 2009 and 2008	28,284	28,284
Surplus	1,070,883	1,070,883
Retained earnings	16,411,729	15,692,981
Accumulated other comprehensive loss		
Net unrealized appreciation (depreciation) on securities available- for-sale, net of deferred income taxes	736,740	(868,800)
Net unrecognized loss on pension and other postretirement benefit costs, net of deferred income taxes	(1,585,455)	(2,351,066)
Treasury stock, at cost, 4,075 shares in 2009 and 2008	<u>(1,294,351)</u>	<u>(1,294,351)</u>
Total stockholders' equity	<u>15,367,830</u>	<u>12,277,931</u>
	<u>\$ 204,491,945</u>	<u>\$ 195,666,231</u>

**CHAMPLAIN BANK CORPORATION
AND SUBSIDIARY**

Consolidated Statements of Income

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Interest and dividend income		
Loans	\$ 6,247,792	\$ 6,739,709
Investment securities		
Taxable	2,907,448	3,242,131
Tax-exempt	751,443	570,169
Other interest-earning assets	2,487	46,534
Total interest and dividend income	<u>9,909,170</u>	<u>10,598,543</u>
Interest expense		
Deposits	1,458,938	2,530,527
Borrowed funds	555,680	539,655
Total interest expense	<u>2,014,618</u>	<u>3,070,182</u>
Net interest income	7,894,552	7,528,361
Provision for loan losses	<u>275,200</u>	<u>340,000</u>
Net interest income after provision for loan losses	<u>7,619,352</u>	<u>7,188,361</u>
Noninterest income		
Service charges and fees	1,609,857	1,381,562
Loan servicing fees	118,511	121,029
Net loss on sales of securities available-for-sale	(450,097)	(144,476)
Other	<u>316,439</u>	<u>331,314</u>
Total noninterest income before impairment of investment security	<u>1,594,710</u>	<u>1,689,429</u>
Total other-than-temporary impairment loss	(177,575)	-
Portion of loss recognized in other comprehensive loss	<u>52,575</u>	-
Net impairment loss recognized in net income	<u>(125,000)</u>	-
Net noninterest income	<u>1,469,710</u>	<u>1,689,429</u>
Noninterest expenses		
Salaries and employee benefits	4,645,846	4,343,505
Occupancy	633,918	620,663
Other general and administrative	<u>2,628,973</u>	<u>2,413,197</u>
Total noninterest expenses	<u>7,908,737</u>	<u>7,377,365</u>
Income before income taxes	1,180,325	1,500,425
Income tax expense	<u>146,860</u>	<u>375,910</u>
Net income	<u>\$ 1,033,465</u>	<u>\$ 1,124,515</u>
Basic and diluted earnings per share	<u>\$ 42.69</u>	<u>\$ 46.30</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, 2009 and 2008

	<u>Common Stock</u>	<u>Surplus</u>	<u>Retained Earnings</u>	<u>Net Unrealized Appreciation (Depreciation) On Securities Available- for-Sale</u>	<u>Net Unrecognized Loss on Pension and Other Postretire- ment Benefit Costs</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance, December 31, 2007	\$ <u>28,284</u>	\$ <u>1,070,883</u>	\$ <u>15,306,882</u>	\$ <u>(333,000)</u>	\$ <u>(361,401)</u>	\$ <u>(1,184,139)</u>	\$ <u>14,527,509</u>
Net income	-	-	<u>1,124,515</u>	-	-	-	<u>1,124,515</u>
Unrealized holding losses arising during the period, net of deferred income tax of \$(414,990)	-	-	-	(622,486)	-	-	(622,486)
Reclassification adjustment for losses included in net income, net of deferred income tax of \$57,790	-	-	-	<u>86,686</u>	-	-	<u>86,686</u>
Change in net unrealized depreciation on securities available-for-sale, net of deferred income tax of \$(357,200)	-	-	-	(535,800)	-	-	(535,800)
Unrecognized actuarial loss on pension and postretirement benefits, net of deferred income tax of \$(1,044,058)	-	-	-	-	<u>(1,777,875)</u>	-	<u>(1,777,875)</u>
Total comprehensive loss	-	-	<u>1,124,515</u>	<u>(535,800)</u>	<u>(1,777,875)</u>	-	<u>(1,189,160)</u>
Change in accounting for split dollar life insurance arrangements	-	-	<u>(405,946)</u>	-	-	-	<u>(405,946)</u>
Adjustment to apply the measurement date provisions of the defined benefit pension plan, net of deferred income tax of \$(141,193)	-	-	<u>(16,885)</u>	-	<u>(211,790)</u>	-	<u>(228,675)</u>
Purchase of treasury stock (236 shares)	-	-	-	-	-	<u>(110,212)</u>	<u>(110,212)</u>
Cash dividends declared	-	-	<u>(315,585)</u>	-	-	-	<u>(315,585)</u>
Balance, December 31, 2008	\$ <u>28,284</u>	\$ <u>1,070,883</u>	\$ <u>15,692,981</u>	\$ <u>(868,800)</u>	\$ <u>(2,351,066)</u>	\$ <u>(1,294,351)</u>	\$ <u>12,277,931</u>

(Continued next page)

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, 2009 and 2008

	<u>Common Stock</u>	<u>Surplus</u>	<u>Retained Earnings</u>	<u>Net Unrealized Appreciation (Depreciation) On Securities Available- for-Sale</u>	<u>Net Unrecognized Loss on Pension and Other Postretire- ment Benefit Costs</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance, December 31, 2008	\$ <u>28,284</u>	\$ <u>1,070,883</u>	\$ <u>15,692,981</u>	\$ <u>(868,800)</u>	\$ <u>(2,351,066)</u>	\$ <u>(1,294,351)</u>	\$ <u>12,277,931</u>
Net income	-	-	<u>1,033,465</u>	-	-	-	<u>1,033,465</u>
Unrealized holding gains arising during the period, net of deferred income tax of \$(840,320)	-	-	-	<u>1,260,483</u>	-	-	<u>1,260,483</u>
Reclassification adjustment for losses included in net income, net of deferred income tax of \$(230,040)	-	-	-	<u>345,057</u>	-	-	<u>345,057</u>
Change in net unrealized depreciation on securities available-for-sale, net of deferred income tax of \$(1,070,360)	-	-	-	<u>1,605,540</u>	-	-	<u>1,605,540</u>
Unrecognized actuarial gain on pension and postretirement benefits, net of deferred income tax of \$(510,413)	-	-	-	-	<u>765,611</u>	-	<u>765,611</u>
Total comprehensive income	-	-	<u>1,033,465</u>	<u>1,605,540</u>	<u>765,611</u>	-	<u>3,404,616</u>
Cash dividends declared	-	-	<u>(314,717)</u>	-	-	-	<u>(314,717)</u>
Balance, December 31, 2009	\$ <u>28,284</u>	\$ <u>1,070,883</u>	\$ <u>16,411,729</u>	\$ <u>736,740</u>	\$ <u>(1,585,455)</u>	\$ <u>(1,294,351)</u>	\$ <u>15,367,830</u>

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Net income	\$ 1,033,465	\$ 1,124,515
Adjustments to reconcile net income to net cash (used) provided by operating activities		
Depreciation	468,199	463,968
Amortization of discounts and premiums on investments	68,359	62,922
Provision for loan losses	275,200	340,000
Impairment of security	125,000	-
Net realized loss on sales of securities available-for-sale	450,097	144,476
Net gain on sale of equipment	-	(12,808)
Deferred income tax	568,700	(227,608)
Decrease (increase) in accrued interest receivable	60,017	(7,830)
Increase in other assets	(279,841)	(329,029)
Increase in prepaid FDIC assessment	(892,373)	-
Increase (decrease) in accrued expenses and other liabilities	<u>(2,113,475)</u>	<u>947,814</u>
Net cash (used) provided by operating activities	<u>(236,652)</u>	<u>2,506,420</u>
Cash flows from investing activities		
Proceeds from sale of equipment	-	17,507
Additions to premises and equipment	(377,437)	(437,210)
Loan originations and principal collections, net	(3,758,063)	(10,813,767)
Net decrease (increase) in federal funds sold	(120,762)	430,759
Purchase of Federal Home Loan Bank stock	(3,800)	(308,800)
Purchase of securities available-for-sale	(20,354,619)	(29,226,754)
Proceeds from sales of securities available-for-sale	4,344,235	16,442,276
Maturities of securities available-for-sale	12,239,720	8,306,828
Purchase of securities held-to-maturity	(10,880)	(568,345)
Maturities of securities held-to-maturity	144,000	1,330,090
Net cash used by investing activities	<u>(7,897,606)</u>	<u>(14,827,416)</u>
Cash flows from financing activities		
Net increase in deposits	9,402,275	6,071,560
Net increase (decrease) in short-term borrowings	(1,500,000)	1,500,000
Proceeds from issuance of long-term debt	-	5,000,000
Payments to acquire treasury stock	-	(110,212)
Cash dividends paid on common stock	<u>(314,717)</u>	<u>(315,585)</u>
Net cash provided by financing activities	<u>7,587,558</u>	<u>12,145,763</u>
Net decrease in cash and cash equivalents	(546,700)	(175,233)
Cash and cash equivalents, beginning of year	<u>4,613,059</u>	<u>4,788,292</u>
Cash and cash equivalents, end of year	<u>\$ 4,066,359</u>	<u>\$ 4,613,059</u>
Supplementary cash flow information:		
Interest paid on deposits and borrowed funds	<u>\$ 2,102,592</u>	<u>\$ 3,112,238</u>
Income taxes paid	<u>\$ 445,620</u>	<u>\$ 171,139</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, 2009 and 2008

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 include the accounts of the Company and its wholly-owned subsidiary, Champlain National Bank (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation.

The Company follows accounting standards as set by the Financial Accounting Standards Board (FASB). FASB sets U.S. generally accepted accounting principles (GAAP) that management follows to help ensure they consistently report the Company's financial condition, results of operations and cash flows. In June 2009, the FASB issued FASB Accounting Standards Codification (ASC) Topic 105, *Generally Accepted Accounting Principles*, which establishes the FASB ASC as the sole source of authoritative GAAP. Pursuant to the provisions of FASB ASC 105, the Company has updated references to GAAP in its financial statements issued for the year ended December 31, 2009. The adoption of FASB ASC 105 did not impact the Company's financial position or results of operations.

Use of Estimates

In preparing consolidated financial statements in conformity with GAAP, 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.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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 collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in economic conditions in these areas.

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.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value individual equity securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. For declines in the fair value of individual debt securities available-for-sale below their cost that are deemed to be other than temporary, where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings, and 2) other factors are recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows using the effective rate at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.

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

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

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. 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 uncollectability 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 collectability 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, 2009 and 2008

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.

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. Losses arising from the acquisition of such property are charged against the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis 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.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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, 2009 and 2008. The weighted average number of shares outstanding for both basic and diluted earnings per share calculations was 24,209 in 2009 and 24,286 in 2008.

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.

FASB ASC 740, *Income Taxes*, defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. ASC 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company has adopted these provisions and there was no material effect on the financial statements. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the year ended December 31, 2009, when filed. It is the Company's policy to record interest and penalties to income tax expense.

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 appreciation and depreciation on securities available-for-sale, 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, 2009 and 2008

Reclassifications

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

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 \$440,000 and \$355,000 as of December 31, 2009 and 2008, respectively.

3. Securities

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

	<u>Amortized</u>	<u>2009</u>	<u>Gross</u>	<u>Gross</u>	<u>Fair</u>
	<u>Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Losses</u>	<u>Value</u>
		<u>Gains</u>			
<u>Securities Available-for-Sale</u>					
Debt securities					
U.S. Government and government sponsored enterprises	\$ 9,928,026	\$ 35,118	\$ (4,988)		\$ 9,958,156
State and municipal	20,789,712	290,666	(205,492)		20,874,886
Corporate	924,860	-	(213,473)		711,387
Mortgage-backed securities	37,852,499	1,504,346	(22,078)		39,334,767
Collateral mortgage obligations	<u>9,263,476</u>	<u>202,402</u>	<u>(358,601)</u>		<u>9,107,277</u>
Total securities available-for-sale	<u>\$78,758,573</u>	<u>\$2,032,532</u>	<u>\$(804,632)</u>		<u>\$79,986,473</u>
<u>Securities Held-to-Maturity</u>					
Debt securities					
State and municipal	\$ 453,580	\$ 34,685	\$ -		\$ 488,265
Total securities available-for-sale	<u>\$ 453,580</u>	<u>\$ 34,685</u>	<u>\$ -</u>		<u>\$ 488,265</u>

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

		<u>2008</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 sponsored enterprises	\$ 1,000,000	\$ 2,810	\$ -	\$ 1,002,810
State and municipal	18,892,103	28,538	(727,971)	18,192,670
Corporate	5,002,090	-	(811,400)	4,190,690
Mortgage-backed securities	42,776,395	679,547	(76,772)	43,379,170
Collateral mortgage obligations	<u>7,960,777</u>	<u>51,500</u>	<u>(594,252)</u>	<u>7,418,025</u>
Total securities available-for-sale	<u>\$ 75,631,365</u>	<u>\$ 762,395</u>	<u>\$ (2,210,395)</u>	<u>\$ 74,183,365</u>
<u>Securities Held-to-Maturity</u>				
Debt securities				
State and municipal	<u>\$ 586,700</u>	<u>\$ 15,854</u>	<u>\$ (128)</u>	<u>\$ 602,426</u>
Total securities held-to-maturity	<u>\$ 586,700</u>	<u>\$ 15,854</u>	<u>\$ (128)</u>	<u>\$ 602,426</u>

At December 31, 2009 and 2008, securities with a carrying value of \$68,983,495 and \$70,683,303, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2009, 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.

	<u>Available-for-Sale</u>		<u>Held-to-Maturity</u>	
	<u>Amortized</u>	<u>Fair</u>	<u>Amortized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Value</u>	<u>Cost</u>	<u>Value</u>
Within 1 year	\$ 755,349	\$ 757,490	\$ 91,700	\$ 94,160
Over 1 year through 5 years	13,011,665	12,948,954	161,880	175,525
Over 10 years	17,875,584	17,837,985	200,000	218,580
Mortgage-backed securities and collateral mortgage obligations	<u>47,115,975</u>	<u>48,442,044</u>	<u>-</u>	<u>-</u>
	<u>\$78,758,573</u>	<u>\$79,986,473</u>	<u>\$453,580</u>	<u>\$ 488,265</u>

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

For the years ended December 31, 2009 and 2008, proceeds from sales of securities available-for-sale amounted to \$4,344,235 and \$16,442,276, respectively. Gross realized gains amounted to \$56,700 and \$12,270 at December 31, 2009 and 2008, respectively. Gross realized losses amounted to \$506,797 and \$156,746 at December 31, 2009 and 2008, respectively.

There were no sales of securities held-to-maturity during 2009 and 2008.

Investments with continuous unrealized losses for a period of less than twelve months and twelve months or greater as of December 31, 2009 are as follows:

	<u>Less than 12 months</u>		<u>12 months or greater</u>		<u>Total</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
U.S. Government and Government sponsored agencies	\$ 2,990,369	\$ 4,988	\$ -	\$ -	\$ 2,990,369	\$ 4,988
State and municipal	5,916,311	99,227	2,001,117	106,265	7,917,428	205,492
Corporate	-	-	711,387	213,473	711,387	213,473
Mortgage-backed securities	4,057,890	22,078	-	-	4,057,890	22,078
Collateral mortgage obligations	<u>289,741</u>	<u>6,008</u>	<u>2,256,769</u>	<u>352,593</u>	<u>2,546,510</u>	<u>358,601</u>
	<u>\$ 13,254,311</u>	<u>\$ 132,301</u>	<u>\$ 4,969,273</u>	<u>\$ 672,331</u>	<u>\$ 18,223,584</u>	<u>\$ 804,632</u>

Investments with continuous unrealized losses for a period of less than twelve months and twelve months or greater as of December 31, 2008 are as follows:

	<u>Less than 12 months</u>		<u>12 months or greater</u>		<u>Total</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
State and municipal	\$ 14,803,089	\$ 650,851	\$ 1,224,562	\$ 77,248	\$ 16,027,651	\$ 728,099
Corporate	984,170	15,920	3,206,520	795,480	4,190,690	811,400
Mortgage-backed securities	12,386,028	75,341	454,197	1,431	12,840,225	76,772
Collateral mortgage obligations	<u>1,174,840</u>	<u>244,292</u>	<u>2,804,304</u>	<u>349,960</u>	<u>3,979,144</u>	<u>594,252</u>
	<u>\$ 29,348,127</u>	<u>\$ 986,404</u>	<u>\$ 7,689,583</u>	<u>\$ 1,224,119</u>	<u>\$ 37,037,710</u>	<u>\$ 2,210,523</u>

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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.

As of December 31, 2009, the Bank had eight securities with a fair value of \$4,969,247 and an unrealized loss of \$672,331 that had been in a continuous unrealized loss position for 12 months or more. As of December 31, 2008, the Bank had thirteen securities with a fair value of \$7,689,583 and an unrealized loss of \$1,224,119 that had been in a continuous unrealized loss position for 12 months or more.

Management believes the unrealized loss positions are primarily due to the changes in the interest rate environment relative to the time of purchase, and general market conditions and there is little risk of loss or default from the counterparties. Because the decline is not attributable to credit quality and the Company has the ability and intent to hold the securities for the foreseeable future to allow for recovery; these securities are not considered other-than-temporarily impaired at December 31, 2009 and 2008.

Included in the statement of income for 2009 is a write-down of an investment security totaling \$125,000 due to a decline in market value that is considered other-than-temporary. There were no impairment write-downs in 2008.

4. Loans

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

	<u>2009</u>	<u>2008</u>
Real estate mortgages	\$ 8,330,791	\$ 9,243,927
Commercial loans	79,402,771	73,865,524
Home equity loans	11,681,444	11,463,665
Personal loans	<u>9,012,022</u>	<u>10,270,111</u>
	108,427,028	104,843,227
Allowance for loan losses	(1,908,963)	(1,780,111)
Net deferred loan costs	<u>369,570</u>	<u>341,656</u>
Loans, net	<u>\$106,887,635</u>	<u>\$ 103,404,772</u>

As of December 31, 2009 and 2008, nonaccrual loans were \$1,555,462 and \$1,293,512, respectively.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

	<u>Years Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 1,780,111	\$ 1,602,420
Provision for loan losses	275,200	340,000
Loans charged off	(166,539)	(224,298)
Recoveries of loans previously charged off	<u>20,191</u>	<u>61,989</u>
Balance at end of year	<u>\$ 1,908,963</u>	<u>\$ 1,780,111</u>

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

	<u>2009</u>	<u>2008</u>
Impaired loans without a valuation allowance	\$ 1,396,614	\$ 531,903
Impaired loans with a valuation allowance	<u>158,848</u>	<u>761,609</u>
Total impaired loans	<u>\$ 1,555,462</u>	<u>\$ 1,293,512</u>
Valuation allowance related to impaired loans	<u>\$ 51,307</u>	<u>\$ 274,942</u>

	<u>Years Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Average investment in impaired loans	<u>\$ 1,304,733</u>	<u>\$ 1,473,807</u>
Interest income recognized on impaired loans, all on cash basis	<u>\$ 55,922</u>	<u>\$ 98,533</u>

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

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

5. Premises and Equipment

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

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 133,278	\$ 133,278
Buildings and improvements	3,732,812	3,675,862
Furniture and equipment	5,119,367	4,945,332
Construction in progress	<u>508,711</u>	<u>434,197</u>
	9,494,168	9,188,669
Accumulated depreciation	<u>(6,419,651)</u>	<u>(6,023,390)</u>
	<u>\$ 3,074,517</u>	<u>\$ 3,165,279</u>

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2009, pertaining to office space for two Plattsburgh branches, future minimum rent commitments under various operating leases are as follows:

2010	\$ 99,393
2011	99,393
2012	61,619
2013	49,558
2014	<u>-</u>
	<u>\$ 309,963</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, 2009 and 2008, amounted to \$115,175 and \$104,231, respectively.

6. Deposits

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2009 and 2008, was \$23,026,139 and \$24,615,982, respectively.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

At December 31, 2009, the scheduled maturities of time deposits are as follows:

2010	\$ 43,912,998
2011	3,288,236
2012	1,856,602
2013	178,670
2014	481,416
Thereafter	<u>190,074</u>
	<u>\$ 49,907,996</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, 2009, the interest rates on fixed-rate advances ranged from 2.60% to 4.41%. At December 31, 2008, the interest rate on fixed-rate advances ranged from 0.44% to 4.41%. The Bank had no floating rate advances at December 31, 2009 and 2008.

The contractual maturities of advances at December 31, 2009, are as follows:

2010	\$ 5,000,000
2012	5,000,000
2013	<u>5,000,000</u>
Total	<u>\$ 15,000,000</u>

The contractual maturities of advances at December 31, 2008, are as follows:

2009	\$ 1,500,000
2010	5,000,000
2012	5,000,000
2013	<u>5,000,000</u>
Total	<u>\$ 16,500,000</u>

At December 31, 2009, the Bank's total FHLB borrowing capacity was \$21,499,159, of which \$6,499,159 was unused and available for additional borrowings.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

The Bank's total borrowing capacity from the Federal Reserve Bank was \$52,655,396 at December 31, 2009. The Bank also had \$5,000,000 available under long-term lines of credit at December 31, 2009. There were no amounts outstanding at December 31, 2009 or 2008.

8. Income Taxes

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

	<u>2009</u>	<u>2008</u>
Current tax (benefit) expense		
Federal	\$ (516,033)	\$ 489,287
State	<u>94,193</u>	<u>114,231</u>
	(421,840)	603,518
Deferred federal tax expense (benefit)	<u>568,700</u>	<u>(227,608)</u>
	<u>\$ 146,860</u>	<u>\$ 375,910</u>

The income tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes, as follows:

	<u>2009</u>	<u>2008</u>
Computed tax expense	\$ 376,831	\$ 510,145
Increase (reduction) in income taxes resulting from:		
Tax-exempt interest	(277,299)	(216,477)
State taxes, net of federal benefit	62,167	75,452
Income from life insurance	(54,789)	(56,936)
Other	<u>39,950</u>	<u>63,726</u>
	<u>\$ 146,860</u>	<u>\$ 375,910</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.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

	<u>2009</u>	<u>2008</u>
Deferred tax assets		
Net unrealized loss on securities available-for-sale	\$ -	\$ 579,200
Accrued pension and other postretirement benefits	-	533,769
Allowance for loan losses	789,480	923,688
Deferred compensation plans	1,272,015	1,517,658
Other	-	137,571
	<u>2,061,495</u>	<u>3,691,886</u>
Deferred tax liabilities		
Prepaid pension and other postretirement benefits	298,510	-
Depreciation	260,559	578,990
Other	32,948	-
Net unrealized gain on securities available-for-sale	<u>491,160</u>	-
	<u>1,083,177</u>	<u>578,990</u>
	978,318	3,112,896
Valuation allowance	<u>(21,708)</u>	<u>(21,708)</u>
Net deferred income tax asset	<u>\$ 956,610</u>	<u>\$ 3,091,188</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.

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.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

At December 31, 2009 and 2008, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>Contract Amount</u>	
	<u>2009</u>	<u>2008</u>
Commitments to grant loans	\$ 4,214,000	\$ 2,403,000
Unfunded commitments under lines-of-credit	18,094,534	16,464,000
Commercial and standby letters-of-credit	345,000	329,000

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.

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

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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, 2009 and 2008, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2009, 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, 2009 and 2008, are also presented in the table.

	<u>Actual</u>		<u>Minimum Capital Requirement</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>December 31, 2009</u>						
Total Capital to Risk Weighted Assets						
Consolidated	\$17,848,022	13.67%	\$10,441,456	8.0%	N/A	N/A
Bank	17,843,059	13.67	10,441,456	8.0	\$ 13,051,819	10.0%
Total Capital to Risk Weighted Assets						
Consolidated	16,216,545	12.42	5,220,728	4.0	N/A	N/A
Bank	16,211,582	12.42	5,220,728	4.0	7,831,092	6.0
Total Capital to Risk Weighted Assets						
Consolidated	16,216,545	8.07	8,036,027	4.0	N/A	N/A
Bank	16,211,582	8.07	8,036,027	4.0	10,045,034	5.00

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

	<u>Actual</u>		<u>Minimum Capital Requirement</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>December 31, 2008</u>						
Total Capital to Risk Weighted Assets						
Consolidated	\$17,120,959	13.19%	\$10,387,047	8.00%	N/A	N/A
Bank	17,116,025	13.18	10,387,047	8.00	\$ 12,983,809	10.00%
Total Capital to Risk Weighted Assets						
Consolidated	15,497,983	11.94	5,193,524	4.00	N/A	N/A
Bank	15,493,049	11.93	5,193,524	4.00	7,790,286	6.00
Total Capital to Risk Weighted Assets						
Consolidated	15,497,983	8.09	7,659,935	4.00	N/A	N/A
Bank	15,493,049	8.09	7,659,935	4.00	9,574,918	5.00

11. Employee Benefit Plans

401(k) Plan

The Company has a 401(k) plan whereby all employees are eligible to participate in the plan at the first enrollment date after hire. Participants may contribute up to the maximum amount allowed by federal tax laws. The Company made matching contributions equal to 4% of compensation in 2009 and 2008. The Company may also make a profit-sharing contribution to the plan. There were contributions of 1% of each eligible employee's compensation in 2009 and 2008. For the years ended December 31, 2009 and 2008, expense attributable to the plan amounted to \$128,665 and \$128,918, respectively.

Supplemental Retirement Plan and Deferred Compensation 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. Life insurance policies were acquired to serve as the primary funding source. The cash value of these policies was \$1,317,247 and \$1,200,194 at December 31, 2009 and 2008, respectively.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

The expenses of this supplemental plan were \$149,700 and \$151,296 in 2009 and 2008, respectively. As of December 31, 2009 and 2008, the accrued liability of this plan was \$1,179,434 and \$1,099,454, respectively.

The Company also owns split-dollar life insurance policies for certain key employees. The cash value of these policies was \$2,403,803 and \$2,339,422 at December 31, 2009 and 2008, respectively.

The Company sponsors an unfunded, non-qualified deferred compensation plan for the Company's board of directors. The costs for this plan are recognized over the service periods of the participating board members.

The expenses of this plan, including board fees and interest, were \$164,061 and \$168,673 in 2009 and 2008, respectively. Payments to board members were \$18,283 and \$1,635 in 2009 and 2008, respectively. As of December 31, 2009 and 2008, the accrued liability of this plan was \$1,684,245 and \$1,538,467, respectively.

Defined Benefit Pension Plan

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.

On January 1, 2008, the Company changed the measurement date of the defined benefit pension plan from October 1 to December 31 and adjusted accumulated other comprehensive loss by \$211,790 and retained earnings by \$16,885.

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>2009</u>	<u>2008</u>
Benefit obligation at December 31	\$ 7,231,939	\$ 6,662,676
Fair value of plan assets at December 31	<u>8,450,812</u>	<u>5,314,435</u>
Funded status	<u>\$ 1,218,873</u>	<u>\$ (1,348,241)</u>

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Accumulated benefit obligation	<u>\$ 6,215,941</u>	<u>\$ 5,708,620</u>
Prepaid (accrued) pension cost included in the consolidated balance sheet	<u>\$ 1,218,873</u>	<u>\$ (1,348,241)</u>
Weighted average assumptions used to determine benefit obligation		
Discount rate	5.89%	6.03%
Rate of compensation increase	3.50%	3.50%
	<u>2009</u>	<u>2008</u>
Weighted average assumptions used to determine net benefit cost		
Discount rate	6.03%	6.00%
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:

	<u>2009</u>	<u>2008</u>
Employer contributions	\$2,000,000	\$ -
Benefits paid	356,053	347,403
Benefit cost	573,202	99,848

The Company expects to make a contribution to the plan in 2010; however, the amount has not been determined.

Future benefit payments are expected to be paid as follows:

Years ending December 31:

2010	\$ 308,561
2011	317,840
2012	328,168
2013	345,741
2014	360,902
Years 2015 – 2019	2,336,308

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

<u>Asset Category</u>	<u>Plan Assets at December 31</u>	
	<u>2009</u>	<u>2008</u>
	<u>Percent</u>	<u>Percent</u>
Equity securities	48.0%	55.0%
Debt securities	40.0%	41.0%
Other	12.0%	4.0%
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 reports at least quarterly to the Investment Committee of the System and semi-annually to the Board of the System.

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.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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>2009</u>	<u>2008</u>
Benefit obligation at December 31	\$ 739,867	\$ 823,635
Fair value of plan assets at December 31	<u> -</u>	<u> -</u>
Funded status	\$ <u>(739,867)</u>	\$ <u>(823,635)</u>
Accrued postretirement costs included in the consolidated balance sheet	\$ <u>(739,867)</u>	\$ <u>(823,635)</u>
Weighted average assumption used to determine benefit obligation		
Discount rate	5.89%	6.03%
Weighted average assumption used to determine net benefit cost		
Discount rate	6.03%	6.00%

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

	<u>2009</u>	<u>2008</u>
Employer contributions	\$ 30,376	\$ 24,171
Benefits paid	(30,376)	(24,171)
Benefit cost	82,168	99,863

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

The Company expects to make a contribution to the plan in 2010; however, the amount has not been determined.

Future benefit payments are expected to be paid as follows:

Years ending December 31:

2010	\$ 24,002
2011	24,816
2012	25,955
2013	27,635
2014	29,605
Years 2015 – 2019	208,118

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 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 post-retirement benefit obligation (APBO) and net periodic post-retirement benefit cost for the health care benefit plan:

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

The effects of the Act on the accumulated projected benefit obligation or net periodic postretirement benefit cost are not reflected in these financial statements or accompanying notes because the Company has not concluded that the benefits provided by the Plan are actuarially equivalent to Medicare Part D under the Act.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss for the defined benefit pension and postretirement plans are as follows:

<u>At December 31</u>	<u>2009</u>	<u>2008</u>
Unamortized prior service cost	\$ 34,498	\$ 38,351
Unamortized net actuarial loss	2,530,462	3,786,964
Unrecognized transition obligation	<u>77,608</u>	<u>93,129</u>
	2,642,568	3,918,444
Deferred tax benefit at 40%	<u>1,057,113</u>	<u>1,567,378</u>
Net unrecognized loss on pension and other postretirement benefits included in accumulated other comprehensive loss	<u>\$ 1,585,455</u>	<u>\$ 2,351,066</u>

The following amounts were recognized in other comprehensive income (loss) in 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Net actuarial gain (loss)	\$ 1,032,750	\$ (2,845,739)
Reclassifications to net periodic benefit cost		
Amortization of transition obligation	15,521	15,521
Amortization of net unrecognized actuarial loss	223,900	4,432
Amortization of prior service cost	<u>3,853</u>	<u>3,853</u>
	1,276,024	(2,821,933)
Tax effect	<u>510,413</u>	<u>1,044,058</u>
	<u>\$ 765,611</u>	<u>\$ (1,777,875)</u>

The following amounts are expected to be reclassified from accumulated other comprehensive loss and recognized in net periodic benefit cost in 2010:

	<u>Pension</u>	<u>Postretirement</u>
Transition obligation	\$ -	\$ 15,521
Unamortized prior service cost	10	3,843
Unamortized net actuarial loss (gain)	<u>133,129</u>	<u>(5,127)</u>
	<u>\$ 133,139</u>	<u>\$ 14,237</u>

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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>2009</u>	<u>2008</u>
FDIC fees	\$ 354,345	\$ 102,290
Audit fees	152,300	118,020
Software maintenance fees	212,169	191,295
Other consultants	95,972	142,119
Director fees	<u>121,700</u>	<u>102,150</u>
	<u>\$ 936,486</u>	<u>\$ 655,874</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 \$1,811,872 at December 31, 2009 and \$2,038,896 at December 31, 2008. During the years ended December 31, 2009 and 2008, total principal payments were \$227,024 and \$309,131, respectively. There were no principal additions in 2009 or 2008.

Deposits from related parties held by the Bank at December 31, 2009 and 2008, amounted to \$2,053,799 and \$1,561,185, respectively.

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 2010 may not exceed the aggregate of the Bank's net profits in 2010 combined with its retained net profits from the two preceding years of approximately \$1,419,211.

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.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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 Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Assets and liabilities measured at fair value on a recurring basis are summarized below.

Fair Value Measurements at December 31, 2009 and 2008, Using

	<u>Total</u>	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2009</u>				
Assets (market approach):				
Securities available-for-sale				
U.S. Government and government				
sponsored enterprises	\$ 9,958,156	\$ -	\$ 9,958,156	\$ -
State and municipal	20,874,886	-	20,874,886	-
Corporate	711,387	-	711,387	-
Mortgage-backed securities	39,334,767	-	39,334,767	-
Collateral mortgage obligations	9,107,277	-	9,107,277	-
Assets held by defined				
benefit pension plan				
Equities	4,056,390	4,056,390	-	-
Debt securities	3,380,325	-	3,380,325	-
Other	1,014,097	-	1,014,097	-
 <u>December 31, 2008</u>				
Assets (market approach):				
Securities available-for-sale				
U.S. Government and government				
sponsored enterprises	\$ 1,002,810	\$ -	\$ 1,002,810	\$ -
State and municipal	18,192,670	-	18,192,670	-
Corporate	4,190,690	-	4,190,690	-
Mortgage-backed securities	43,379,170	-	43,379,170	-
Collateral mortgage obligations	7,418,025	-	7,418,025	-
Assets held by defined				
benefit pension plan				
Equities	2,922,939	2,922,939	-	-
Debt securities	2,178,918	-	2,178,918	-
Other	212,578	-	212,578	-

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below.

Fair Value Measurements at December 31, 2009 and 2008, Using

	<u>Total</u>	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2009</u>				
Assets (market approach):				
Impaired loans	\$ 107,541	\$ -	\$ 107,541	\$ -
 <u>December 31, 2008</u>				
Assets (market approach):				
Impaired loans	\$ 486,667	\$ -	\$ 486,667	\$ -

Certain impaired loans were written down to their fair value of \$107,541 and \$486,667 in 2009 and 2008, respectively, resulting in an impairment charge through the provision for loan losses, which was included in the statements of income.

Fair value estimates are made at a specific point in time, based on relevant market information and information about specific financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no active observable market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

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

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Securities: The fair values of investment securities, other than FHLB and FRB stock, are based on quoted market prices on nationally recognized securities exchanges, where available, or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities. The fair value of FHLB and FRB stock is equal to cost, since there is no secondary market for these instruments.

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. The fair value of impaired loans is primarily based upon appraisals by third-party appraisers and brokers' opinions by third-party brokers. The appraisals and opinions are based upon comparable prices for similar assets in active markets for residential real estate loans, and less active markets for commercial loans.

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.

CHAMPLAIN BANK CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 4,066,359	\$ 4,066,359	\$ 4,613,059	\$ 4,613,059
Federal funds sold	138,502	138,502	17,740	17,740
Securities available-for-sale	79,986,473	79,986,473	74,183,365	74,183,365
Securities held-to-maturity	453,580	488,265	586,700	602,426
Federal Home Loan Bank and Federal Reserve Bank stock	1,033,300	1,033,300	1,029,500	1,029,500
Loans, net	106,887,635	107,611,264	103,404,772	1,089,778
Accrued interest receivable	851,565	851,565	911,582	911,582
Financial liabilities				
Deposits	169,349,179	152,026,451	159,946,904	152,925,235
Advances from Federal Home Loan Bank	15,000,000	15,711,300	16,500,000	16,902,600
Accrued interest payable	153,704	153,704	241,677	241,677

17. Subsequent Events

Subsequent events per FASB ASC 855-10 represent events or transactions occurring after the balance sheet date but before the financial statements are available to be issued.

Specifically, there are two types of subsequent events:

- Those comprising events or transactions providing additional evidence about conditions that existed at the balance sheet date, including estimates inherent in the financial statement preparation process (referred to as recognized subsequent events).
- Those comprising events that provide evidence about conditions not existing at the balance sheet date but, rather, that arose after such date (referred to as non-recognized subsequent events).

Subsequent events have been evaluated through March 24, 2010 the date the December 31, 2009 financial statements were available to be issued.