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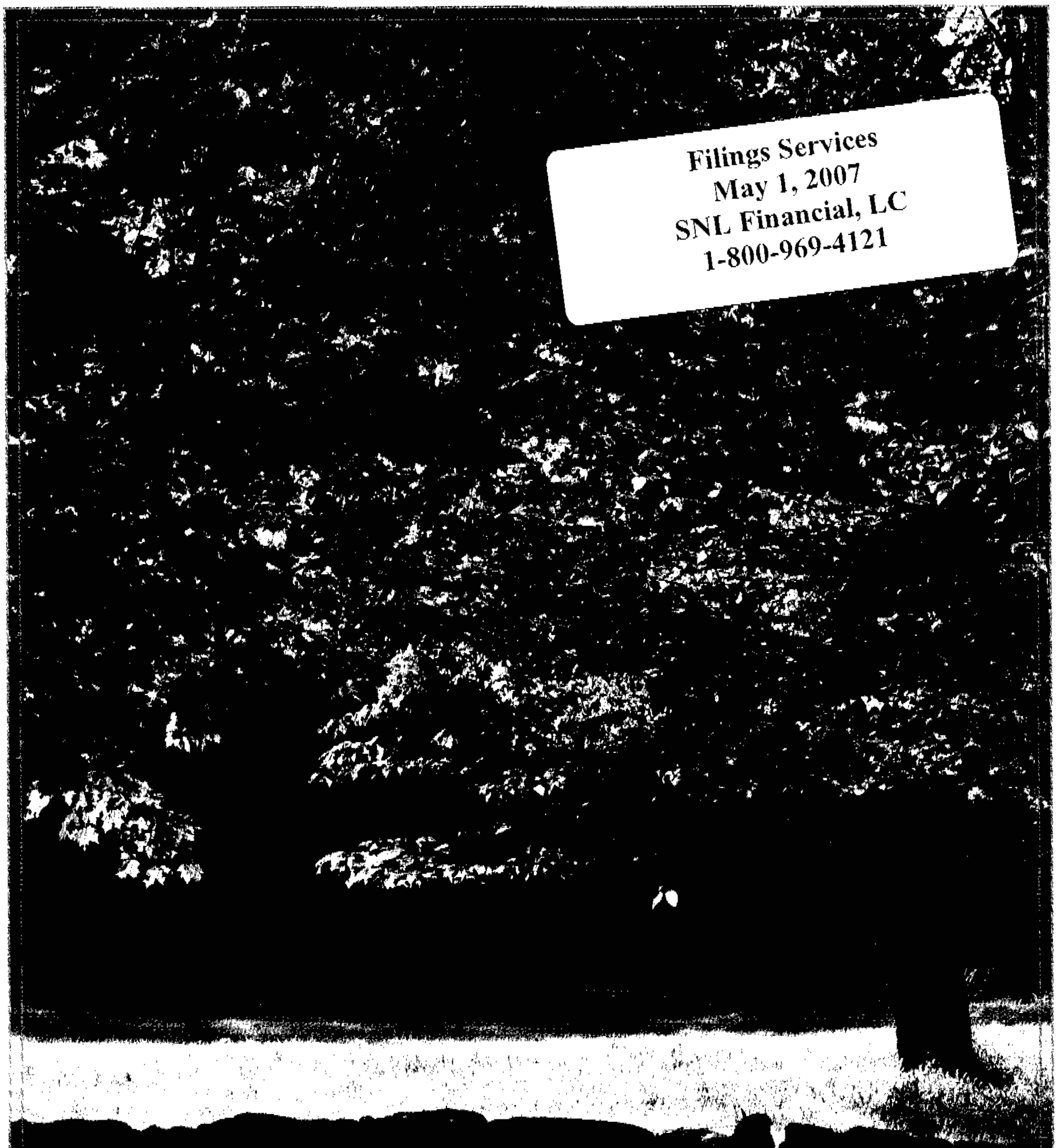
ANNUAL REPORT TO SHAREHOLDERS | 2006



Salisbury Bancorp, Inc.

the holding company for

Salisbury Bank and Trust Company

THE MISSION STATEMENT OF SALISBURY BANK AND TRUST COMPANY

Salisbury Bank and Trust Company strives to be the leading community bank in the Tri-State Area. We are committed to providing professional financial services in a friendly and responsive manner. We are dedicated to being an active corporate citizen in the communities we serve. We will inspire our staff to grow personally and professionally. Our achievement of these goals will continue to assure customer satisfaction, profitability, and enhanced shareholder value.

SALISBURY BANCORP, INC. AND SALISBURY BANK AND TRUST COMPANY BOARD OF DIRECTORS

Louis E. Allyn II
President, Allyndale Corporation

John R.H. Blum
Attorney (retired), Presiding Director, Salisbury Bancorp, Inc. and Salisbury Bank and Trust Company

Louise F. Brown
Attorney, Partner, Ackerly Brown LLP

Richard J. Cantele, Jr.
President and Chief Operating Officer, Salisbury Bancorp, Inc. and Salisbury Bank and Trust Company

Robert S. Drucker
Proprietor, Bob's Clothing and Barrington Outfitters

Nancy F. Humphreys
Citigroup New York, Citibank, as Managing Director and Treasurer of Global Corporate Investment Bank North America (retired)

Holly J. Nelson
Tour Operator, Horses North LLC, member in Oblong Property Management, LLC

John F. Perotti
Chairman and Chief Executive Officer, Salisbury Bancorp, Inc. and Salisbury Bank and Trust Company

Michael A. Varet
Attorney, Partner, DLA Piper US LLP

SALISBURY BANK AND TRUST COMPANY ADVISORY BOARD

Mary Cooper, Edward O. Heacox, Mary T. Kirby, Eileen M. Mulligan, Jean R. Perotti, Barclay Prindle, Richard Rennia, John P. Tuke

ANNUAL SHAREHOLDERS MEETING

Wednesday, May 16, 2007 at 4:00 p.m.
The Interlaken Inn
74 Interlaken Road
Lakeville, Connecticut 06039

PROFILE OF THE CORPORATION

Salisbury Bancorp, Inc. is an independent, publicly-owned banking and financial services company that became the bank holding company for Salisbury Bank and Trust Company on August 24, 1998. The Company's sole subsidiary is Salisbury Bank and Trust Company (Salisbury Bank and Trust), which is chartered as a state bank and trust company by the State of Connecticut. Salisbury Bank and Trust Company was formed in 1925 by the merger of the Salisbury Savings Society, founded in 1848, and the Robbins Burrall Trust, founded in 1874.

A commercial bank with assets of $450,339,670 at December 31, 2006, Salisbury Bank and Trust's broad range of services includes an extensive array of deposit services, multiple mortgage products, and various other types of loans designed to meet the financial needs of its customers. The Bank also has a full-service Trust and Investment Services division which offers financial planning, trust and estate administration, and investment management services. Salisbury Bank and Trust has six full-service banking offices located in Lakeville, Salisbury, Sharon, and Canaan, Connecticut, and South Egremont and Sheffield, Massachusetts, serving customers primarily from Litchfield County in Connecticut, Dutchess and Columbia Counties in New York, and Berkshire County in Massachusetts.

Salisbury Bancorp's shares are traded on the American Stock Exchange under the symbol "SAL."

For more information, call us at 860-435-9801 or visit

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ON THE COVER

Stiles Meadow on a summer evening. It is named for Francis Stiles, an early settler who built a home in 1772 on the western edge of the meadow, in the heart of Salisbury. Today the land is owned by the Salisbury Association.

MESSAGE TO SHAREHOLDERS

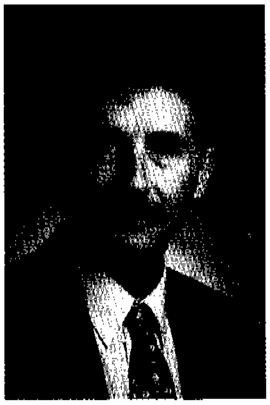
2006 was a rewarding year for your Company. I am pleased to report continuing progress in our core business initiatives during the year. Specifically, one initiative focused on new business development strategies to increase commercial loan growth. At year end our commercial loan portfolio totaled nearly $90 million. This is an increase of $13,435,000 or 17.90%. Overall net loans totaled $252,464,430 at December 31, 2006 compared to $215,989,149 at year end last year. Credit quality is constantly monitored to ensure that loan quality is not sacrificed for growth. As a result of these efforts, non-performing loans at year end totaled $963,902, which represents only 0.38% of total loans outstanding.

During 2006, the Trust and Investment Services division teamed with Bradley, Foster and Sargent, Inc., a Hartford based independent investment advisory firm. Their overriding investment philosophy is preservation of wealth by actively managing investment objectives that are established by their clients. This relationship allows us to offer a broader scope of highly personalized professional investment services and complements our new business development efforts. It also produced an increase in the number of client accounts as well as assets under management during 2006. This has resulted in an increase in trust and investment services revenues to $1,980,500, an increase of $409,189 or 26.04%.

Our commitment to new product development and delivery remains a very important piece of our core business initiatives as we continue our efforts to enhance customer convenience with products and services that meet their financial needs. During the year we introduced Online Business Banking, which provides cash management capabilities to our commercial customers. Escalating health insurance costs continue to challenge the business world today. In an effort to assist commercial customers in their ability to offer employee health insurance at a more reasonable cost, we now offer Health Savings Accounts, special tax-advantaged accounts designed to cover current and future medical expenses, for those covered by High Deductible Health Plans. This new account has become a very popular product in a short time.

Net income for the year totaled $4,253,618 or $2.53 per average share outstanding. This is a decrease of $307,723 when compared to total income of $4,561,341 or $2.71 per average share outstanding for the year 2005. A flat yield curve in early 2006 followed by an inverted yield curve during the second half of the year provided for a challenging earnings environment all year long. Income before taxes, excluding income from net gains on sales of available-for-sale securities and writedowns however, improved by $712,197 or 15.95% in 2006 when compared to the corresponding period in 2005. Movement in the markets limited the number of opportunities to generate gains on sales of securities during the year. Dividends declared for the year totaled $1.04 per common share

EMPLOYEES OF THE QUARTER



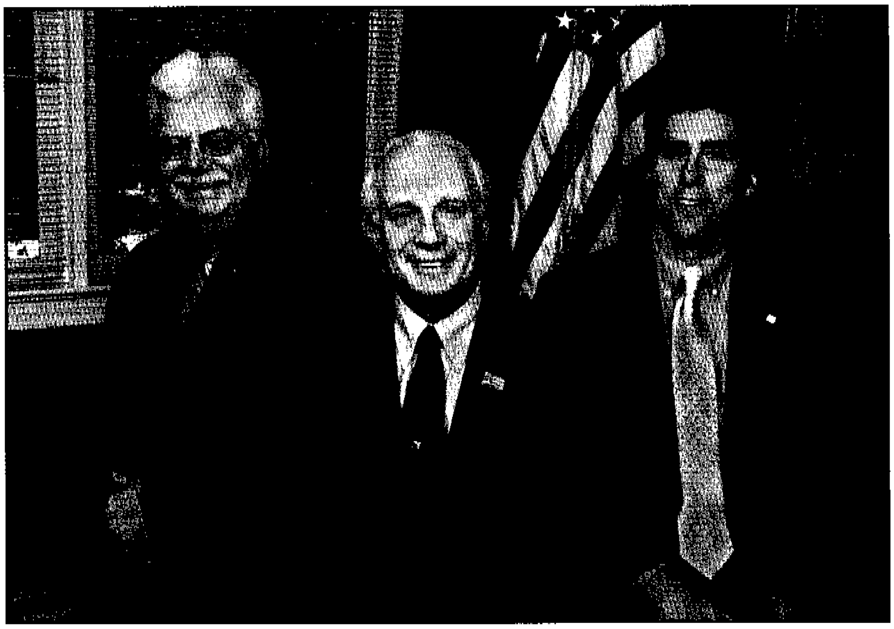
James Silvernail

Spring Bagnall

Erin Kinsella

Betsy Devino

and represented an increase of 4% over the 2005 dividends of $1.00 per common share. This marks the 24th consecutive year that the dividend has increased over the previous year. Historically, it's interesting to note that the Bank has paid a dividend every quarter since 1967.



As the banking market continues to consolidate, I see this as an opportunity to strengthen and grow our own market position which will enhance shareholder value. We announced in early October that the Bank had entered into a purchase and assumption agreement to acquire certain assets and liabilities of a small branch of New York Community Bank in New York State. The necessary state and federal regulatory approvals have been received, and we have recently filed an application to open a retail branch in nearby Dover Plains, New York. This is part of an overall strategy to allow us to serve the long term best interest of all of our current and future customers in the tri-state area, by operating as an independent community bank committed to providing quality service.

The creativity, talent and determination of our management team as well as our loyal employees, lead me to feel very good about our future as an independent community bank. Our people are committed to serving our customers, our communities, and each other and understand that establishing relationships built on trust is essential to creating value today and into the future.

I am sincerely grateful to the employees, officers, Advisory Board, and Board of Directors. You all continue to contribute at an extraordinary level, and are a major force in our success. Thank you for your support in 2006. Together we can continue to enhance shareholder value and fulfill our mission.

Cordially,

John F. Perotti

John F. Perotti,
Chairman and Chief Executive Officer

THE LEADERSHIP TEAM

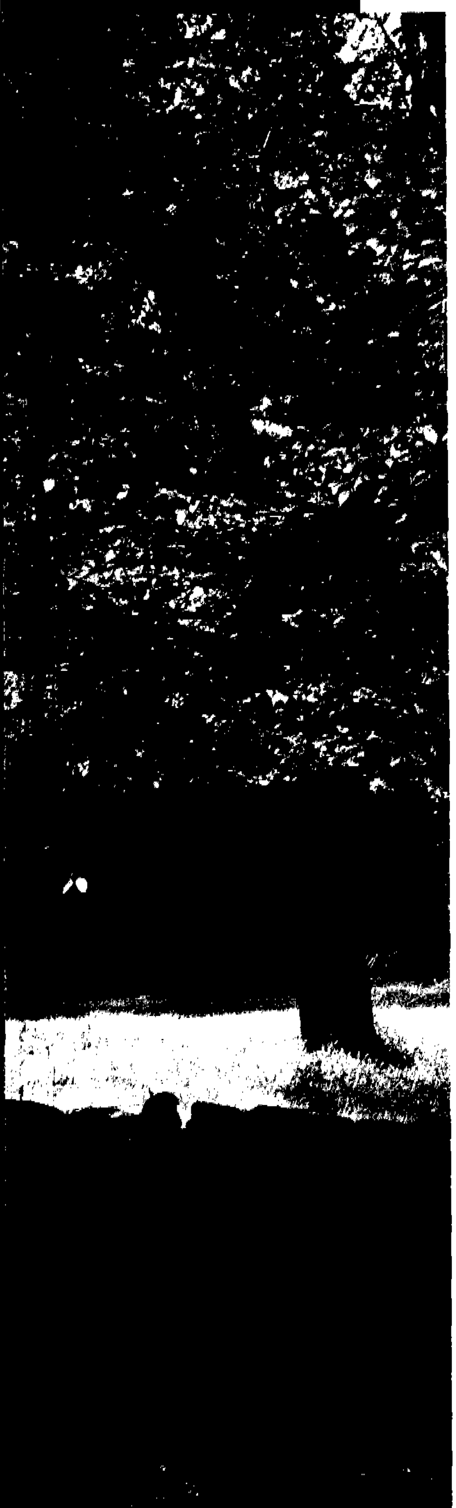
Pictured from left:

John F. Foley
Chief Financial Officer and Treasurer,
Salisbury Bancorp, Inc.
and Salisbury Bank and Trust Company

John F. Perotti
Chairman and Chief Executive Officer,
Salisbury Bancorp, Inc.
and Salisbury Bank and Trust Company

Richard J. Cantele, Jr.
President and Chief Operating Officer,
Salisbury Bancorp, Inc.
and Salisbury Bank and Trust Company

The fabric of small town life is still based on the old-fashioned values of honesty, integrity, and looking out for one's neighbors.



It's difficult to remain anonymous in a small town for very long. We all know and depend on each other. The relationships we form with neighbors and friends and with the natural wonders of our magnificent landscape itself are the very warp and weft of life here.

A strong local bank is the thread that helps build a community, and Salisbury Bank and Trust's role as a critical element in the continued vitality of the communities it serves is at the core of our mission. With all of the banking choices available today, everyone at Salisbury Bank and Trust is committed to establishing those personal connections with customers that make them want to do business here and nowhere else. That personal touch, coupled with a range of innovative financial products and services, is a powerful combination.

Salisbury Bank and Trust is where full-time and part-time residents look for a home mortgage, where business owners come for the financial services that can help them succeed, and where people of all ages turn for professional assistance in building financial security, now and for the future. The solid relationships that Salisbury Bank and Trust has established with our customers and the community are the keys to our continued growth and to building shareholder value.

Betsy A. Summerville
Senior Vice President, Retail Banking

"AT SALISBURY BANK AND TRUST THE DEVELOPMENT OF NEW BANK PRODUCTS TO SERVE THE CHANGING NEEDS OF OUR CUSTOMERS IS AN ONGOING PROCESS."

People choose to bank at Salisbury Bank and Trust for many reasons and at many stages of life. Local children learn the importance of saving through Salisbury Bank and Trust's School Savings Program. Their parents need a bank that takes the time to get to know them as individuals and has solutions for the many financial issues that arise over the years, and their grandparents need a bank that can help make their retirement everything they want it to be.

At Salisbury Bank and Trust the development of new banking products to serve the changing needs of both our retail and business customers is an ongoing process. Our expert management staff works to design individualized financial solutions for our customers.

The popularity of online banking continues to grow at our Bank. Every week more customers choose the convenience of paying bills, verifying account balances and transferring funds at whatever time suits their schedules, 24-hours a day. Salisbury Bank and Trust VISA customers also appreciate being able to view their account histories and pay their bills online.

Business customers have a number of new products from which to choose, including sophisticated cash management solutions. Online Business Banking offers business owners the option of designating which employees are authorized to view accounts and make transfers and payments. Businesses can also set up automatic payment for recurring expenses, such as a cleaning service or landscape maintenance. Automated Clearing House (ACH) services allow employers to handle payroll through electronic direct deposit into employees' accounts in any bank, even if a business has only a few workers. Our business debit card can be issued in the name of any authorized employee, with set dollar or daily limits for each.

One particularly successful new product is our Health Savings Account (HSA), which enables individuals and businesses to exert some control over the escalating cost of health insurance. Individuals and employers who opt for lower cost, high-deductible insurance plans can set money aside in an HSA to pay for future medical expenses and gain a tax advantage as well. All contributions to an HSA are tax deductible and interest earned and withdrawals made to pay for qualified health expenses are tax free. While HSAs have proven very popular with the self-employed and others who pay for their own health coverage, it is employers who have embraced the concept of HSAs with real enthusiasm.

Whatever our customers have in mind, whether it's buying a home or starting or growing a business, Salisbury Bank and Trust's lending officers can offer sound advice and an extraordinary range of lending options to answer their needs.

Salisbury Bank and Trust is one of the area's leaders in originating residential mortgages through our SBT Mortgage Division. Our experienced SBT Mortgage Makers have forged strong working relationships with leading realtors and attorneys in the tri-state region, equaled only by the close connections they form with their customers as they make it possible for them to purchase the home they want. With a wealth of mortgage options at their fingertips, our Mortgage Makers can custom design a mortgage to meet each customer's situation, whether they're buying a starter home, building a new home or have their eye on a large estate.

Geoffrey A. Talcott
Senior Vice President and Chief Lending Officer

BREADTH OF EXPERIENCE ENABLES THEM TO QUICKLY ASSESS AND RESPOND TO A VARIETY OF SITUATIONS."

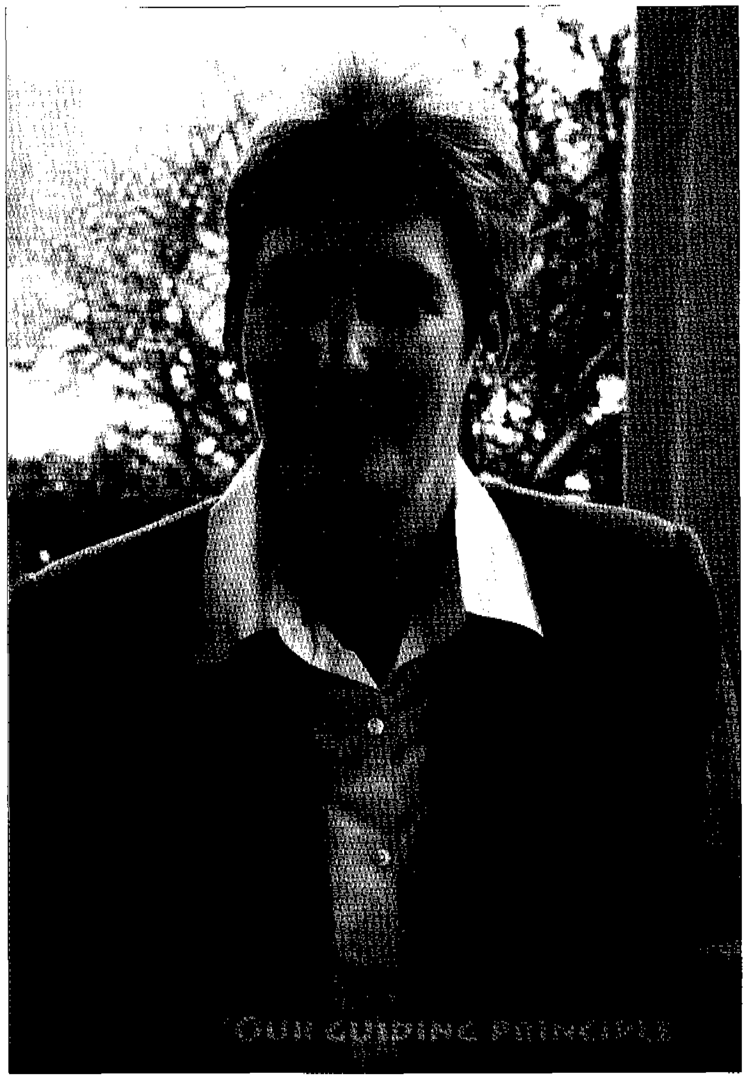
Whether the Bank holds the mortgage for its own portfolio or sells it on the secondary market, the SBT Mortgage Makers walk the customer through the process from start to finish and beyond. It's the little things that the Mortgage Makers do, such as arranging an appointment for evenings or weekends and to getting customers an answer quickly, that set them apart.

Our business lenders' unusual breadth of experience enables them to quickly assess and respond to a variety of situations. Their first order of business is to get to know their customers, to understand their business, and show them what Salisbury Bank and Trust can do to make their plans a reality. Our seasoned business lending professionals have the flexibility to get the job done and get it done fast.

It's a high touch business, and the one-to-one relationships that our commercial lenders form with their customers frequently continue over the course of years as the business evolves, even extending into the next generation. We care what our customers think of us, and the fact that many of them consider Salisbury Bank and Trust a key player in their business success shows how highly they value their relationships with us.

In addition to commercial real estate mortgages, business lines of credit, and term and installment loans, Salisbury Bank and Trust offers business owners a wealth of other lending products, including construction mortgages, equipment leasing and check loan overdraft protection.

Diane E. R. Johnstone
Senior Vice President and Trust Officer



"Our guiding principle is long-term growth achieved on an individual basis for every client."

Relationships are the hallmark of SBT Trust and Investment Services. Our guiding principle is long-term growth achieved on an individual basis for every client in accordance with each client's goals, needs, and investment philosophy. It's a way of doing business that has proved to be good business, with SBT Trust and Investment Services having grown to more than $325 million in assets under management.

Trust services are generational in nature, with grandparents or parents making arrangements to provide for the ongoing financial security of their dependents and heirs.

It is also inherently personal as our trust officers are duty bound to see that the terms of the trust are carried out. Part of that is seeing to purely financial concerns, but at SBT Trust and Investment Services an important part of our work is being a reliable friend. It can mean paying regular personal visits to clients at their homes or in long-term care facilities. It can mean helping to sort mail or seeing that home repairs are taken care of or simply being there to listen to any concern our client has. In our increasingly mobile society, with family members often thousands of miles away, it is often a trust officer who answers a call for assistance or reassurance. That's what sets SBT Trust and Investment Services apart from the rest.

During 2006, SBT Investment Services entered into a unique arrangement with a leading Hartford investment management firm, Bradley, Foster & Sargent, Inc. (BFS), to offer our clients access to extraordinary investment experience and resources. Firms of BFS's caliber, with assets under management in excess of $1 billion, typically concentrate on large institutional clients. Their focus, however, has always been personal investment management for individuals, families, entrepreneurs, professionals, non-profits, and smaller institutions.

With a similar investment philosophy, our relationship with BFS is of inestimable benefit to our smaller clients as well as those with large portfolios. While BFS typically works exclusively with clients having a minimum of $1 million to invest, Salisbury Bank and Trust clients with a minimum of $200,000 can have the same access to the skill, experience and research capabilities that has made BFS a leader in its field.

SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA OF THE COMPANY

	At or For the Years Ended December 31				
	2006	2005	2004	2003	2002
		(dollars in thousands except per share data)			
Statement of Condition Data:					
Loans, Net	**$252,464**	$215,989	$201,978	$139,563	$135,632
Allowance For Loan Losses	**2,474**	2,626	2,512	1,664	1,458
Investments	**161,231**	151,168	184,286	147,021	138,435
Total Assets	**450,340**	402,922	423,101	311,100	293,107
Deposits	**313,586**	287,271	298,842	218,457	211,037
Borrowings	**87,093**	71,016	79,213	60,897	51,891
Shareholders' Equity	**44,349**	41,442	40,700	28,850	27,345
Nonperforming Assets	**963**	773	2,267	685	1,400
Statement of Income Data:					
Interest and Fees on Loans	**$15,687**	$13,320	$9,592	$9,226	$9,677
Interest and Dividends on Securities and Other Interest Income	**8,043**	7,496	6,959	6,423	6,481
Interest Expense	**10,459**	7,352	5,659	5,613	6,898
Net Interest and Dividend Income	**13,271**	13,464	10,892	10,036	9,260
(Benefit) Provision for Loan Losses	**(87)**	210	250	313	300
Trust Department Income	**1,981**	1,571	1,411	1,252	1,100
Other Income	**2,085**	2,084	1,854	1,674	1,388
Net Gain on Sales of Securities	**517**	1,210	1,490	1,058	634
Other Expenses	**12,245**	12,444	10,603	8,599	7,775
Pre Tax Income	**5,696**	5,675	4,794	5,108	4,307
Income Taxes	**1,442**	1,114	775	1,268	1,108
Net Income	**$4,254**	$4,561	$4,019	$3,840	$3,199
Per Share Data:					
Earnings per common share	**$2.53**	$2.71	$2.67	$2.70	$2.25
Earnings per common share, assuming dilution	**$2.53**	$2.71	$2.67	$2.70	$2.25
Cash Dividends Declared per share	**$1.04**	$1.00	$0.96	$0.92	$0.88
Book Value (at year end)	**$26.33**	$24.61	$24.19	$20.26	$19.21
Selected Statistical Data:					
Return on Average Assets	**1.02%**	1.12%	1.14%	1.24%	1.13%
Return on Average Shareholders' Equity	**9.83%**	10.81%	12.34%	13.47%	12.63%
Dividend Payout Ratio	**41.11%**	36.90%	35.96%	34.07%	39.11%
Average Shareholders' Equity to Average Assets	**10.37%**	10.38%	9.20%	9.21%	8.92%
Net Interest Spread	**2.93%**	3.35%	3.22%	3.37%	3.21%
Net Interest Margin	**3.67%**	3.89%	3.63%	3.80%	3.80%

The following provides Management's comments on the financial condition and results of operations of Salisbury Bancorp, Inc. (the "Company"), a Connecticut corporation, which is the holding company for Salisbury Bank and Trust Company, (the "Bank"). The Company's sole subsidiary is the Bank, which has six (6) full service offices located in the towns of North Canaan, Lakeville, Salisbury and Sharon, Connecticut and South Egremont and Sheffield, Massachusetts, and a Trust and Investment Services Division located in Lakeville, Connecticut. The Company and the Bank were formed in 1998 and 1848, respectively. In order to provide a foundation for building shareholder value and servicing customers, the Company remains committed to investing in the technological and human resources necessary to developing new personalized financial products and services in order to better serve both current and future customers in the tri-state area. On October 3, 2006, the Bank announced that it had entered into a purchase and assumption agreement to acquire certain assets and liabilities of a small branch of New York Community Bank in Mount Vernon, New York. The acquisition received state and federal regulatory approvals and makes it possible for the Company and the Bank to establish additional offices in New York State subject to regulatory approvals. The following discussion should be read in conjunction with the Company's consolidated financial statements and the notes to the consolidated financial statements that are presented as part of this Annual Report.

RESULTS OF OPERATION

Comparison of the Years Ended December 31, 2006 and 2005

Overview

The reported earnings for the Company totaled $4,254,000 in 2006, a decrease of $307,000 or 6.73% over year 2005 earnings of $4,561,000. Earnings per average share outstanding totaled $2.53 in 2006. This compares to earnings per average share outstanding of $2.71 in 2005 and $2.67 in 2004. The decrease in earnings per share is primarily attributable to an increase in interest expense due to a higher level of deposits and to a decrease in noninterest income; specifically, reduced income from gains in securities transactions when comparing the two periods. The Company's gains on sale of available-for-sale securities amounted to $517,000 in 2006 compared to $1,210,000 for the year 2005. Total noninterest expense for the period ending December 31, 2006 totaled $12,245,000. This is a decrease of $199,000 or 1.60% when comparing the corresponding period in 2005. This decrease is primarily the result of management's continuing efforts to control operating expenses.

The Company's assets at December 31, 2006 totaled $450,340,000 compared to total assets of $402,922,000 at December 31, 2005. New business development efforts have resulted in the growth of net loans outstanding which totaled $252,464,000 at December 31, 2006. This compares to net loans outstanding of $215,989,000 at December 31, 2005 and represents an increase of $36,475,000 or 16.89%. This growth was funded by an increase in deposits as well as an increase in advances from the Federal Home Loan Bank of Boston. Deposits at December 31, 2006 totaled $313,586,000 and compared to total deposits of $287,271,000 at December 31, 2005. Approximately $19.5 million of this growth is the result of the Bank's decision to begin using brokered deposits as part of a growth strategy. The remaining growth is primarily the result of the Company's new business development plan. Advances from the Federal Home Loan Bank totaled $87,093,000 at December 31, 2006 which compared to advances totaling $71,016,000 at December 31, 2005. The Bank continues to monitor the quality of the loan portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Company's objectives. Nonperforming loans totaled $963,000 at December 31, 2006 as compared to nonperforming loans totaling $773,000 at December 31, 2005. This represents an increase of $190,000 or 24.58%, but is not considered to be indicative of any trend as the level of non-performing loans remains less than one-half of one percent (1%) of total loans.

The Company is "well capitalized". The Company's risk-based capital ratios at December 31, 2006, which includes the risk-weighted assets and capital of the Bank, were 14.28% for Tier 1 capital and 15.28% for total capital. The Company's leverage ratio was 8.43% at December 31, 2006. This compares to a Tier 1 capital ratio at December 31, 2005 of 14.58%, a total capital ratio of 15.76% and a Company leverage ratio of 8.27%. As a result of the Company's financial performance, the Board of Directors increased total dividends declared on the Company's common stock to $1.04 per share in 2006. This compares to a $1.00 per share dividend declared in 2005 and a $.96 per share dividend that was declared in 2004.

Critical Accounting Estimates

In preparing the Company's financial statements, management selects and applies numerous accounting policies. In applying these policies, management must make estimates and assumptions. The accounting policy that is most susceptible to critical estimates and assumptions is the allowance for loan losses. The determination of an appropriate provision is based on a determination of the probable amount of credit losses in the loan portfolio. Many factors influence the amount of future loan losses, relating to both the specific characteristics of the loan portfolio and general economic conditions nationally and locally. While management carefully considers these factors in determining the amount of the allowance for loan losses, future adjustments may be necessary due to changed conditions, which could have an adverse impact on reported earnings in the future. (See "Provisions and Allowance for Loan Losses".)

Net Interest and Dividend Income

The Company earns income from two basic sources. The primary source is through the management of its financial assets and liabilities and involves functioning as a financial intermediary. The Company accepts funds from depositors and borrows funds and either lends the funds to borrowers or invests those funds in various types of securities. The second source is fee income, which is discussed in the noninterest income section of this analysis.

Net interest income is the difference between the interest and fees earned on loans, interest and dividends earned on securities (the Company's earning assets) and the interest expense paid on deposits and borrowed funds, primarily in the form of advances from the Federal Home Loan Bank. The amount by which interest income will exceed interest expense depends on two factors: (1) the volume or balance of earning assets compared to the volume or balance of interest-bearing deposits and borrowed funds and (2) the interest rate earned on those interest-earning assets compared with the interest rate paid on those interest-bearing deposits and borrowed funds. For this discussion, net interest income is presented on a fully taxable-equivalent ("FTE") basis. FTE interest income restates reported interest income on tax exempt loans and securities as if such interest were taxed at the applicable State and Federal income tax rates for all periods presented.

(dollars in thousands)	December 31,		
	2006	2005	2004
Interest and Dividend Income (financial statements)	**$23,730**	$20,816	$16,551
Tax Equivalent Adjustment	**1,072**	1,200	1,182
Total Interest and Dividend Income (on an FTE basis)	**24,802**	22,016	17,733
Interest Expense	**(10,459)**	(7,352)	(5,659)
Net Interest and Dividend Income-FTE	**$14,343**	$14,664	$12,074

The Company's 2006 total interest and dividend income on an FTE basis for the period ended December 31, 2006 increased $2,786,000 or 12.65% when compared to the same period in 2005. The increase is primarily attributable to an increase in earning assets as well an economic environment experiencing an increase in interest rates.

Interest expense on deposits in 2006 increased $2,715,000 or 65.09% to $6,886,000 compared to $4,171,000 for the corresponding period in 2005 and $2,739,000 in 2004. The increase is primarily attributable to an increase in deposits as well as an interest rate environment that was on the rise for most of the year as a result of Federal Reserve actions. Interest expense for Federal Home Loan Bank advances increased $392,000 to $3,573,000 in 2006 compared to $3,181,000 in 2005 and $2,920,000 in 2004. The increase was primarily the result of an increase in advances during the year. Competition remains aggressive and interest margins continue to be pressured. As a result, net interest and dividend income on an FTE basis decreased $321,000 or 2.19% over 2005 and totaled $14,343,000 for the year ended December 31, 2006 and compared to net interest and dividend income on an FTE basis of $14,664,000 for the year ended December 31, 2005 and $12,074,000 for the year ended 2004.

Net interest margin is net interest and dividend income expressed as a percentage of average earning assets. It is used to measure the difference between the average rate of interest and dividends earned on assets and the average rate of interest that must be paid to support those assets. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid. The Company's 2006 net interest margin on an FTE basis was 3.67%. This compares to a net interest margin of 3.89% for 2005. The following table reflects average balances, interest earned or paid and rates for the three years ended December 31, 2006, 2005 and 2004. The average loan balances include both non-accrual and restructured loans. Interest earned on loans also includes fees on loans such as late charges that are not deemed to be material. Interest earned on tax exempt securities in the table is presented on a fully taxable-equivalent basis ("FTE"). A federal tax rate of 34% was used in performing these calculations. Actual tax exempt income earned in 2006 was $2,080,000 with a yield of 4.41%. Actual tax exempt income in 2005 totaled $2,329,000 with a yield of 4.44% and in 2004 actual tax exempt income was $2,294,000 with a yield of 4.68%.

YIELD ANALYSIS

Average Balances, Interest Earned/Paid and Rates

(dollars in thousands)	Years Ended December 31								
	2006			2005			2004		
	AVERAGE BALANCE	**INTEREST EARNED/ PAID**	**YIELD RATE**	AVERAGE BALANCE	INTEREST EARNED/ PAID	YIELD RATE	AVERAGE BALANCE	INTEREST EARNED/ PAID	YIELD RATE
ASSETS									
Interest-Earning Assets:									
Loans	**$229,704**	**$15,687**	**6.83%**	$208,786	$13,320	6.38%	$160,382	$9,592	5.98%
Taxable Securities	**$111,635**	**$5,883**	**5.27%**	$112,746	$5,097	4.52%	$117,535	$4,613	3.92%
Tax-Exempt Securities*	**$47,215**	**$3,152**	**6.68%**	$52,435	$3,529	6.73%	$49,017	$3,475	7.09%
Federal Funds	**$1,154**	**$56**	**4.85%**	$1,840	$48	2.61%	$3,455	$39	1.13%
Other Interest-Earning	**$703**	**$24**	**3.41%**	$1,096	$22	2.01%	$1,809	$14	0.77%
Total Interest-Earning Assets	**$390,411**	**$24,802**	**6.35%**	$376,903	$22,016	5.84%	$332,198	$17,733	5.34%
Allowance for Loan Losses	**($2,603)**			($2,652)			($1,952)		
Cash & Due From Banks	**$6,949**			$8,189			$7,987		
Premises, Equipment	**$6,388**			$6,432			$3,865		
Net unrealized loss on AFS Securities	**($4,106)**			($2,127)			($412)		
Other Assets	**$20,348**			$19,707			$12,330		
Total Average Assets	**$417,387**			$406,452			$354,016		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-Bearing Liabilities:									
NOW/Money Market Deposits	**$79,356**	**$1,812**	**2.28%**	$81,602	$1,229	1.51%	$62,681	$382	0.61%
Savings Deposits	**$48,882**	**$640**	**1.31%**	$59,466	$456	0.77%	$54,596	$373	0.68%
Time Deposits	**$106,395**	**$4,434**	**4.17%**	$86,794	$2,486	2.86%	$75,241	$1,984	2.64%
Borrowed Funds	**$71,471**	**$3,573**	**5.00%**	$67,793	$3,181	4.69%	$74,954	$2,920	3.90%
Total Interest-Bearing Liabilities	**$306,104**	**$10,459**	**3.42%**	$295,655	$7,352	2.49%	$267,472	$5,659	2.12%
Demand Deposits	**$65,151**			$65,591			$51,649		
Other Liabilities	**$2,842**			$3,008			$2,329		
Shareholders' Equity	**$43,290**			$42,198			$32,566		
Total Liabilities and Shareholders' Equity	**$417,387**			$406,452			$354,016		
Net Interest Income		**$14,343**			$14,664			$12,074	
Net Interest Spread			**2.93%**			3.35%			3.22%
Net Interest Margin			**3.67%**			3.89%			3.63%

* Presented on a fully taxable equivalent ("FTE") basis

Volume and Rate Variance Analysis of Net Interest and Dividend Income
(Taxable equivalent basis)

(dollars in thousands)	*2006 over 2005*			*2005 over 2004*		
	Volume	*Rate*	*Total*	*Volume*	*Rate*	*Total*
Increase (decrease) in:						
Interest and dividend income on:						
Loans	$ 1,335	$ 1,032	$ 2,367	$ 2,895	$ 833	$ 3,728
Taxable investment securities	(50)	836	786	(188)	672	484
Tax-exempt investment securities	(351)	(26)	(377)	242	(188)	54
Other interest earning	(26)	36	10	(23)	40	17
Total interest and dividend income	$ 908	$ 1,878	$ 2,786	$ 2,926	$ 1,357	$ 4,283
Interest expense on:						
NOW/Money Market deposits	$ (34)	$ 617	$ 583	$ 115	$ 732	$ 847
Savings deposits	(81)	265	184	33	50	83
Time deposits	561	1,387	1,948	305	197	502
Borrowed funds	172	220	392	(279)	540	261
Total interest expense	$ 618	$ 2,489	$ 3,107	$ 174	$1,519	$ 1,693
Net interest and dividend income	$ 290	$ (611)	$ (321)	$ 2,752	$ (162)	$ 2,590

Noninterest Income

Noninterest income totaled $4,583,000 for the year ended December 31, 2006 and compared to $4,865,000 for the year ended December 31, 2005. This is a decrease of $282,000 or 5.80%. Gains on sales of available-for-sale securities decreased $693,000 or 57.27%. This decrease is primarily the result of movement in market rates during the year. The yield curve remained flat and at times was inverted during the year which limited opportunities to generate gains on sales of available-for-sale securities. Trust and investment services income increased $410,000 to $1,981,000 primarily as a result of the efforts of new business development. Service charges on deposit accounts totaled $707,000 for 2006. This is an increase of $65,000 or 10.12% when compared to total service charges of $642,000 in 2005. The increase can be attributed to an increase in the number of deposit accounts. Mortgage refinancing remained active during 2006. Competition in the secondary mortgage market continues to be very aggressive. Other income has remained relatively consistent when comparing the year 2006 to 2005. This category of income primarily consists of fees associated with transaction accounts and in addition, fees related to the origination and servicing of mortgage loans as well as gains reflecting the sale of mortgage loans.

Noninterest Expense

Overall, noninterest expense decreased 1.60% for the year ended December 31, 2006 as compared to the corresponding period in 2005. Professional fees however, increased $248,000 or 80.78%. The Company's trust and investment services division teamed with Bradley Foster and Sargent, Inc, an independent investment advisory firm which assists in providing a broader scope of highly personalized professional investment services to clients. In addition, there were several projects that required the services of consultants during the year that influenced the increase in professional fees. Other increases in noninterest expenses are attributable to normal volumes of business. The decreases in the noninterest expenses listed in the table below are all primarily attributable to management's continuing efforts to control operating expenses.

The components of noninterest expense and the changes in the period were as follows (amounts in thousands):

	2006	2005	$ Change	% Change
Salaries and employee benefits	$ 7,151	$ 7,355	$(204)	(2.77)%
Occupancy expense	752	728	24	3.30
Equipment expense	787	777	10	1.29
Data processing	1,134	1,014	120	11.83
Insurance	154	148	6	4.05
Printing and stationery	240	278	(38)	(13.67)
Professional fees	555	307	248	80.78
Legal expense	151	264	(113)	(42.80)
Amortization of core deposit intangible	164	164	0	.00
Other expense	1,157	1,409	(252)	(17.89)
Total noninterest expense	$12,245	$12,444	$(199)	(1.60)

Income Taxes

In 2006, the Company's income tax provision totaled $1,442,000 that reflects an effective tax rate of 25.32%. This compares to an income tax provision of $1,114,000 and an effective tax rate of 19.63% for the same period in 2005. This increase is primarily attributable to an increase in taxable income.

Net Income

Overall, net income totaled $4,254,000 for the year ended December 31, 2006. This compares to net income of $4,561,000 for the year ended December 31, 2005. This is a decrease of $307,000 or 6.73% and represents earnings per average share outstanding of $2.53. Earnings per average share outstanding for the year ended December 31, 2005 was $2.71.

RESULTS OF OPERATION
Comparison of the Years Ended December 31, 2005 and 2004

Overview

The earnings for the Company were $4,561,000 in 2005, an increase of $542,000 or 13.49% over year 2004 earnings of $4,019,000. Earnings per average share outstanding were $2.71 in 2005. This compared to earnings per average share outstanding of $2.67 in 2004 and $2.70 in 2003. The increase in earnings per share was primarily the result of the increased base of earnings assets following consummation of the Company's acquisition of Canaan National Bancorp, Inc. on September 10, 2004.

The Company's assets at December 31, 2005 were $402,922,000 compared to total assets of $423,101,000 at December 31, 2004. The decrease was primarily attributable to a reduction in the securities portfolio. During the year 2005, net loans outstanding increased $14,011,000 or 6.94% and total $215,989,000. This compared to net loans outstanding of $201,978,000 at December 31, 2004. The Bank monitored the quality of the loan portfolio to ensure that loan quality was not sacrificed for growth or otherwise compromised the Company's objectives. Nonperforming loans were $773,000 at December 31, 2005 as compared to nonperforming loans of $2,267,000 at December 31, 2004. This was a decrease of $1,494,000 or 65.90%. Deposits at December 31, 2005 were $287,271,000 compared to total deposits of $298,842,000 at December 31, 2004, representing a decrease of $11,571,000.

The Bank was "well capitalized". The Company's risk-based capital ratios at December 31, 2005, which included the risk-weighted assets and capital of the Salisbury Bank and Trust Company, were 14.58% for Tier 1 capital and 15.76% for total capital. The Company's leverage ratio was 8.27% at December 31, 2005. This compared to a Tier 1 capital ratio at December 31, 2004 of 11.12%, a total capital ratio of 12.13% and a Company leverage ratio of 7.22%. As a result of the Company's financial performance, the Board of Directors increased total dividends declared on the Company's common stock to $1.00 per share in 2005. This compared to a $.96 per share dividend declared in 2004 and a $.92 per share dividend that was declared in 2003.

Net Interest and Dividend Income

For this discussion, net interest income is presented on a fully taxable-equivalent ("FTE") basis. FTE interest income restates reported interest income on tax exempt loans and securities as if such interest were taxed at the applicable State and Federal income tax rates for all periods presented.

(dollars in thousands)	December 31,		
	2005	2004	2003
Interest and Dividend Income (financial statements)	**$20,816**	$16,551	$15,650
Tax Equivalent Adjustment	**1,200**	1,182	1,075
Total Interest and Dividend Income (on an FTE basis)	**22,016**	17,733	16,725
Interest Expense	**(7,352)**	(5,659)	(5,613)
Net Interest and Dividend Income-FTE	**$14,664**	$12,074	$11,112

The Company's 2005 total interest and dividend income on an FTE basis of $22,016,000 was $4,283,000 or 24.15% more than the total interest and dividend on an FTE basis of $17,733,000 in 2004. The increase was primarily attributable to an increase in earning assets as well an economic environment experiencing a slow increase in interest rates.

Interest expense on deposits in 2005 increased $1,432,000 or 52.28% to $4,171,000 compared to $2,739,000 for the corresponding period in 2004 and $2,866,000 in 2003. Interest expense for Federal Home Loan Bank advances increased $261,000 to $3,181,000 in 2005 compared to $2,920,000 in 2004 and $2,747,000 in 2003. The increase was primarily the result of an increase in advances during the year. Although competition remained aggressive and interest margins continued to be pressured, net interest and dividend income on an FTE basis increased $2,590,000 or 21.45% over 2004 and totaled $14,664,000 at December 31, 2005 compared to net interest and dividend income on an FTE basis of $12,074,000 at December 31, 2004 and $11,112,000 in 2003.

The Company's 2005 net interest margin on an FTE basis was 3.89%. This compared to a net interest margin of 3.63% for 2004. Actual tax exempt income in 2005 was $2,329,000 with a yield of 4.44%. Actual tax exempt income in 2004 totaled $2,294,000 with a yield of 4.68% and in 2003 actual tax exempt income was $2,086,000 with a yield of 4.78%.

YIELD ANALYSIS

Average Balances, Interest Earned/Paid and Rates

(dollars in thousands)	Years Ended December 31								
	2005			2004			2003		
	AVERAGE BALANCE	**INTEREST EARNED/ PAID**	**YIELD RATE**	AVERAGE BALANCE	INTEREST EARNED/ PAID	YIELD RATE	AVERAGE BALANCE	INTEREST EARNED/ PAID	YIELD RATE
ASSETS									
Interest-Earning Assets:									
Loans	**$208,786**	**$13,320**	**6.38%**	$160,382	$9,592	5.98%	$142,752	$9,226	6.46%
Taxable Securities	**$112,746**	**$5,097**	**4.52%**	$117,535	$4,613	3.92%	$101,931	$4,299	4.22%
Tax-Exempt Securities*	**$52,435**	**$3,529**	**6.73%**	$49,017	$3,475	7.09%	$43,603	$3,161	7.25%
Federal Funds	**$1,840**	**$48**	**2.61%**	$3,455	$39	1.13%	$3,125	$29	0.93%
Other Interest-Earning	**$1,096**	**$22**	**2.01%**	$1,809	$14	0.77%	$1,359	$10	0.74%
Total Interest-Earning Assets	**$376,903**	**$22,016**	**5.84%**	$332,198	$17,733	5.34%	$292,770	$16,725	5.71%
Allowance for Loan Losses	**($2,652)**			($1,952)			($1,468)		
Cash & Due From Banks	**$8,189**			$7,987			$6,425		
Premises, Equipment	**$6,432**			$3,865			$3,000		
Net unrealized (loss)gain on AFS Securities	**($2,127)**			($412)			$2,316		
Other Assets	**$19,707**			$12,330			$6,403		
Total Average Assets	**$406,452**			$354,016			$309,446		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-Bearing Liabilities:									
NOW/Money Market Deposits	**$81,602**	**$1,229**	**1.51%**	$62,681	$382	0.61%	$59,521	$363	0.61%
Savings Deposits	**$59,466**	**$456**	**0.77%**	$54,596	$373	0.68%	$45,975	$450	0.98%
Time Deposits	**$86,794**	**$2,486**	**2.86%**	$75,241	$1,984	2.64%	$68,898	$2,054	2.98%
Borrowed Funds	**$67,793**	**$3,181**	**4.69%**	$74,954	$2,920	3.90%	$65,282	$2,746	4.21%
Total Interest-Bearing Liabilities	**$295,655**	**$7,352**	**2.49%**	$267,472	$5,659	2.12%	$239,676	$5,613	2.34%
Demand Deposits	**$65,591**			$51,649			$38,998		
Other Liabilities	**$3,008**			$2,329			$2,130		
Shareholders' Equity	**$42,198**			$32,566			$28,642		
Total Liabilities and Shareholders' Equity	**$406,452**			$354,016			$309,446		
Net Interest Income		**$14,664**			$12,074			$11,112	
Net Interest Spread			**3.35%**			3.22%			3.37%
Net Interest Margin			**3.89%**			3.63%			3.80%

* Presented on a fully taxable equivalent ("FTE") basis

Volume and Rate Variance Analysis of Net Interest and Dividend Income
(Taxable equivalent basis)

(dollars in thousands)	*2005 over 2004*			*2004 over 2003*		
	Volume	*Rate*	*Total*	*Volume*	*Rate*	*Total*
Increase (decrease) in:						
Interest and dividend income on:						
Loans	**$ 2,895**	**$ 833**	**$ 3,728**	$ 1,139	$ (773)	$ 366
Taxable investment securities	**(188)**	**672**	**484**	658	(344)	314
Tax-exempt investment securities	**242**	**(188)**	**54**	393	(79)	314
Other interest earning	**(23)**	**40**	**17**	6	8	14
Total interest and dividend income	**$ 2,926**	**$ 1,357**	**$ 4,283**	$ 2,196	$(1,188)	$ 1,008
Interest expense on:						
NOW/Money Market deposits	**$ 115**	**$ 732**	**$ 847**	$ 19	$ 0	$ 19
Savings deposits	**33**	**50**	**83**	84	(161)	(77)
Time deposits	**305**	**197**	**502**	189	(259)	(70)
Borrowed funds	**(279)**	**540**	**261**	407	(233)	174
Total interest expense	**$ 174**	**$ 1,519**	**$ 1,693**	$ 699	$ (653)	$ 46
Net interest and dividend income	**$ 2,752**	**$ (162)**	**$ 2,590**	$ 1,497	$ (535)	$ 962

Noninterest Income

Noninterest income increased $110,000 or 2.31% and totaled $4,865,000 for the year ended December 31, 2005 as compared to $4,755,000 for the year ended December 31, 2004. Trust and investment services income increased $160,000 to $1,571,000 primarily as a result of the efforts of new business development. Service charges on deposit accounts totaled $642,000 for 2005. This was an increase of $21,000 or 3.38% when compared to total service charges of $621,000 in 2004. The increase was attributed to an increase in deposit account transactions. Gains on sales and writedowns of available-for-sale securities, net totaled $1,210,000 in 2005 and represented a decrease of $280,000 or 18.79% compared to $1,490,000 in 2004. This decrease reflected a writedown of approximately $182,000, however, that was primarily attributed to movement in the market which resulted in fewer opportunities for the Company to enhance the return from the securities portfolio and at the same time realize gains on sales of available-for-sale securities. Mortgage refinancing was active during 2005 as rates remained attractive to consumers. Competition in the secondary mortgage market was very aggressive. Gains on sales of loans held-for-sale totaled $270,000 in 2005 compared to $304,000 in 2004, representing a decrease of 11.18%. Other income and loan commissions however, increased $243,000 or 26.16% to $1,172,000 in 2005 compared to $929,000 in 2004. The increase was primarily attributable to the increase in fees earned from activity in the secondary mortgage market due to the change of investors.

Noninterest Expense

Noninterest expense increased 17.36% for the year ended December 31, 2005 as compared to the corresponding period in 2004. The increases in the noninterest expenses listed below were primarily attributed to the Company's growth as a result of the merger with Canaan National Bancorp, Inc. The decrease in other expense was a reflection of non-recurring expenses in 2004 related to the conversion of the Company's core processing system. The components of noninterest expense and the changes in the period were as follows (amounts in thousands):

	2005	2004	$ Change	% Change
Salaries and employee benefits	$7,355	$5,971	$1,384	23.18%
Occupancy expense	728	482	246	51.04
Equipment expense	777	600	177	29.50
Data processing	1,014	887	127	14.32
Insurance	148	122	26	21.31
Printing and stationery	278	262	16	6.11
Professional fees	307	279	28	10.04
Legal expense	264	173	91	52.60
Amortization of core deposit intangible	164	101	63	62.38
Other expense	1,409	1,726	(317)	(18.37)
Total noninterest expense	$12,444	$10,603	$1,841	17.36

Income Taxes

In 2005, the Company's income tax provision totaled $1,114,000 that reflected an effective tax rate of 19.63%. This compared to an income tax provision of $775,000 and an effective tax rate of 16.16% for the same period in 2004. This increase was primarily attributed to an increase in taxable income.

Net Income

Overall, net income was $4,561,000 for the year ended December 31, 2005. This compared to net income of $4,019,000 for the year ended December 31, 2004. This was an increase of $542,000 or 13.49% and represented earnings per average share outstanding of $2.71. Earnings per average share outstanding for the year ended December 31, 2004 was $2.67. The increase in net income was primarily the result of an increase in earning assets resulting from the merger with Canaan National Bancorp, Inc.

FINANCIAL CONDITION

Comparison of December 31, 2006 and 2005

Total assets at December 31, 2006 were $450,340,000 compared to $402,922,000 at December 31, 2005. This is an increase of 11.77%. The increase is primarily the result of an increase in loans and the securities portfolio that were funded by an increase in deposits and advances from the Federal Home Loan Bank of Boston.

Securities Portfolio

The Company manages the securities portfolio in accordance with the investment policy adopted by the Board of Directors. The primary objectives are to earn interest and dividend income, provide liquidity to meet cash flow needs and to manage interest rate risk and asset-quality diversifications to the Company's assets. The securities portfolio also acts as collateral for deposits of public agencies. As of December 31, 2006, the securities portfolio, including Federal Home Loan Bank of Boston stock, totaled $161,231,000. This represents an increase of $10,063,000 or 6.66% over year-end 2005.

Securities are classified in the portfolio as either securities-available-for-sale or securities-held-to-maturity. Securities for which the Company has the ability and positive intent to hold until maturity are reported as held-to-maturity. These securities are carried at cost adjusted for amortization of premiums and accretion of discounts. Securities that are held for indefinite periods of time and which management intends to use as part of its asset/liability management strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, increases in capital requirements or other similar factors, are classified as available-for-sale. These securities are stated at fair value in the financial statements of the Company. Temporary differences between available-for-sale securities' amortized cost and fair market value (accumulated other comprehensive income or loss when net of tax) are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of capital until realized. The cost basis of individual securities is written down to estimated fair value through a charge to earnings when decreases in value below amortized cost are considered to be other than temporary. This other than temporary impairment is charged to securities gain on the Company's financial statements. At December 31, 2006, the unrealized loss (accumulated other comprehensive loss) net of tax was $1,190,000. This compares to an unrealized loss net of tax of $2,601,000 at December 31, 2005. The Company monitors the market value fluctuations of its securities portfolio on a monthly basis as well as associated credit ratings to determine potential impairment of a security.

Federal Funds Sold

Federal funds sold at December 31, 2006 totaled $1,000,000. There were no federal funds sold at December 31, 2005. This represents a normal operating range of funds for daily cash needs.

Lending

New business development during the year coupled with an increase in loan demand resulted in an increase in net loans outstanding to $252,464,000 at December 31, 2006, as compared to $215,989,000 at December 31, 2005. This is an increase of $36,475,000 or 16.89%. Although the largest dollar volumes of loan activity continues to be in the

residential mortgage area, the Company offers a wide variety of loan types and terms along with competitive pricing to customers. At December 31, 2006, the portfolio also included $12,000,000 in Term federal funds, which are short term loans to other financial institutions. The Company's credit function is designed to ensure adherence to prudent credit standards despite competition for loans in the Company's market area.
The following table represents the composition of the loan portfolio comparing December 31, 2006 to December 31, 2005:

	December 31, 2006	December 31, 2005
	(amounts in thousands)	
Commercial, financial and agricultural	$ 16,465	$ 15,354
Real Estate-construction and land development	21,169	18,814
Real Estate-residential	145,395	135,619
Real Estate-commercial	50,859	40,889
Consumer	8,816	7,900
Term federal funds	12,000	0
Other	69	47
	254,773	218,623
Deferred costs, net	168	0
Unearned income	(3)	(8)
Allowance for loan losses	(2,474)	(2,626)
Net loans	$252,464	$215,989

Provisions and Allowance for Loan Losses

Total loans outstanding at of December 31, 2006 were $254,773,000. Included in the aforementioned figure is $12,000,000 in Term federal funds, which are short term loans to other financial institutions and which are netted from total loans for purposes of analysis of the Allowance for Loan and Lease Losses (ALLL). As a result, loans outstanding at December 31, 2006 was $242,773,000 net of term federal funds sold compared to net loans 2005. This is an increase of $24,150,000 or 11.05%. This growth can be attributed primarily to an increase in both outstanding of $218,623,000 at December 31, residential and commercial real estate loan demand as well as the Bank's new business development program. Approximately 90% of the Company's loan portfolio continues to be real estate secured.

Credit risk is inherent in the business of extending loans. The Company monitors the loan portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Company's objectives. Because of the risk associated with extending loans the Company maintains an allowance or reserve for loan and lease losses through charges to earnings. The Company evaluates the adequacy of the allowance on a monthly basis. Such evaluations are based on assessments of credit quality and trends within the portfolio and "risk rating" of loans by senior management, which is reviewed by the Company's Loan Committee on a regular basis. Loans are initially risk rated when originated. If there is deterioration in the credit quality, the risk rating is adjusted accordingly.

The ALLL at December 31, 2006 totaled $2,474,000 representing 256.91% of nonperforming loans of $963,000 and 1.02% of total loans outstanding net of term federal funds sold or $242,773,000. This compares to an ALLL of $2,626,000 which is 339.72% of nonperforming loans of $773,000 and 1.20% of total loans outstanding of $218,623,000 at December 31, 2005. Management reduced the allowance by$87,488 that had previously been expensed through the loan loss provision from prior years. This was justified by positive trends in the loan portfolio and low levels of delinquencies and net charge-offs as well as low levels of classified and nonperforming loans.

A separate component that is evaluated is the Allowance for Off Balance Sheet Commitments which totaled $36,000 as of December 31, 2006. The two allowances combined brought the total ALLL to $2,510,000 or 1.03% of total loans outstanding. The December 31, 2005 comparison included $134,000 in the Allowance for Off Balance Sheet Commitments bringing the total combined ALLL to $2,760,000 or 1.26% of total loans. A total of $132,000 in loans were charged-off during the 2006 year compared to $134,000 during 2005. Recoveries of previously charged-off loans totaled $67,000 during the 2006 year compared to $39,000 in recoveries for 2005.

The allowance also includes a component resulting from the application of the measurement criteria of Statements of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan ("SFAS 114"). Impaired loans receive individual evaluation of the allowance necessary on a monthly basis. Loans to be considered for impairment are defined in the Company's Loan Policy as commercial loans with balances outstanding of $100,000 or more and residential real estate mortgages with balances of $300,000 or more. Such loans are considered impaired when it is probable that the Company will not be able to collect all principal and interest due according to the terms of the note.

Any such commercial loan and/or residential mortgage will be considered for impairment under any of the following circumstances:

1. Non-accrual status;
2. Loans over 90 days delinquent;
3. Troubled debt restructures consummated after December 31, 1994;
4. Loans classified as "doubtful", meaning that they have weaknesses, which make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The individual allowance for any impaired loan is based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. Specifically identifiable and quantifiable losses are immediately charged off against the allowance.

In addition, a risk of loss factor is applied in evaluating categories of loans as part of the periodic analysis of the Allowance for Loan and Lease Losses. This analysis reviews the allocations of the different categories of loans within the portfolio and considers historical loan losses and delinquency balances as well as recent delinquent percentage trends.

The credit card delinquency and loss history is separately evaluated and given a special loan loss factor because management recognizes the higher risk involved in such loans. Concentrations of credit and local economic factors are also evaluated on a periodic basis. Historical averages of net losses by loan types are examined as well as trends by type. The Bank's loan mix over the same period of time is also analyzed. A loan loss allocation is made for each type of loan multiplied by the loan mix percentage for each loan type to produce a weighted average factor.

While management estimates loan losses using the best available information, no assurances can be given that future additions to the allowance will not be necessary based on changes in economic and real estate market conditions, identification of additional problem loans or other factors. Additionally, despite the excellent overall quality of the loan portfolio and with expectations of the Company to continue to grow its existing portfolio, future additions to the allowance may be necessary to maintain adequate reserve coverage. Overall, management is of the opinion that the ALLL is adequate as of December 31, 2006.

Deposits

The Company offers a variety of deposit accounts with a range of interest rates and terms. Deposits at year-end 2006 totaled $313,586,000 compared to $287,271,000 at year-end 2005. The Company continues its efforts to competitively price products and develop and maintain relationship banking with its customers. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and the aggressive competition from nonbanking entities. During the year, there was a change in the mix of deposits.

Demand, NOW and savings balances, which are lower cost core deposits, decreased and were replaced primarily by time deposits, which as illustrated by the table below, results in a significant increase in interest expense.

The average daily amount of deposits by category and the average rates paid on such deposits are summarized in the following table:

(dollars in thousands)	*Year ended December 31*					
	2006		*2005*		*2004*	
	Average Balance	***Rate***	*Average Balance*	*Rate*	*Average Balance*	*Rate*
Demand	**$ 65,151**		$ 65,591		$ 51,649	
NOW	**25,090**	**.26%**	27,767	.25%	23,797	.01%
Money Market	**54,266**	**3.22 %**	53,835	2.15%	38,884	.83%
Savings	**48,882**	**1.31%**	59,466	.77%	54,596	.68%
Time	**106,395**	**4.17%**	86,794	2.86%	75,241	2.64%
	$299,784	**2.29%**	$293,453	1.42%	$244,167	1.12%

Maturities of time certificates of deposits of $100,000 or more outstanding at December 31 are summarized as follows:

(dollars in thousands)	*December 31*		
	2006	*2005*	*2004*
Three months or less	**$ 12,045**	$ 9,763	$ 9,540
Over three months through six months	**8,946**	1,057	1,011
Over six months through one year	**24,791**	8,774	7,517
Over one year	**9,533**	8,069	14,887
Total	**$55,315**	$27,663	$32,955

Borrowings

As part of its operating strategy, the Company utilizes advances from the Federal Home Loan Bank to supplement deposit growth and fund its asset growth, a strategy that is designed to increase interest income. These advances are made pursuant to various credit programs, each of which has its own interest rate and range of maturities. At December 31, 2006, the Company had $87,093,000 in outstanding advances from the Federal Home Loan Bank compared to $71,016,000 at December 31, 2005. Management expects that it will continue this strategy of supplementing deposit growth with advances from Federal Home Loan Bank of Boston.

Interest Rate Risk

Interest rate risk is the most significant market risk affecting the Company. Interest rate risk is defined as an exposure to a movement in interest rates that could have an adverse effect on net interest income. Net interest income is sensitive to interest rate risk to the degree that interest bearing liabilities mature or reprice on a different basis than earning assets.

The Bank's assets and liabilities are managed in accordance with policies established and reviewed by the Bank's Board of Directors. The Bank's Asset/Liability Management Committee monitors asset and deposit levels, developments and trends in interest rates, liquidity and capital. One of the primary financial objectives is to manage interest rate risk and control the sensitivity of earnings to changes in interest rates in order to prudently improve net interest income and manage the maturities and interest rate sensitivities of assets and liabilities.

The Bank uses asset/liability modeling software to develop scenario analyses which measure the impact that changing interest rates have on net interest income. These model simulations are projected out over a two year time horizon, assuming proportional upward and downward interest rate movements of 100, 200 and 300 basis points. Simulations are projected out in two ways:

(1) using the same balance sheet as the Bank had on the simulation date, and

(2) using a growing balance sheet based on recent growth patterns and strategies.

As interest rates rise or fall, these simulations incorporate expected future lending rates, current and expected future funding sources and cost, the possible exercise of options, changes in prepayment rates, and other factors which may be important in determining the future growth of net interest income. The rates we earn on our assets and the rates we pay on our liabilities are generally fixed for a contractual period of time. Imbalance in these contractual maturities can create significant earnings volatility because market interest rates change over time. In a period of rising interest rates, the interest income earned on assets may not increase as rapidly as the interest paid on liabilities. In a period of declining interest rates the interest income earned on assets may decrease more rapidly than the interest paid on liabilities. This would primarily be attributed to accelerated prepayments on loans and securities that are significantly influenced by movements in market rates.

The net interest margin may be adversely affected by several possible interest rate environments. Foremost, a continued flat or inverted yield curve which results in shorter term market interest rates that equal or exceed those of longer term rates. This could further increase the Bank's cost of interest-bearing liabilities that continue to outpace its yield on earning assets resulting in additional net interest rate spread compression.

Liquidity

Liquidity is the ability to raise funds on a timely basis at an acceptable cost in order to meet cash needs. Adequate liquidity is necessary to handle fluctuation in deposit levels, to provide for customers' credit needs, and to take advantage of investment opportunities as they are presented. The Company manages liquidity primarily with readily marketable investment securities, deposits and loan repayments. The Company's subsidiary, Salisbury Bank and Trust Company is a member of the Federal Home Loan Bank of Boston that provides a source of available borrowings for liquidity.

At December 31, 2006, the Company had approximately $60,046,000 in loan commitments outstanding. Management believes that the current level of liquidity is ample to meet the Company's needs for both the present and foreseeable future.

Capital

At December 31, 2006, the Company had $44,349,000 in shareholders' equity compared to $41,442,000 at December 31, 2005. This represents an increase of $2,907,000 or 7.01%. Several components contributed to the change since December 2005. Earnings for the year totaled $4,254,000. Securities in the portfolio that are classified as available-for-sale are adjusted to fair value monthly and the unrealized losses or gains are not included in earnings, but are reported as a net amount (less expected tax) as a separate component of capital until realized. Market fluctuations of fair value of the securities portfolio during 2006 resulted in other comprehensive income net of tax totaling $1,411,000. The initial application of SFAS No. 158, as defined below in recent accounting pronouncements, resulted in other comprehensive loss, net of tax of $1,038,000 in 2006. The Company declared dividends in 2006 resulting in a decrease in capital of $1,751,000. The Company issued 840 new shares of common stock under the terms of the Director Stock Retainer Plan during the second quarter of 2006 which resulted in an increase in capital of $32,000.

Under current regulatory definitions, the Company and the Bank are considered to be "well capitalized" for capital adequacy purposes. As a result, the Bank pays the lowest federal deposit insurance deposit premiums possible. One primary measure of capital adequacy for regulatory purposes is based on the ratio of risk-based capital to risk weighted assets. This method of measuring capital adequacy helps to establish capital requirements that are sensitive to the differences in risk associated with various assets. It takes into account off-balance sheet exposure in assessing capital adequacy and it minimizes disincentives to holding liquid, low risk assets. At year-end 2006, the Company had a risk-based capital ratio of 15.28% compared to 15.76% at December 31, 2005. Maintaining strong capital is essential to bank safety and soundness. However, the effective management of capital resources requires generating attractive returns on equity to build value for shareholders while maintaining appropriate levels of capital to fund growth, meet regulatory requirements and be consistent with prudent industry practices. Management believes that the capital ratios of the Company and Bank are adequate to continue to meet the foreseeable capital needs of the institution.

Impact of Inflation and Changing Prices

The Company's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America which require the measurement of financial condition and operating results in terms of historical dollars without considering changes in the relative purchasing power of money, over time, due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of the Company are monetary and as a result, interest rates tend to have a greater impact on the Company's performance than do the effects of general levels of inflation. Although interest rates do not necessarily move in the same direction or with the same magnitude as the prices of goods and services, inflation could impact earnings in future periods.

Recent Accounting Pronouncements

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

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

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

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

Off-Balance Sheet Arrangements

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. In the opinion of management, these off-balance sheet arrangements are not likely to have a material effect on the Company's financial condition, results of operations, or liquidity. (See Note 11 to the Financial Statements).

Forward Looking Statements

This Annual Report and future filings made by the Company with the Securities and Exchange Commission, as well as other filings, reports and press releases made or issued by the Company and the Bank, and oral statements made by executive officers of the Company and the Bank, may include forward-looking statements relating to such matters as:

(a) assumptions concerning future economic and business conditions and their effect on the economy in general and on the markets in which the Company and the Bank do business, and

(b) expectations for increased revenues and earnings for the Company and Bank through growth resulting from acquisitions, attraction of new deposit and loan customers and the introduction of new products and services.

Such forward-looking statements are based on assumptions rather than historical or current facts and, therefore, are inherently uncertain and subject to risk. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Act of 1995.

The Company notes that a variety of factors could cause the actual results or experience to differ materially from the anticipated results or other expectations described or implied by such forward-looking statements. The risks and uncertainties that may effect the operation, performance, development and results of the Company's and Bank's business include the following:

(a) the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Bank operates;

(b) changes in the legislative and regulatory environment that negatively impact the Company and Bank through increased operating expenses;

(c) increased competition from other financial and non-financial institutions;

(d) the impact of technological advances; and

(e) other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

Such developments could have an adverse impact on the Company's and the Bank's financial position and results of operations.

Quantitative and Qualitative Disclosures about Market Risk

The main components of market risk for the Company are credit risk, interest rate risk and liquidity risk. The Company manages interest rate risk and liquidity risk through an ALCO Committee comprised of outside Directors and senior management. The committee monitors compliance with the Bank's Asset/Liability Policy which establishes guidelines to meet various applicable regulatory rules and statutes, measures the various risks facing the bank on a consistent basis and coordinates the management of the bank's financial position. Model simulation is used to measure earnings volatility under both rising and falling interest rate scenarios. The Company's interest rate risk and liquidity position has not significantly changed from year-end 2006.

Statement of Management's Responsibility

Management is responsible for the integrity and objectivity of the consolidated financial statements and other information appearing in this Annual Report. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America applying estimates and management's best judgment as required. To fulfill their responsibilities, management establishes and maintains accounting systems and practices adequately supported by internal accounting controls. These controls include the selection and training of management and supervisory personnel; an organization structure providing for delegation of authority and establishment or responsibilities; communication of requirements for compliance with approved accounting, control and business practices throughout the organization; business planning and review; and a program of internal audit. Management believes the internal accounting controls in use provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and that financial records are reliable for the purpose of preparing financial statements. Shatswell, MacLeod and Company, P.C. has been engaged to provide an independent opinion on the fairness of the consolidated financial statements. Their report appears in this Annual Report.

John F. Perotti
John F. Perotti
Chief Executive Officer

John F. Foley
John F. Foley
Chief Financial Officer,
Treasurer & Secretary

SHATSWELL, MacLEOD & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Salisbury Bancorp, Inc.
Lakeville, Connecticut

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of Salisbury Bancorp, Inc. and Subsidiary as of December 31, 2006 and 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2006. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 consolidated 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 Salisbury Bancorp, Inc. and Subsidiary as of December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Shatswell, MacLeod + Company, P.C.

SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts
March 14, 2007

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SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

ASSETS	2006	2005
Cash and due from banks	$ 8,988,609	$ 8,431,844
Interest-bearing demand deposits with other banks	568,693	652,807
Money market mutual funds	1,199,881	1,119,724
Federal Funds sold	1,000,000	0
Cash and cash equivalents	11,757,183	10,204,375
Investments in available-for-sale securities (at fair value)	156,492,547	145,608,297
Investments in held-to-maturity securities (fair values of $74,818 and $147,202 as of December 31, 2006 and 2005, respectively)	74,931	146,856
Federal Home Loan Bank stock, at cost	4,663,700	5,413,200
Loan held-for-sale	304,000	0
Loans, less allowance for loan losses of $2,474,118 and $2,626,170 as of December 31, 2006 and 2005, respectively	252,464,430	215,989,149
Investment in real estate	75,000	75,000
Premises and equipment	6,135,546	6,451,979
Goodwill	9,509,305	9,509,305
Core deposit intangible	1,493,499	1,657,715
Accrued interest receivable	2,483,547	2,362,924
Cash surrender value of life insurance policies	3,554,995	3,424,186
Other assets	1,330,987	2,079,307
Total assets	$450,339,670	$402,922,293
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 70,502,249	$ 63,995,665
Interest-bearing	243,084,032	223,275,537
Total deposits	313,586,281	287,271,202
Federal Home Loan Bank advances	87,093,402	71,015,614
Due to broker	1,579,611	0
Other liabilities	3,731,195	3,193,154
Total liabilities	405,990,489	361,479,970
Shareholders' equity:		
Common stock, par value $.10 per share; authorized 3,000,000 shares; issued and outstanding, 1,684,181 shares in 2006 and 1,683,341 shares in 2005	168,418	168,334
Paid-in capital	13,099,881	13,068,045
Retained earnings	33,602,991	31,100,702
Accumulated other comprehensive loss	(2,522,109)	(2,894,758)
Total shareholders' equity	44,349,181	41,442,323
Total liabilities and shareholders' equity	$450,339,670	$402,922,293

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

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
Interest and dividend income:			
Interest and fees on loans	$15,686,978	$13,319,930	$ 9,592,478
Interest on debt securities:			
Taxable	5,604,866	4,814,993	4,499,725
Tax-exempt	2,079,981	2,329,414	2,293,706
Dividends on equity securities	277,356	282,534	112,008
Other interest	80,412	69,512	53,101
Total interest and dividend income	23,729,593	20,816,383	16,551,018
Interest expense:			
Interest on deposits	6,885,893	4,171,360	2,738,680
Interest on Federal Home Loan Bank advances	3,573,052	3,180,591	2,920,316
Total interest expense	10,458,945	7,351,951	5,658,996
Net interest and dividend income	13,270,648	13,464,432	10,892,022
(Benefit) provision for loan losses	(87,488)	210,000	250,000
Net interest and dividend income after (benefit) provision for loan losses	13,358,136	13,254,432	10,642,022
Noninterest income:			
Trust department income	1,980,500	1,571,311	1,410,814
Loan commissions	117,298	260,997	239,139
Service charges on deposit accounts	707,431	642,268	620,771
Gain on sales and writedown of available-for-sale securities, net	517,326	1,209,724	1,489,905
Gain on sales of loans held-for-sale	357,628	270,061	304,354
Other income	902,394	910,743	690,198
Total noninterest income	4,582,577	4,865,104	4,755,181
Noninterest expense:			
Salaries and employee benefits	7,150,746	7,355,316	5,970,639
Occupancy expense	751,670	728,302	482,516
Equipment expense	786,637	776,729	600,127
Data processing	1,134,078	1,013,785	886,618
Conversion expense	0	0	464,484
Insurance	154,562	148,317	121,959
Printing and stationery	239,617	277,640	261,898
Professional fees	554,686	306,753	278,709
Legal expense	151,414	263,575	173,333
Amortization of core deposit intangible	164,216	164,416	101,109
Other expense	1,157,534	1,408,949	1,261,921
Total noninterest expense	12,245,160	12,443,782	10,603,313
Income before income taxes	5,695,553	5,675,754	4,793,890
Income taxes	1,441,935	1,114,413	774,948
Net income	$ 4,253,618	$ 4,561,341	$ 4,018,942
Earnings per common share	$ 2.53	$ 2.71	$ 2.67

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

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2006, 2005 and 2004

	Number of Shares Issued	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2003	1,424,078	$142,408	$2,327,151	$25,694,836	$ 685,817	$28,850,212
Comprehensive income:						
Net income				4,018,942		
Other comprehensive loss, net of tax effect					(1,408,496)	
Comprehensive income						2,610,446
Shares issued for merger	257,483	25,748	10,672,670			10,698,418
Issuance of 840 shares for Directors' fees	840	84	31,752			31,836
Dividends declared ($.96 per share)				(1,491,312)		(1,491,312)
Balance, December 31, 2004	1,682,401	168,240	13,031,573	28,222,466	(722,679)	40,699,600
Comprehensive income:						
Net income				4,561,341		
Other comprehensive loss, net of tax effect					(2,172,079)	
Comprehensive income						2,389,262
Issuance of 940 shares for Directors' fees	940	94	36,472			36,566
Dividends declared ($1.00 per share)				(1,683,105)		(1,683,105)
Balance, December 31, 2005	1,683,341	168,334	13,068,045	31,100,702	(2,894,758)	41,442,323
Comprehensive income:						
Net income				4,253,618		
Other comprehensive income, net of tax effect					372,649	
Comprehensive income						4,626,267
Issuance of 840 shares for Directors' fees	840	84	31,836			31,920
Dividends declared ($1.04 per share)				(1,751,329)		(1,751,329)
Balance, December 31, 2006	1,684,181	$168,418	$13,099,881	$33,602,991	$(2,522,109)	$44,349,181

Reclassification disclosure for the years ended December 31:

	2006	2005	2004
Unrealized holding gains (losses) on available-for-sale securities			
Net unrealized holding gains (losses) on available-for-sale securities	$2,654,494	$(1,547,214)	$(1,106,610)
Reclassification adjustment for net realized gains in net income	(517,326)	(1,209,724)	(1,489,905)
	2,137,168	(2,756,938)	(2,596,515)
Income tax (expense) benefit	(726,637)	878,763	1,011,343
Unrealized holding gains (losses) on available-for-sale securities, net of tax	1,410,531	(1,878,175)	(1,585,172)
Adjustment to initially apply SFAS No. 158	(1,572,548)	0	0
Minimum pension liability adjustment	0	(445,309)	289,396
Income tax benefit (expense)	534,666	151,405	(112,720)
SFAS No. 158 pension liability or minimum pension liability, net of tax	(1,037,882)	(293,904)	176,676
Other comprehensive income (loss), net of tax	$ 372,649	$(2,172,079)	$(1,408,496)

Accumulated other comprehensive loss consists of the following as of December 31:

	2006	2005	2004
Net unrealized holding losses on available-for-sale securities, net of taxes	$(1,190,323)	$(2,600,854)	$ (722,679)
SFAS No. 158 pension liability, net of taxes	(1,331,786)	0	0
Minimum pension liability adjustment, net of taxes	0	(293,904)	0
Accumulated other comprehensive loss	$(2,522,109)	$(2,894,758)	$ (722,679)

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

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 4,253,618	$ 4,561,341	$ 4,018,942
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of securities, net	34,953	302,781	289,214
Gain on sales and writedown of available-for-sale securities, net	(517,326)	(1,209,724)	(1,489,905)
(Benefit) provision for loan losses	(87,488)	210,000	250,000
Change in loans held-for-sale	(304,000)	375,000	(100,000)
Change in deferred loan costs, net	(168,573)	0	0
(Decrease) increase in unearned income on loans	(4,913)	(10,473)	18,529
Net decrease (increase) in mortgage servicing rights	78,715	83,471	(41,253)
Write-off of equipment	0	0	9,399
Depreciation and amortization	538,449	529,238	357,645
Amortization of core deposit intangible	164,216	164,416	101,109
Amortization of fair value adjustment on loans	112,712	184,256	266,986
Accretion of fair value adjustments on deposits and borrowings	(134,217)	(154,287)	(51,429)
(Increase) decrease in interest receivable	(111,012)	(110,482)	84,056
Deferred tax expense	396,418	67,273	143,691
(Increase) decrease in prepaid expenses	(1,031,510)	14,242	270,965
Increase in cash surrender value of insurance policies	(130,809)	(130,638)	(139,607)
Decrease (increase) in income tax receivable	181,005	336,288	(53,889)
Increase in other assets	(91,796)	(53,742)	(71,917)
Decrease in accrued expenses	(243,196)	(268,051)	(750,246)
Increase in interest payable	257,975	42,822	57,465
(Decrease) increase in other liabilities	(57,050)	59,445	367,956
Issuance of shares for Directors' fees	31,920	36,566	31,836
Net cash provided by operating activities	3,168,091	5,029,742	3,569,547
Cash flows from investing activities:			
Redemption of Federal Home Loan Bank stock	860,200	0	56,300
Purchases of Federal Home Loan Bank stock	(110,700)	0	(351,000)
Purchases of available-for-sale securities	(83,058,698)	(87,783,193)	(124,520,785)
Proceeds from sales of available-for-sale securities	62,356,620	83,572,466	98,347,353
Proceeds from maturities of available-for-sale securities	14,007,603	34,328,155	32,998,864
Proceeds from maturities of held-to-maturity securities	71,691	71,272	10,968
Loan originations and principal collections, net	(36,142,073)	(12,432,343)	(8,191,577)
Purchases of loans	(252,000)	(2,001,184)	0
Recoveries of loans previously charged off	67,054	39,094	28,302
Capital expenditures	(207,787)	(1,017,056)	(1,003,263)
Proceeds from sale of equipment	0	0	436
Cash and cash equivalents acquired from Canaan National Bancorp, Inc. net of expenses paid of $309,419	0	0	2,487,705
Cash paid to Canaan National Bancorp, Inc. shareholders	0	0	(6,020,163)
Net cash (used in) provided by investing activities	(42,408,090)	14,777,211	(6,156,860)

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006, 2005 and 2004
(continued)

	2006	2005	2004
Cash flows from financing activities:			
Net (decrease) increase in demand deposits, NOW and savings accounts	(5,638,393)	(8,516,596)	6,920,818
Net increase (decrease) in time deposits	31,957,486	(3,029,964)	(2,141,902)
Federal Home Loan Bank advances	25,000,000	10,000,000	5,000,000
Principal payments on advances from Federal Home Loan Bank	(10,460,009)	(1,346,521)	(6,140,973)
Net change in short-term advances from Federal Home Loan Bank	1,668,000	(16,720,945)	0
Decrease in other borrowed funds	0	0	(86,863)
Dividends paid	(1,734,277)	(1,666,046)	(1,415,074)
Net cash provided by (used in) financing activities	40,792,807	(21,280,072)	2,136,006
Net increase (decrease) in cash and cash equivalents	1,552,808	(1,473,119)	(451,307)
Cash and cash equivalents at beginning of year	10,204,375	11,677,494	12,128,801
Cash and cash equivalents at end of year	$11,757,183	$10,204,375	$ 11,677,494
Supplemental disclosures:			
Interest paid	$10,335,187	$ 7,463,416	$ 5,652,960
Income taxes paid	864,512	710,852	685,000
Transfer from equipment to other assets			2,815
Canaan National Bancorp, Inc. merger:			
Cash and cash equivalents acquired			$ 2,797,124
Available-for-sale securities			42,776,284
Federal Home Loan Bank stock			1,291,200
Federal Reserve Bank stock			56,300
Net loans acquired			54,787,421
Fixed assets acquired			2,355,970
Accrued interest receivable			460,550
Other assets acquired			1,173,549
Core deposit intangible			1,191,279
			106,889,677
Deposits assumed			75,613,508
Federal Home Loan Bank borrowings assumed			19,500,346
Other borrowings assumed			86,863
Other liabilities assumed			1,812,381
			97,013,098
Net assets acquired			9,876,579
Merger costs			17,028,000
Goodwill			$ 7,151,421

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

NOTE 1 - NATURE OF OPERATIONS

Salisbury Bancorp, Inc. (Bancorp) is a Connecticut corporation that was organized on April 24, 1998 to become a holding company, under which Salisbury Bank and Trust Company (Bank) operates as its wholly-owned subsidiary. Bancorp and the Bank are referred to together as the (Company).

The Bank is a state chartered bank which was incorporated in 1874 and is headquartered in Lakeville, Connecticut. The Bank operates its business from four banking offices located in Connecticut and two banking offices located in Massachusetts. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in residential and commercial real estate, consumer and small business loans. The Bank also offers a full complement of trust and investment services.

As described in Note 15, on September 10, 2004 Canaan National Bancorp, Inc. merged with and into the Company.

NOTE 2 - ACCOUNTING POLICIES

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

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Bancorp and its wholly-owned subsidiary, the Bank, and the Bank's wholly-owned subsidiaries, SBT Realty, Inc., and SBT Mortgage Service Corporation (the "PIC"). SBT Realty, Inc. holds and manages bank owned real estate situated in New York state. The PIC operates as a passive investment company and services residential mortgages. All significant intercompany accounts and transactions have been eliminated in the consolidation.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks, interest bearing demand deposits with other banks, money market mutual funds and federal funds sold.

Cash and due from banks as of December 31, 2006 and 2005 includes $650,000 and $649,000, respectively, which is subject to withdrawals and usage restrictions to satisfy the reserve requirements of the Federal Reserve Board.

SECURITIES:

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

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

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

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

-- Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings. During the three years ended December 31, 2006 the Company did not classify any securities as trading.

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

LOANS:

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

Interest on loans is recognized on a simple interest basis.

Residential real estate loans are generally placed on nonaccrual status when reaching 90 days past due or in the process of foreclosure. Lines of credit secured by real estate 90 days past due or in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged-off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months.

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

ALLOWANCE FOR LOAN LOSSES:

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

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

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

PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets. Estimated lives are 3 to 99 years for buildings and 2 to 20 years for furniture and equipment.

OTHER REAL ESTATE OWNED AND IN-SUBSTANCE FORECLOSURES:

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

In accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," the Bank classifies loans as in-substance repossessed or foreclosed if the Bank or its subsidiaries receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place. As of December 31, 2006 and December 31, 2005, the Company does not have any other real estate owned.

ADVERTISING:

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

INCOME TAXES:

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

FAIR VALUES OF FINANCIAL INSTRUMENTS:

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires that the Company disclose estimated fair value for its financial instruments. Fair value methods and assumptions used by the Company in estimating its fair value disclosures are as follows:

Cash and cash equivalents: The carrying amounts reported in the balance sheets for cash and cash equivalents approximate those assets' fair values.

Securities (including mortgage-backed securities): Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans held-for-sale: Fair values of mortgage 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. The 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.

Accrued interest receivable: The carrying amount of accrued interest receivable approximates its fair value.

Deposit liabilities: The fair values disclosed for interest and non-interest checking, passbook savings and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). 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 aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank Advances: Fair values for Federal Home Loan Bank advances are estimated using a discounted cash flow technique that applies interest rates currently being offered on advances to a schedule of aggregated expected monthly maturities on Federal Home Loan Bank advances.

Due to broker: The carrying amount of due to broker approximates its fair value.

Off-balance sheet instruments: The fair value of commitments to originate loans is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments and the unadvanced portion of loans, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counterparties at the reporting date.

STOCK BASED COMPENSATION:

Bancorp has a stock-based plan to compensate non-employee directors for their services. This plan is more fully described in Note 14. Compensation cost for these services is reflected in net income in an amount equal to the fair value on the date of issuance of the shares of Bancorp common stock issued to the directors.

EARNINGS PER SHARE (EPS):

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Weighted average common shares outstanding were 1,683,893 in 2006, 1,683,031 in 2005 and 1,503,373 in 2004. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted EPS is not presented because there were no common stock equivalents in the three year period ended December 31, 2006.

RECENT ACCOUNTING PRONOUNCEMENTS:

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

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

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

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

NOTE 3 - INVESTMENTS IN SECURITIES

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

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
December 31, 2006:				
Equity securities	$ 3,031	$ 178,395	$ 0	$ 181,426
U.S. government agencies preferred stock	2,975,000	0	462,900	2,512,100
Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	55,323,358	23,343	1,200,395	54,146,306
Debt securities issued by states of the United States and political subdivisions of the states	44,891,148	379,553	34,667	45,236,034
Money market mutual funds	1,199,881	0	0	1,199,881
Mortgage-backed securities	55,103,530	191,698	878,547	54,416,681
	159,495,948	772,989	2,576,509	157,692,428
Money market mutual funds included in cash and cash equivalents	(1,199,881)			(1,199,881)
	$158,296,067	$ 772,989	$ 2,576,509	$156,492,547
December 31, 2005:				
Equity securities	$ 3,031	$ 145,058	$ 0	$ 148,089
U.S. government agencies preferred stock	13,292,628	99,660	946,300	12,445,988
Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	52,390,332	0	1,874,694	50,515,638
Debt securities issued by states of the United States and political subdivisions of the states	41,550,010	75,980	293,765	41,332,225
Money market mutual funds	1,119,724	0	0	1,119,724
Mortgage-backed securities	42,312,984	15,325	1,161,952	41,166,357
	150,668,709	336,023	4,276,711	146,728,021
Money market mutual funds included in cash and cash equivalents	(1,119,724)			(1,119,724)
	$149,548,985	$ 336,023	$4,276,711	$145,608,297
Held-to-maturity securities:				
December 31, 2006:				
Mortgage-backed securities	$ 74,931	$ 0	$ 113	$ 74,818
December 31, 2005:				
Mortgage-backed securities	$ 146,856	$ 346	$ 0	$ 147,202

The scheduled maturities of debt securities were as follows as of December 31, 2006:

	Available-For-Sale	Held-To-Maturity	
	Fair Value	Amortized Cost Basis	Fair Value
Due after five years through ten years	$ 17,966,906	$ 0	$ 0
Due after ten years	81,415,434	0	0
Mortgage-backed securities	54,416,681	74,931	74,818
	$153,799,021	$ 74,931	$ 74,818

During 2006, proceeds from sales of available-for-sale securities amounted to $62,356,620. Gross realized gains and gross realized losses on those sales amounted to $724,286 and $206,960, respectively. During 2005, proceeds from sales of available-for-sale securities amounted to $83,572,466. Gross realized gains and gross realized losses on those sales amounted to $1,427,881 and $35,657, respectively. During 2004, proceeds from sales of available-for-sale securities amounted to $98,347,353. Gross realized gains and gross realized losses on those sales amounted to $1,577,110 and $87,205, respectively. The tax provision applicable to these net realized gains amounted to $175,891, $473,356 and $580,318, respectively. In 2005, a write down of $182,500 was recorded on an available-for-sale security as management had deemed this particular security to be other than temporarily impaired.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of shareholders' equity as of December 31, 2006.

Total carrying amounts of $55,251,654 and $38,612,787 of debt securities were pledged to secure Federal Home Loan Bank advances, public deposits, treasury tax and loan and for other purposes as required by law as of December 31, 2006 and 2005, respectively.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more, and are temporarily impaired, are as follows as of December 31, 2006:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies preferred stock	$ 0	$ 0	$ 2,512,100	$ 462,900	$ 2,512,100	$ 462,900
Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	792,581	57,553	49,159,124	1,142,842	49,951,705	1,200,395
Debt securities issued by states of the United States and political subdivisions of the states	1,809,175	12,100	2,094,013	22,567	3,903,188	34,667
Mortgage-backed securities	13,486,446	54,270	27,940,134	824,390	41,426,580	878,660
Total temporarily impaired securities	$16,088,202	$ 123,923	$81,705,371	$ 2,452,699	$97,793,573	$ 2,576,622

Securities exhibiting unrealized losses are analyzed to determine that the impairments are not other-than-temporary and the following information is considered. U.S. Government securities are backed by the full faith and credit of the United States and therefore bear no credit risk. U.S. Government agencies securities, which have a significant impact in financial markets, have minimal credit risk. All investments maintain a credit rating of at least investment grade by one of the nationally recognized rating agencies. Mortgage-backed securities are issued by federal government agencies or by private issuers with minimum security ratings of AAA. The unrealized losses in the above table are attributable to changes in market interest rates. As Company management has the ability to hold securities until anticipated recovery to cost basis occurs, no declines are deemed to be other than temporary.

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	2006	2005
Commercial, financial and agricultural	$ 16,464,762	$ 15,354,328
Real estate - construction and land development	21,169,024	18,814,408
Real estate - residential	145,394,844	135,618,937
Real estate - commercial	50,859,332	40,889,007
Consumer	8,815,789	7,899,912
Term federal funds	12,000,000	0
Other	69,367	46,783
	254,773,118	218,623,375
Deferred costs, net	168,573	0
Unearned income	(3,143)	(8,056)
Allowance for loan losses	(2,474,118)	(2,626,170)
Net loans	$252,464,430	$215,989,149

Certain directors and executive officers of the Company and companies in which they have significant ownership interest were customers of the Bank during 2006. Total loans to such persons and their companies amounted to $681,984 as of December 31, 2006. During 2006, principal advances of $366,942 were made and repayments totaled $411,177.

Changes in the allowance for loan losses were as follows for the years ended December 31:

	2006	2005	2004
Balance at beginning of period	$2,626,170	$2,511,546	$1,664,274
(Benefit) provision for loan losses	(87,488)	210,000	250,000
Recoveries of loans previously charged off	67,054	39,094	28,302
Loans charged off	(131,618)	(134,470)	(69,742)
Allowance related to business combination	0	0	638,712
Balance at end of period	$2,474,118	$2,626,170	$2,511,546

The following table sets forth information regarding nonaccrual loans and accruing loans 90 days or more overdue as of December 31:

	2006	2005
Total nonaccrual loans	$886,377	$693,726
Accruing loans which are 90 days or more overdue	$ 77,525	$ 78,663

Information about loans that meet the definition of an impaired loan in SFAS No. 114 is as follows as of December 31:

	2006		2005	
	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses
Loans for which there is a related allowance for credit losses	$ 0	$0	$ 0	$0
Loans for which there is no related allowance for credit losses	0	0	0	0
Totals	$ 0	$0	$ 0	$0
Average recorded investment in impaired loans during the year ended December 31	$ 0		$73,133	
Related amount of interest income recognized during the time, in the year ended December 31, that the loans were impaired				
Total recognized	$ 0		$ 6,665	
Amount recognized using a cash-basis method of accounting	$ 0		$ 6,665	

In 2006, 2005 and 2004 the Bank capitalized mortgage servicing rights totaling $147,353, $73,849 and $112,187, respectively, and amortized $225,732, $164,178 and $66,019, respectively. The balance of capitalized mortgage servicing rights included in other assets at December 31, 2006 and 2005 was $336,185 and $414,900, respectively. On September 10, 2004 the Bank acquired mortgage servicing rights of $392,256, exclusive of $2,388 in valuation allowance, through the acquisition of Canaan National Bancorp, Inc.

Following is an analysis of the aggregate changes in the valuation allowance for mortgage servicing rights for the years ended December 31:

	2006	2005
Balance, beginning of year	$ 1,115	$ 7,973
Additions	19,392	16,077
Reductions	(19,056)	(22,935)
Balance, end of year	$ 1,451	$ 1,115

The fair value of the mortgage servicing rights was $671,145 and $525,209 as of December 31, 2006 and 2005, respectively.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage and other loans serviced for others was $49,117,195 and $49,567,721 at December 31, 2006 and 2005, respectively.

NOTE 5 - PREMISES AND EQUIPMENT

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

	2006	2005
Land	$ 775,844	$ 775,844
Buildings	5,721,601	5,629,513
Furniture and equipment	2,786,494	2,696,510
	9,283,939	9,101,867
Accumulated depreciation and amortization	(3,148,393)	(2,649,888)
	$6,135,546	$6,451,979

NOTE 6 - DEPOSITS

The aggregate amount of time deposit accounts in denominations of $100,000 or more as of December 31, 2006 and 2005 was $55,315,326 and $27,662,727, respectively.

The aggregate amount of brokered time deposits as of December 31, 2006 and 2005 was $19,538,000 and $0, respectively. Brokered time deposits are not included in time deposit accounts in denominations of $100,000 or more above.

For time deposits as of December 31, 2006, the scheduled maturities for years ended December 31 are as follows:

2007	$ 98,395,827
2008	10,090,092
2009	2,606,025
2010	2,105,190
2011	7,164,220
	$120,361,354

Certain directors and executive officers of the Company and companies in which they have a significant ownership interest were customers of the Bank during 2006. Total deposits of such persons and their companies amounted to $1,372,156 and $1,739,823 as of December 31, 2006 and 2005, respectively.

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES

Advances consist of funds borrowed from the Federal Home Loan Bank of Boston (FHLB).

Maturities of advances from the FHLB for the five fiscal years ending after December 31, 2006, and thereafter, are summarized as follows:

2007	$ 16,589,044
2008	11,577,699
2009	1,320,213
2010	21,202,309
2011	10,794,029
Thereafter	25,295,450
Fair value adjustment	314,658
	$87,093,402

As of December 31, 2006, the following advances from the FHLB were redeemable at par at the option of the FHLB:

MATURITY DATE	OPTIONAL REDEMPTION DATE	AMOUNT
1/25/2010	1/25/2007 and quarterly thereafter	$19,000,000
4/27/2009	1/26/2007 and quarterly thereafter	500,000
4/27/2009	1/26/2007 and quarterly thereafter	500,000
2/8/2010	2/7/2007 and quarterly thereafter	600,000
2/28/2011	2/26/2007 and quarterly thereafter	10,000,000
12/15/2010	3/15/2007 and quarterly thereafter	800,000
12/16/2013	3/15/2007 and quarterly thereafter	10,000,000
12/20/2010	3/20/2007 and quarterly thereafter	500,000
3/1/2011	3/1/2007 and quarterly thereafter	500,000
12/12/2016	12/12/2007 and quarterly thereafter	15,000,000

The advances also include $400,000 borrowed in 2002 at 4.37% which is a Knock-out Advance with a Strike Rate of 7%. If the three month LIBOR rate exceeds the Strike Rate of 7% on January 8, 2007 and quarterly thereafter, the FHLB will require that this borrowing become due immediately upon the Strike Date as defined in the contract. As of December 31, 2006, the three month LIBOR was 5.36%. The maturity date is April 9, 2007.

Amortizing advances are being repaid in equal monthly payments and are being amortized from the date of the advance to the maturity date on a direct reduction basis.

Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one to four family properties, certain unencumbered investment securities and other qualified assets.

At December 31, 2006, the interest rates on FHLB advances ranged from 2.66 percent to 6.30 percent. At December 31, 2006, the weighted average interest rate on FHLB advances was 4.97 percent.

NOTE 8 - EMPLOYEE BENEFITS

The Bank has an insured noncontributory defined benefit retirement plan available to employees eligible as to age and length of service. Benefits are based on a covered employee's final average compensation, primary social security benefit and credited service. The Bank makes annual contributions which meet the Employee Retirement Income Security Act minimum funding requirements.

In 2006 the plan was amended, effective September 1, 2006, to provide that employees hired or rehired on or after September 1, 2006 are not eligible to participate in the plan.

The following tables set forth information about the plan as of December 31 and the years then ended, using a measurement date of December 31:

	2006	2005	2004
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$ 5,495,706	$4,108,971	$2,762,015
Adjustment	0	0	960,236
Actuarial (gain) loss	(128,601)	783,390	(12,650)
Service cost	430,035	466,570	259,513
Interest cost	318,310	290,825	220,533
Benefits paid	(87,521)	(154,050)	(80,676)
Benefit obligation at end of year	6,027,929	5,495,706	4,108,971
Change in plan assets:			
Plan assets at estimated fair value at beginning of year	3,370,954	2,839,515	1,787,563
Actual return on plan assets	392,231	94,489	140,306
Contributions	1,341,000	591,000	992,322
Benefits paid	(87,521)	(154,050)	(80,676)
Fair value of plan assets at end of year	5,016,664	3,370,954	2,839,515
Funded status	(1,011,265)	(2,124,752)	(1,269,456)
Unrecognized net loss	N/A	2,330,482	1,503,149
Unrecognized prior service cost	N/A	2,696	3,589
Unamortized net obligation existing at date of adoption of SFAS No. 87	N/A	0	2,771
Additional minimum liability	N/A	(448,005)	0
(Funded status) (accrued) prepaid benefit cost, respectively, included in the balance sheet	$(1,011,265)	$ (239,579)	$ 240,053

Amounts recognized in accumulated other comprehensive loss, before tax effect, consist of:

	December 31, 2006
Unrecognized net loss	$2,016,054
Unrecognized prior service cost	1,803
	$2,017,857

The $960,236 adjustment made to the 2004 beginning of year projected benefit obligation is a result of a change in calculation methodology from the prior actuary to the current actuary, hired by the Bank in April 2004, including the effect of reflecting salary increases in the determination of liabilities. The adjustment also includes liability gains and losses due to demographic experience. Net periodic cost for the year ended December 31, 2004 of $490,190 includes additional amortization of the transition obligation and additional amortization of prior service cost in the amounts of $46,921 and $89,172, respectively, as a result of this adjustment. Net income for the year ended December 31, 2004 was reduced by $83,085, net of tax benefit of $53,008, related to this adjustment.

The following table illustrates the incremental effect of applying SFAS No. 158 on individual line items in the balance sheet as of December 31, 2006.

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Prepaid benefit cost	$ 1,006,592	$(1,006,592)	$ 0
Deferred income tax asset	0	5,635	5,635
Total Assets	451,340,627	(1,000,957)	450,339,670
Liability for pension benefits	0	1,011,265	1,011,265
Deferred income tax liability	(680,436)	680,436	0
Total liabilities	405,659,660	330,829	405,990,489
Accumulated other comprehensive loss	(1,190,323)	(1,331,786)	(2,522,109)
Total shareholders' equity	45,680,967	(1,331,786)	44,349,181

The accumulated benefit obligation for the plan was $4,179,551 and $3,610,533 at December 31, 2006 and 2005, respectively.

Amounts recognized in the balance sheets as of December 31, 2005 consist of:

Accrued benefit cost	$ (239,579)
Additional minimum liability	(448,005)
Intangible asset	2,696
Accumulated other comprehensive loss	445,309
Net amount recognized	$ (239,579)

The discount rate used in determining the actuarial present value of the projected benefit obligation was 6.0% for 2006 and 2005. The rate of increase in future compensation levels was based on the following graded table for 2006 and 2005:

AGE	RATE
25	4.75%
35	4.25%
45	3.75%
55	3.25%
65	3.00%

Components of net periodic cost are as follows for the years ended December 31:

	2006	2005	2004
Service cost	$430,035	$466,570	$259,513
Interest cost on benefit obligation	318,310	290,825	220,533
Expected return on assets	(295,598)	(236,062)	(196,448)
Amortization of transition obligation	0	2,771	55,593
Amortization of prior service cost	893	893	90,064
Recognized net loss	89,194	97,630	60,935
Net periodic benefit cost	542,834	622,627	490,190
Other changes in plan assets and benefit obligations recognized in other comprehensive loss:			
Net actuarial loss	2,016,054	0	0
Prior service cost	1,803	0	0
Total recognized in other comprehensive loss	2,017,857	0	0
Total recognized in net periodic cost and other comprehensive loss	$2,560,691	$622,627	$490,190

The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the year ended December 31, 2007 are $77,101 and $893, respectively.

The discount rate used to determine the net periodic benefit cost was 6.00% for 2006, 2005 and 2004; and the expected return on plan assets was 7.50% for 2006 and 7.50% for 2005 and 7.25% for 2004.

The graded table was also used for the rate of compensation increase in determining the net periodic benefit cost in 2006, 2005 and 2004.

Pension expense is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on pension plan assets of 7.50% for 2006. In developing the expected long-term rate of return assumption, asset class return expectations were evaluated as well as long-term inflation assumptions, and historical returns based on the current target asset allocations of 60% equity and 40% fixed income. The Bank regularly reviews the asset allocations and periodically rebalances investments when considered appropriate. While all future forecasting contains some level of estimation error, the Bank believes that 7.50% falls within a range of reasonable long-term rate of return expectations for pension plan assets. The Bank will continue to evaluate the actuarial assumptions, including expected rate of return, at least annually, and will adjust as necessary.

Plan Assets:

The pension plan investments are co-managed by the Trust and Investment Services division of the Bank and Bradley Foster and Sargent, Inc. The investments in the plan are reviewed and approved by the Trust Committee. The asset allocation of the plan is a balanced allocation. Debt securities are timed to mature when employees are due to retire. Debt securities are laddered for coupon and maturity. Equities are put in the plan to achieve a balanced allocation and to provide growth of the principal portion of the plan and to provide diversification. The Trust Committee reviews the policies of the plan. The prudent investor rule and applicable ERISA regulations apply to the management of the funds and investment selections.

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

	December 31, 2006		December 31, 2005	
Asset Category	Fair Value	Percent	Fair Value	Percent
Equity securities	$2,537,994	50.6%	$ 987,888	29.4%
U.S. Government treasury and agency securities	1,480,289	29.5	1,319,226	39.1
Corporate bonds	23,040	0.5	23,632	0.7
Mutual funds	200,503	4.0	583,354	17.3
Money market mutual funds	672,228	13.4	344,620	10.2
Certificates of deposit	102,610	2.0	112,234	3.3
Total	$5,016,664	100.0%	$3,370,954	100.0%

There were no securities of the Bancorp and related parties included in plan assets as of December 31, 2006 and 2005.

Based on current data and assumptions, the following benefits are expected to be paid for each of the following five years and, in the aggregate, the five years thereafter:

2007	$ 171,000
2008	90,000
2009	123,000
2010	205,000
2011	195,000
2012 - 2016	4,260,000

The Bank expects to make a contribution of $670,000 in 2007.

The Bank adopted a 401(k) Plan effective in 2000. Under the Plan eligible participants may contribute a percentage of their pay, subject to IRS limitations. The Bank may make discretionary contributions to the Plan. The Bank's contribution expense in the years ended December 31, 2006, 2005 and 2004 amounted to approximately $93,000, $91,212 and $60,000, respectively. Discretionary contributions vest in full after five years.

In 2006 the 401(k) Plan was amended, effective September 1, 2006, to provide that employees hired or rehired after September 1, 2006 are not eligible to participate in the plan. The Company will be establishing, not later than September 1, 2007, a second 401(k) Plan to provide a discretionary match to employees hired or rehired, on or after September 1, 2006 who satisfy certain eligibility requirements.

Fourteen of the Bank's officers have a change in control agreement ("agreement") with the Bank. The agreements provide that if, within twelve (12) months after a "change-in-control" has occurred, the officer's employment terminates or is reassigned under defined circumstances, then the Bank and/or its successor shall pay the officer a lump sum amount equal to the officer's most recent aggregate base salary paid in the twelve (12) month period immediately preceding his or her termination or reassignment less amounts previously paid from the date of "change in control."

NOTE 9 - INCOME TAXES

The components of income tax expense are as follows for the years ended December 31:

	2006	2005	2004
Current:			
Federal	$ 990,839	$ 986,976	$631,007
State	54,678	60,164	250
	1,045,517	1,047,140	631,257
Deferred:			
Federal	217,852	12,873	131,788
State	0	0	11,903
Change in valuation allowance	178,566	54,400	0
	396,418	67,273	143,691
Total income tax expense	$1,441,935	$1,114,413	$774,948

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

	2006 % of Income	2005 % of Income	2004 % of Income
Federal income tax at statutory rate	34.0%	34.0%	34.0%
Increase (decrease) in tax resulting from:			
Tax-exempt income	(13.6)	(15.8)	(18.2)
Other items	1.2	(.3)	0.2
State tax, net of federal tax benefit	0.6	0.7	0.2
Change in valuation allowance	3.1	1.0	0.0
Effective tax rates	25.3%	19.6%	16.2%

The Company had gross deferred tax assets and gross deferred tax liabilities as follows as of December 31:

	2006	2005
Deferred tax assets:		
Allowance for loan losses	$ 619,233	$ 704,341
Interest on non-performing loans	15,402	8,385
Accrued deferred compensation	26,288	22,429
Post-retirement benefits	22,440	27,880
Other real estate owned property writedown	22,101	22,101
Capital loss carryforward	398,191	89,250
Mark to market purchase accounting adjustments	8,373	323,515
Preferred stock amortization	0	3,991
SFAS No. 158 pension liability	686,071	0
Minimum pension liability	0	151,405
Net unrealized holding loss on available-for-sale securities	613,197	1,339,834
Gross deferred tax assets	2,411,296	2,693,131
Valuation allowance	(260,166)	(81,600)
	2,151,130	2,611,531
Deferred tax liabilities:		
Deferred loan costs, net	(57,315)	0
Core deposit intangible asset	(646,483)	(633,725)
Accelerated depreciation	(985,152)	(998,515)
Discount accretion	0	(189)
Mortgage servicing rights	(114,304)	(141,067)
Prepaid pension	(342,241)	(244,011)
Gross deferred tax liabilities	(2,145,495)	(2,017,507)
Net deferred tax asset	$ 5,635	$ 594,024

A valuation allowance is provided when it is more likely than not that some portion of the gross deferred tax asset will not be realized. Management has determined that certain deferred tax assets require a valuation allowance.

As of December 31, 2006, the Company had no operating loss and tax credit carryovers for tax purposes.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

The Bank entered into an agreement with a third party in which the third party is to provide the Bank with account processing services and other miscellaneous services. Under the agreement, the Bank is obligated to pay monthly processing fees through August 5, 2010. In the event the Bank chooses to cancel the agreement prior to the end of the contract term a lump sum termination fee will have to be paid. The fee shall be calculated as the average monthly billing, exclusive of pass through costs for the past twelve months, multiplied by the number of months and any portion of a month remaining in the contract term.

NOTE 11 - FINANCIAL INSTRUMENTS

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

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

Commitments to originate loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income producing properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2006 and 2005, the maximum potential amount of the Bank's obligation was $12,800 and $21,900, respectively, for financial and standby letters of credit. The Bank's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Bank may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Bank may take possession of the collateral, if any, securing the line of credit.

The estimated fair values of the Bank's financial instruments, all of which are held or issued for purposes other than trading, are as follows as of December 31:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 11,757,183	$ 11,757,183	$ 10,204,375	$ 10,204,375
Available-for-sale securities	156,492,547	156,492,547	145,608,297	145,608,297
Held-to-maturity securities	74,931	74,818	146,856	147,202
Federal Home Loan Bank stock	4,663,700	4,663,700	5,413,200	5,413,200
Loans held-for-sale	304,000	307,071	0	0
Loans, net	252,464,430	250,312,089	215,989,149	215,652,000
Accrued interest receivable	2,483,547	2,483,547	2,362,924	2,362,924

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Deposits	$ 313,586,281	$ 313,560,974	$ 287,271,202	$ 287,598,000
FHLB advances	87,093,402	87,478,836	71,015,614	71,362,000
Due to broker	1,579,611	1,579,611	0	0

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions. Accounting policies related to financial instruments are described in Note 2.

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

	2006	2005
Commitments to originate loans	$10,540,525	$ 3,242,137
Standby letters of credit	12,800	21,900
Unadvanced portions of loans:		
Home equity	26,599,791	24,847,998
Commercial lines of credit	8,642,393	8,495,283
Construction	7,322,201	4,521,483
Consumer	6,928,313	6,837,017
	$60,046,023	$47,965,818

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

NOTE 12 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Bank's business activity is with customers located in northwestern Connecticut and nearby New York and Massachusetts towns. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Bank's loan portfolio is comprised of loans collateralized by real estate located in northwestern Connecticut and nearby New York and Massachusetts towns.

NOTE 13 - REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006 and 2005, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2006, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. The Company's and the Bank's actual capital amounts and ratios are also presented in the table.

There are no conditions or events since that notification that management believes have changed the Bank's category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar amounts in thousands)					
As of December 31, 2006:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$38,030	15.28%	$19,914	≥8.0%	N/A	
Salisbury Bank and Trust Company	37,295	14.98	19,929	≥8.0	$24,911	≥10.0%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	35,555	14.28	9,957	≥4.0	N/A	
Salisbury Bank and Trust Company	34,785	13.97	9,964	≥4.0	14,946	≥6.0
Tier 1 Capital (to Average Assets)						
Consolidated	35,555	8.43	16,879	≥4.0	N/A	
Salisbury Bank and Trust Company	34,785	8.26	16,848	≥4.0	21,060	≥5.0
As of December 31, 2005:						
Total Capital (to Risk Weighted Assets)						
Consolidated	34,058	15.76	17,801	≥8.0	N/A	
Salisbury Bank and Trust Company	34,492	15.53	17,771	≥8.0	22,213	≥10.0
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	32,432	14.58	8,900	≥4.0	N/A	
Salisbury Bank and Trust Company	31,732	14.29	8,885	≥4.0	13,328	≥6.0
Tier 1 Capital (to Average Assets)						
Consolidated	32,432	8.27	15,687	≥4.0	N/A	
Salisbury Bank and Trust Company	31,732	8.11	15,649	≥4.0	19,562	≥5.0

The declaration of cash dividends is dependent on a number of factors, including regulatory limitations, and the Company's operating results and financial condition. The stockholders of Bancorp will be entitled to dividends only when, and if, declared by the Bancorp's Board of Directors out of funds legally available therefore. The declaration of future dividends will be subject to favorable operating results, financial conditions, tax considerations, and other factors.

Under Connecticut law, the Bank may pay dividends only out of net profits. The Connecticut Banking Commissioner's approval is required for dividend payments which exceed the current year's net profits and retained net profits from the preceding two years. As of December 31, 2006, the Bank may declare dividends to Bancorp in an amount not to exceed $1,797,009.

NOTE 14 - DIRECTORS STOCK RETAINER PLAN

At the 2001 annual meeting the shareholders of Bancorp voted to approve the "Directors Stock Retainer Plan of Salisbury Bancorp, Inc." (the "Plan"). This Plan provides non-employee directors of the Company with shares of restricted stock of Bancorp as a component of their compensation for services as directors. The maximum number of shares of stock that may be issued pursuant to the Plan is 15,000. The first grant date under this Plan preceded the 2002 annual meeting of stockholders. Each director whose term of office begins with or continues after the date the Plan was approved by the stockholders is issued an "annual stock retainer" consisting of 120 shares of fully vested restricted common stock of Bancorp. In 2006, 2005 and 2004, 840, 940 and 840 shares, respectively, were issued under the Plan and the related compensation expense amounted to $31,920, $36,566 and $31,836, respectively.

NOTE 15 - MERGER AND ACQUISITIONS

On October 3, 2006 the Bank entered into a Purchase and Assumption Agreement with New York Community Bank to acquire certain assets and liabilities of a small branch of New York Community Bank. Management expects the transaction to be completed in the second quarter of 2007.

On September 10, 2004, Canaan National Bancorp, Inc. ("Canaan National") merged (the "Merger") with and into the Company. Under the terms of the Merger, the shareholders of Canaan National received a total of $6,020,163 in cash and 257,483 shares of Bancorp common stock in exchange for all shares of Canaan National Bancorp, Inc. stock. The value of the 257,483 shares issued was $10,698,418 and was determined based on the September 10, 2004 closing market price of $41.55 of Bancorp's common stock.

The Merger was accounted for using the purchase method of accounting. Accordingly, the assets acquired and liabilities assumed have been recorded by the Company at their fair values at the consummation date. During the appraisal process, an identifiable intangible asset of $1,191,279 was calculated and is being amortized to expense over a period of 12 years. Goodwill recorded totaled $7,151,421 and will be analyzed for impairment on at least an annual basis. Financial statement amounts for Canaan National are included in the Company's consolidated financial statements beginning on the acquisition date. A summary of net assets acquired is included in the supplemental disclosures in the cash flow statement.

The following (unaudited) pro forma consolidated results of operations have been prepared as if the acquisition of Canaan National had occurred at January 1, 2004:

	Year Ended December 31, 2004
Gross revenues	$25,291,875
Net income	$ 4,870,000
Net income per share	$2.89

The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, nor is it intended to be a projection of future results.

NOTE 16 - GOODWILL AND INTANGIBLE ASSETS

The Company's assets as of December 31, 2006 and 2005 include goodwill of $2,357,884 relating to the purchase of a branch of a bank in 2001 and $7,151,421 of additional goodwill from the merger with Canaan National Bancorp, Inc. in 2004. Goodwill recognized in the 2004 merger is not deductible for tax purposes.

The Company evaluated its goodwill as of December 31, 2006 and 2005 and found no impairment.

A summary of acquired amortizing intangible assets is as follows:

	As of December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible-branch purchase	$ 888,606	$ 361,709	$ 526,897
Core deposit intangible-Canaan National merger	1,191,279	224,677	966,602
Total	$2,079,885	$ 586,386	$1,493,499

	As of December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible-branch purchase	$ 888,606	$293,354	$ 595,252
Core deposit intangible-Canaan National merger	1,191,279	128,816	1,062,463
Total	$2,079,885	$422,170	$1,657,715

Aggregate amortization expense was $164,216, $164,416 and $101,109 in 2006, 2005 and 2004, respectively. Amortization is being calculated on a straight-line basis.

Estimated amortization expense for each of the five years succeeding 2006 is as follows:

2007	$ 164,216
2008	164,216
2009	164,216
2010	164,216
2011	164,216
	$ 821,080

NOTE 17 - RECLASSIFICATION

Certain amounts in the prior years have been reclassified to be consistent with the current year's statement presentation.

NOTE 18 - PARENT COMPANY ONLY FINANCIAL STATEMENTS

The following condensed financial statements are for Salisbury Bancorp, Inc. (Parent Company Only) and should be read in conjunction with the Consolidated Financial Statements of Salisbury Bancorp, Inc. and Subsidiary.

SALISBURY BANCORP, INC.

(Parent Company Only)

BALANCE SHEETS

December 31, 2006 and 2005

	2006	2005
ASSETS		
Money market mutual funds	$ 1,199,881	$ 1,119,724
Cash in Salisbury Bank and Trust Company	2,494	0
Cash and cash equivalents	1,202,375	1,119,724
Investment in subsidiary	43,579,224	40,741,857
Other assets	5,469	1,577
Total assets	$44,787,068	$41,863,158
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 437,887	$ 420,835
Total liabilities	437,887	420,835
Total shareholders' equity	44,349,181	41,442,323
Total liabilities and shareholders' equity	$44,787,068	$41,863,158

STATEMENTS OF INCOME

Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
Dividend income from subsidiary	$1,800,000	$1,780,000	$7,510,000
Taxable interest on securities	34,435	24,068	4,375
	1,834,435	1,804,068	7,514,375
Legal expense	9,984	0	10,500
Supplies and printing	3,503	1,632	2,042
Other expense	37,517	27,559	24,167
	51,004	29,191	36,709
Income before income tax benefit and equity in undistributed (distributed) net income of subsidiary	1,783,431	1,774,877	7,477,666
Income tax benefit	(5,469)	(1,577)	(5,647)
Income before equity in undistributed (distributed) net income of subsidiary	1,788,900	1,776,454	7,483,313
Equity in undistributed (distributed) net income of subsidiary	2,464,718	2,784,887	(3,464,371)
Net income	$4,253,618	$4,561,341	$4,018,942

SALISBURY BANCORP, INC.

(Parent Company Only)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
Cash flows from operating activities:			
Net income	$4,253,618	$4,561,341	$4,018,942
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in (undistributed) distributed net income of subsidiary	(2,464,718)	(2,784,887)	3,464,371
(Increase) decrease in taxes receivable	(3,892)	4,070	(5,647)
Decrease in due from subsidiary	0	0	33,000
Decrease in other assets	0	29,837	189,807
Decrease in other liabilities	0	(3,677)	(78,323)
Issuance of shares for Directors' fees	31,920	36,566	31,836
Net cash provided by operating activities	1,816,928	1,843,250	7,653,986
Cash flows from investing activities:			
Cash paid to Canaan National Bancorp, Inc. shareholders	0	0	(6,020,163)
Cash and cash equivalents acquired from Canaan National Bancorp, Inc., net of expenses paid of $309,419	0	0	222,868
Net cash used in investing activities	0	0	(5,797,295)
Cash flows from financing activities:			
Dividends paid	(1,734,277)	(1,666,046)	(1,415,074)
Net cash used in financing activities	(1,734,277)	(1,666,046)	(1,415,074)
Net increase in cash and cash equivalents	82,651	177,204	441,617
Cash and cash equivalents at beginning of year	1,119,724	942,520	500,903
Cash and cash equivalents at end of year	$ 1,202,375	$1,119,724	$ 942,520
Supplemental disclosure:			
Liability assumed in merger with Canaan National Bancorp, Inc.	$ 0	$ 0	$ 82,000

NOTE 19 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Summarized quarterly financial data for 2006 and 2005 follows:

	(In thousands, except earnings per share) 2006 Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
Interest and dividend income	$5,460	$5,789	$6,111	$6,369
Interest expense	2,167	2,531	2,754	3,007
Net interest and dividend income	3,293	3,258	3,357	3,362
Benefit for loan losses	0	0	0	(87)
Other income	1,026	1,001	1,213	1,344
Other expense	2,837	2,992	3,101	3,315
Income before income taxes	1,482	1,267	1,469	1,478
Income tax expense	335	261	309	537
Net income	$1,147	$1,006	$1,160	$ 941
Earnings per common share	$ .68	$ .60	$ .69	$ .56

	(In thousands, except earnings per share) 2005 Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
Interest and dividend income	$5,034	$5,069	$5,272	$5,441
Interest expense	1,645	1,744	1,906	2,057
Net interest and dividend income	3,389	3,325	3,366	3,384
Provision (benefit) for loan losses	90	90	90	(60)
Other income	1,389	1,226	1,275	975
Other expense	3,026	2,965	3,068	3,385
Income before income taxes	1,662	1,496	1,483	1,034
Income tax expense	333	188	352	241
Net income	$1,329	$1,308	$1,131	$ 793
Earnings per common share	$ .79	$ .78	$ .67	$ .47

MARKET FOR REGISTRANT'S COMMON EQUITY RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Information

The Company's common stock is traded on The American Stock Exchange under the symbol "SAL". The following table presents the high and low sales prices of the Company's common stock.

	2006 Quarters				2005 Quarters			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Range of Stock prices:								
High	**$39.25**	**$39.70**	**$39.50**	**$38.25**	$40.20	$40.70	$40.80	$43.50
Low	**$37.50**	**$37.50**	**$35.50**	**$36.50**	$37.90	$35.60	$36.50	$39.00

(b) Holders

There were approximately 733 holders of record of the common stock of the Company as of March 9, 2007. This number includes brokerage firms and other financial institutions which hold stock in their name, but which is actually owned by third parties.

(c) Dividends

Dividends are currently declared four times a year, and the Company expects to follow such practices in the future. During the year 2006, the Company declared a cash dividend each quarter of $.26 per share. Dividends for the year 2006 totaled $1.04 per share which compared to total dividends of $1.00 that were declared in the year 2005. At their February 28, 2007 meeting, the Directors of the Company declared a cash dividend of $.26 per share for the first quarter of 2007. The dividend will be paid on April 30, 2007 to shareholders of record as of March 30, 2007. Payments of all dividends are dependent upon the condition and earnings of the Company. The Company's ability to pay dividends is limited by the prudent banking principles applicable to all bank holding companies and by the provisions of Connecticut Corporate law, which provide that no distribution may be made by a company if, after giving it effect: (1) the company would not be able to pay its debts as they become due in the usual course of business or (2) the company's total assets would be less than the sum of its total liabilities plus amounts needed to satisfy any preferred stock rights. The following table presents cash dividends declared per share for the last two years:

	2006 Quarters				2005 Quarters			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Cash dividends declared	**$0.26**	**$0.26**	**$0.26**	**$0.26**	$0.25	$0.25	$0.25	$0.25

The dividends paid to shareholders of the Company are funded primarily from dividends received by the Company from the Bank. Reference should be made to Note 13 of the Consolidated Financial Statements for a description of restrictions on the ability of the Bank to pay dividends to the Company.

SHAREHOLDER INFORMATION

ANNUAL REPORT

A copy of the Company's Annual Report on Form 10-K for 2006, including the financial statement and the financial statement schedules, may be obtained without charge upon written request to:

John F. Foley
Chief Financial Officer, Treasurer & Secretary
Salisbury Bancorp, Inc.
5 Bissell Street, PO Box 1868, Lakeville, CT 06039

STOCK SYMBOL: "SAL"

Salisbury Bancorp, Inc.'s common stock is traded under the symbol "SAL" on the American Stock Exchange.

TRANSFER AGENT-REGISTRAR

For shareholder inquiries concerning dividend checks, transferring ownership, address changes or lost or stolen stock certificates, please contact our transfer agent:

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
1-800-368-5948

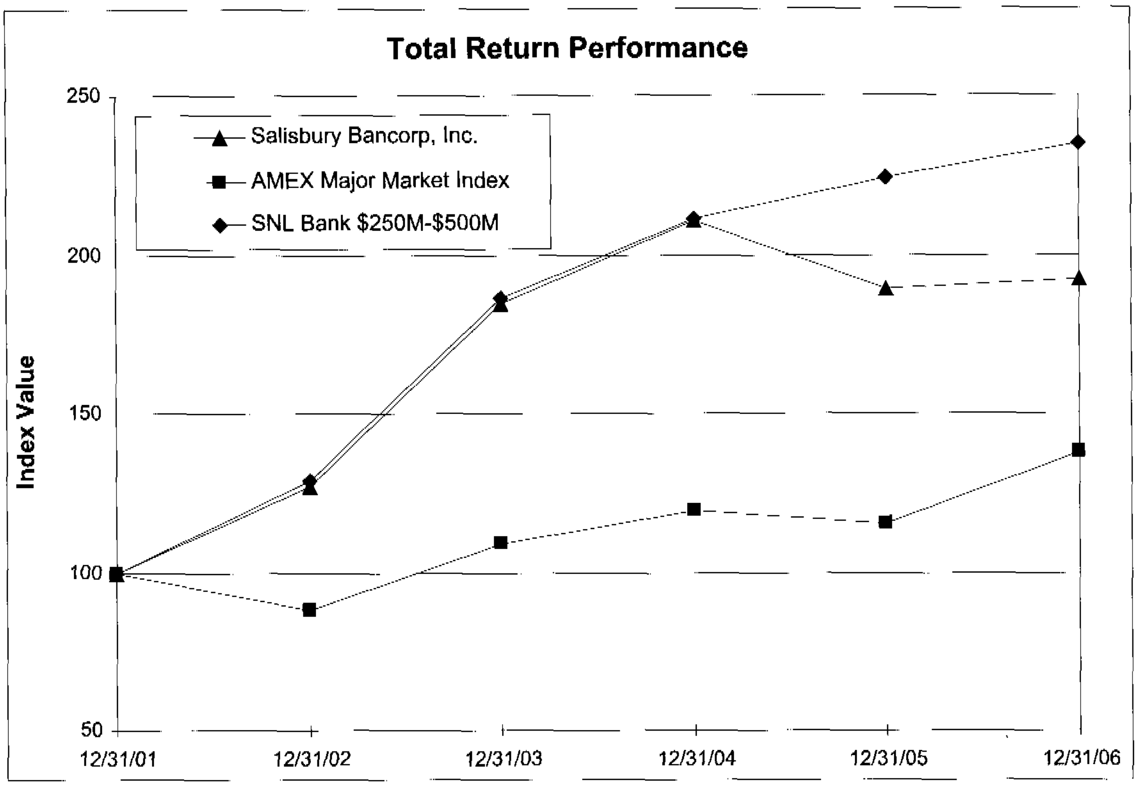
INDEPENDENT AUDITORS

Shatswell, MacLeod & Company, P.C.
83 Pine Street
West Peabody, Massachusetts 01960-3635

Stock Price Performance Graph

Set forth below is a line graph with an explanatory table comparing the yearly percentage change in the cumulative total stockholder return on the Company's Common Stock, based on the market price of the Company's Common Stock and assuming reinvestment of dividends, with the total return of the AMEX Major Market Index and the SNL Bank Index for Banks with total assets more than $250 million and less than $500 million. The calculation of total cumulative return assumes a $100 investment in the Company's Common Stock and each of the other indices on December 31, 2001.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN AMONG SALISBURY BANCORP, INC., THE AMEX MAJOR MARKET INDEX AND THE SNL $250M-$500M BANK INDEX



	As of					
Index	**12/31/01**	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**
Salisbury Bancorp, Inc.	100.00	126.96	184.34	211.08	189.20	192.39
AMEX Major Market Index	100.00	87.77	108.87	119.80	115.78	137.82
SNL Bank $250M-$500M	100.00	128.95	186.31	211.46	224.51	234.58

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the two (2) most recent fiscal years, the Company and the Bank have had no changes in or disagreements with its independent accountants on accounting and financial disclosure matters.

OFFICERS OF SALISBURY BANCORP, INC.

John F. Perotti
Chairman and Chief Executive Officer

Richard J. Cantele, Jr.
President and Chief Operating Officer

John F. Foley
Chief Financial Officer, Treasurer and Secretary

Lana J. Morrison
Assistant Secretary

OFFICERS OF SALISBURY BANK AND TRUST COMPANY

John F. Perotti
Chairman and Chief Executive Officer

Richard J. Cantele, Jr.
President and Chief Operating Officer

John F. Foley
Chief Financial Officer and Treasurer

Gerard J. Baldwin
Executive Vice President, Commercial Lending and New Business Development

Todd M. Clinton
Senior Vice President, Chief Technology and Compliance Officer

Diane Farrell
Senior Vice President, Marketing

Diane E.R. Johnstone
Senior Vice President and Trust Officer

Roberta Reed
Senior Vice President, Business Development

Geoffrey A. Talcott
Senior Vice President and Chief Lending Officer

Betsy A. Summerville
Senior Vice President, Retail Banking

Doug Cahill
Senior Human Resources Officer

Jonathan P. Blum
Vice President, Wealth Management

Joseph C. Law
Vice President, Loan Administration

Darrel S. Long
Vice President, Operations

Lana J. Morrison
Vice President and Secretary

Melanie K. Neely
Vice President, Finance

Sharon A. Pilz
Vice President and Trust Officer

Robert Wiseman
Vice President, Trust Operations

Robin L. Foley
Assistant Vice President, Loan Origination

Shelly L. Humeston
Assistant Vice President, Administration

Robert J. Lotz
Assistant Vice President, Finance

Karen S. Ralph
Assistant Vice President, Credit Administration

Amy Raymond
Assistant Vice President, Mortgage Origination

Spring J. Bagnall
Administrative Assistant, Retail Banking

Francis A. English
Commercial Loan Officer

Alton E. Golden
Retail Banking Officer

Michele O. Hanlon
Mortgage Servicing Officer

Lisa D. Riley
Loan Servicing Officer

Marie F. Tighe
Information Technology Officer

THE BRANCH MANAGERS

Melissa A.S. Galm
Branch Manager, Lakeville Office

Alice C. Kent
Branch Manager, Salisbury Office

Linda F. Decker
Branch Manager, Sharon Office and Assistant Treasurer

Betsy R. Devino
Branch Manager, Canaan Office and Retail Banking Officer

Nancy S. Missaggia
Branch Manager, Sheffield Office

Georgann B. Farnum
Branch Manager, South Egremont Office

SALISBURY BANCORP, INC.

the holding company for

SALISBURY BANK AND TRUST COMPANY

with offices in Lakeville, Salisbury, Sharon, and Canaan, Connecticut
Sheffield and South Egremont, Massachusetts

Telephone (860) 435-9801, (860) 364-0500 or (860) 824-5423
1-800-222-9801

SBT Link: 877-SBT-1212 (toll free), 824-8262 (local)

www.salisburybank.com

Cyd Emmons Associates, design
John Emmons, photography