

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

SALISBURY BANCORP INC  
Form 10-K  
March 30, 2007

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2006

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-24751  
-----

SALISBURY BANCORP, INC.  
(Exact name of Registrant as specified in its charter)

Connecticut 06-1514263  
-----  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

5 Bissell Street, Lakeville, CT 06039  
-----  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: 860-435-9801

Securities registered pursuant to Section 12 (b) of the Act:  
Common stock par value \$.10 per share  
-----

Securities registered pursuant to Section 12 (g) of the Act: None  
-----

Name of exchange on which registered: American Stock Exchange  
-----

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes [ ] No [ X ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company. Yes [ ] No [X]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: June 30, 2006: \$61,528,473.

Note. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving an unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions, reasonable under the circumstances, provided that the assumptions are set forth in this Form.

### APPLICABLE ONLY TO CORPORATE REGISTRANTS

The Company had 1,684,181 shares outstanding as of March 9, 2007.

### DOCUMENTS INCORPORATED BY REFERENCE

Incorporated by reference in Part III of this Form 10-K are portions of the Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007.

### TABLE OF CONTENTS

	Page
	-----
Part I	
Item 1 - Business	1
(a) General Development of the Business	1
(b) Financial Information about Industry Segments	1
(c) Narrative Description of Business	2
(d) Financial Information about Foreign and Domestic Operations and Export Sales	6
Item 1A - Risk Factors	11
Item 1B - Unresolved Staff Comments	14
Item 2 - Properties	14
Item 3 - Legal Proceedings	15
Item 4 - Submission of Matters to a Vote of Security Holders	15
Part II	
Item 5 - Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	15

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Item 6 - Selected Financial Data	18
Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operation	19
Item 7A - Quantitative and Qualitative Disclosures about Market Risk	34
Item 8 - Financial Statements and Supplementary Data	35
Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	36
Item 9A - Controls and Procedures	36
Item 9B - Other Information	36
Part III	
Item 10 - Directors, Executive Officers and Corporate Governance	36
Item 11 - Executive Compensation	37
Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	37
Item 13 - Certain Relationships and Related Transactions, and Director Independence	37
Item 14 - Principal Accounting Fees and Services	37
Part IV	
Item 15 - Exhibits, Financial Statement Schedules	38
Signatures	39

i

### PART I

#### ITEM 1. BUSINESS

##### (a) General Development of the Business

Salisbury Bancorp, Inc. (AMEX:SAL) (the "Company") is a Connecticut corporation that was formed in 1998. Its primary activity is to act as the holding company for its sole subsidiary, the Salisbury Bank and Trust Company (the "Bank"), which accounts for most of the Company's net income. The Company was founded in April, 1998 for the purpose of acquiring all of the stock of the Bank in a shareholder-approved reorganization, which became effective in 1998. The Bank assumed its present name in 1925 following the acquisition by the Robbins Burrall Trust Company of the Salisbury Savings Society. The Robbins Burrall Trust Company was incorporated in 1909 as the successor to a private banking firm established in 1874. The Salisbury Savings Society was incorporated in 1848. The Bank is chartered as a state bank and trust company by the State of Connecticut and its deposits are insured by the Federal Deposit Insurance Corporation in accordance with the Federal Deposit Insurance Act. The Bank's main office is at 5 Bissell Street, Lakeville, Connecticut 06039. Its telephone number is (860) 435-9801, and its website address is: [www.salisburybank.com](http://www.salisburybank.com). The

Company makes available free of charge on the Bank's website a link to its

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Annual Reports on Form 10-K, Quarterly Reports on Forms 10-Q and Current Reports on Form 8-K promptly after filing such reports with the Securities and Exchange Commission ("SEC"). Also available on the website are the respective Charters of the Board's Nominating and Governance Committee and Audit Committee.

On September 10, 2004 the Company completed the acquisition of Canaan National Bancorp, Inc. and the merger with and into the Company. The Bank currently operates six (6) full service offices, which are located in Canaan, Lakeville, Salisbury and Sharon, Connecticut and South Egremont and Sheffield, Massachusetts. Most of the Bank's business is derived from customers located in Litchfield County, Connecticut, Dutchess County and Columbia County, New York and Berkshire County, Massachusetts. In October, 2006 the Bank entered a purchase and assumption agreement with New York Community Bank ("NYCB"), pursuant to which the Bank has agreed to purchase certain assets and assume certain liabilities of NYCB's branch office located in Mount Vernon, New York. The Bank has received regulatory approval for the acquisition of such branch in the first calendar quarter of 2007. The Bank has submitted application materials to regulators to relocate such Mount Vernon branch to a new office in Dover Plains, New York upon consummation of the purchase and assumption transaction. The Bank expects to commence operations in New York State later this year.

### (b) Financial Information about Industry Segments

The Company's products and services are all of a nature of a commercial bank and trust company. The Bank is a full-service bank offering a wide range of commercial and personal banking services, including the following:

#### Lending

Lending is a principal business of the Bank, and loans represent a large portion of the Bank's assets. The portfolio consists of many types of loans. These include residential mortgages, home equity lines of credit, monthly installment loans for consumers, as well as commercial loans, which include lines of credit, short term loans, Small Business Administration ("SBA") loans and real estate loans for business customers.

The primary lending activity has been the origination of first mortgage loans for the purchase, refinance or construction of residential properties in the Bank's market area. Loans secured by mortgages on a borrower's principal residence are generally viewed as the least vulnerable to major economic changes and at the same time provide a significant yet relatively stable source of interest income. Presently, loans are maintained in the Bank's portfolio as well as sold to investors on the secondary mortgage market. This provides customers the opportunity to choose from a wide array of competitive mortgage products and rate structures.

The Bank also originates a variety of other loans for consumer and business purposes. Although these loans represent a smaller percentage of the total loan portfolio, the Bank is in the position of being a full service retail lender to its consumers and a full service commercial lender to its business customers.

#### Investments

The Company's investment portfolio is also an important component of the Balance Sheet. It provides a source of earnings

in the form of interest and dividends. It also plays a role in the interest rate risk management of the Company and it provides a source of liquidity.

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

The portfolio is comprised primarily of U.S. Government sponsored agencies, U.S. Treasury and mortgage-backed securities and securities of political subdivisions of the states. At December 31, 2006, the portfolio totaled \$161,231,000 which represents approximately 35.80% of total assets, and it produced interest and dividend income of \$7,962,000 for the year 2006 as compared with \$7,427,000 for 2005 and \$6,905,000 for 2004, respectively.

### Deposits and Borrowings

The Bank's primary sources of funds are deposits, borrowings and principal payments on loans. Although competition for funds from non-banking institutions remains aggressive, the Bank continues its efforts to build account relationships with its customers. Deposits totaled \$313,586,000 at December 31, 2006 as compared with \$287,271,000 at December 31, 2005.

The Bank is a member of the Federal Home Loan Bank of Boston ("FHLBB"). Borrowings from FHLBB totaled \$87,093,000 at December 31, 2006 as compared with \$71,016,000 at December 31, 2005.

For additional information relating to the asset, deposit and borrowing components of the Company, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation and the accompanying Consolidated Financial Statements, and Notes thereto.

### Fiduciary Activities

The Bank provides trust, investment and financial planning services to its customers.

The Bank has a full service Trust and Investment Services Division. Among the services offered are: custody and agency accounts, estate planning and estate settlement. Another service is that of serving as Guardian or Conservator of estates and managing the financial position of Guardianships or Conservatorships. Self directed IRAs and Pension plans are also offered.

### Other Services

The Company also offers safe deposit rentals, foreign exchange, a full menu of electronic fund transfer services and other ancillary services to businesses and individuals.

### (c) Narrative Description of Business

Salisbury Bancorp, Inc. is a bank holding company, which as described above, has one subsidiary, Salisbury Bank and Trust Company (the "Bank").

The Bank is a full-service commercial bank and its activities encompass a broad range of services, which include a complete menu of deposit services, multiple mortgage products and various other types of loans for both business and personal needs. Full trust and investment services are also available. The Bank owns and operates two subsidiaries, SBT Realty, Inc., which is incorporated under the laws of the State of New York, and SBT Mortgage Service Corporation, which is incorporated under the laws of the State of Connecticut. SBT Realty, Inc. holds and manages bank owned real estate situated in New York State. SBT Mortgage Service Corporation, a Passive Investment Company ("PIC") was formed to take advantage of favorable Connecticut corporate tax benefits, which result when a Bank transfers a portion of its mortgage portfolio to a PIC. In general, the PIC will earn mortgage interest income and may dividend funds to the Bank. In turn, those funds will be exempt from the Connecticut corporate business tax.

### Competition

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

The Company and the Bank encounter competition in all phases of their business. There are numerous financial institutions that have offices in the areas in which the Company and Bank compete in Northwestern Connecticut, Western Massachusetts and proximate areas of New York State.

The offices of the Bank are located in the northwest corner of Litchfield County, Connecticut and South Berkshire County,

2

Massachusetts. The Bank maintains six (6) banking offices within these two counties and also attracts customers from nearby Columbia County and Dutchess County, New York. The Bank's market area within the four counties is served by 45 commercial banks and savings banks.

Banks compete on the basis of price, including rates paid on deposits and charged on borrowings, convenience and quality of service. Savings and loan associations are able to compete aggressively with commercial banks in the important area of consumer lending. Credit unions and small loan companies are significant factors in the consumer market. Insurance companies, investment firms, credit and mortgage companies, brokerage firms cash management accounts, money-market funds and retailers are all significant competitors for various types of business. Insurance companies, investment counseling firms and other businesses and individuals actively compete with the Bank for personal and corporate trust services and investment counseling services. Many non-bank competitors are not subject to the extensive regulation described below under "Legislation, Regulation and Supervision" and in certain respects may have a competitive advantage over banks in providing certain services.

In marketing its services, the Bank emphasizes its position as a hometown bank with personal service, flexibility and prompt responsiveness to the needs of its customers. Moreover, the Bank competes for both deposits and loans by offering competitive rates and convenient business hours. In addition to providing banking services to customers in its primary service areas, the Bank is a member of the automatic teller machine networks and offers internet banking services, which allow the Bank to deliver certain financial services to customers regardless of their proximity to the primary service area of the Bank.

Connecticut has enacted legislation that liberalizes banking powers for thrift institutions thereby improving their competitive position with other banks. In addition, the Connecticut Interstate Banking and Branching Act permits acquisitions and mergers of Connecticut banks and bank holding companies with banks and bank holding companies in other states. Accordingly, it is possible for large super-regional organizations to enter many new markets, including the market served by the Bank. Certain competitors, by virtue of their size and resources, may enjoy certain efficiencies and competitive advantages over the Bank in the pricing, delivery, and marketing of their products and services. It is possible that such legislative authority will increase the number or the size of financial institutions competing with the Bank for deposits and loans in its market place, although it is impossible to predict the effect upon competition of such legislation.

### Legislation, Regulation and Supervision

#### General

-----

Virtually every aspect of the business of banking is subject to regulation, including such matters as the amount of reserves that must be established against various deposits, the establishment of branches, mergers, non-banking activities and other operations. Numerous laws and regulations also set forth

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

special restrictions and procedural requirements with respect to the extension of credit, credit practices, the disclosure of credit terms and discrimination in credit transactions.

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

### Federal Reserve Board Regulation

-----

The Company is a registered bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHCA"). It is subject to the supervision and examination of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and files with the Federal Reserve Board the reports as required under the BHCA.

The BHCA generally requires prior approval by the Federal Reserve Board of the acquisition by the Company of substantially all of the assets or more than five percent (5%) of the voting stock of any bank. The BHCA also allows the Federal Reserve Board to determine (by order or by regulation) what activities are so closely related to banking as to be a proper incident of banking, and thus, whether the Company can engage in such activities. The BHCA prohibits the Company and the Bank from engaging in certain tie-in arrangements in connection with any extension of credit, sale of property or furnishing of services.

3

Federal legislation permits adequately capitalized bank holding companies to venture across state lines to offer banking services through bank subsidiaries to a wide geographic market. It is possible for large super-regional organizations to enter many new markets, including the market served by the Bank, although it is impossible to assess what impact this will have on the Company or the Bank.

The Federal Reserve Act imposes certain restrictions on loans by the Bank to the Company and certain other activities, on investments in their stock or securities, and on the taking by the Bank of such stock or securities as collateral security for loans to any borrower.

Under the BHCA and the regulations of the Federal Reserve System promulgated thereunder ("Regulation Y"), no corporation may become a bank holding company as defined therein, without prior approval of the Federal Reserve Board. The Company received the approval to become a bank holding company on June 18, 1998. The Company will also have to secure prior approval of the Federal Reserve Board if it wishes to acquire voting shares of any other bank, if after such acquisition it would own or control more than five percent (5%) of the voting share of such bank. The BHCA imposes limitations upon the Company as to the types of business in which it may engage.

Regulation Y requires bank holding companies to provide the Federal Reserve Board with written notice before purchasing or redeeming equity securities if the gross consideration for the purchase or redemption, when aggregated with the net consideration paid by the Company for all such purchases or redemptions during the preceding twelve (12) months, is equal to ten percent (10%) or more of the Company's consolidated net worth. For purposes of Regulation Y, "net

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

consideration" is the gross consideration paid by a company for all of its equity securities purchased or redeemed during the period, minus the gross consideration received for all of its equity securities sold during the period other than as part of a new issue. However, a bank holding company need not obtain Federal Reserve Board approval of any equity security redemption when: (i) the bank holding company's capital ratios exceed the threshold established for "well-capitalized" state member banks before and immediately after the redemption; (ii) the bank holding company is well-managed; and (iii) the bank holding company is not the subject of any unresolved supervisory issues.

### Gramm-Leach-Bliley Act

-----

The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (the "GLBA"), provides bank holding companies, banks, securities firms, insurance companies, and investment management firms the option of engaging in a broad range of financial and related activities by opting to become a "financial holding company." The Company qualified and registered as a financial holding company on May 3, 2000. Financial holding companies are subject to oversight by the Federal Reserve Board, in addition to other regulatory agencies. Under the financial holding company structure, bank holding companies have greater ability to purchase or establish nonbank subsidiaries, that are financial in nature or that engage in activities incidental or complementary to a financial activity. Additionally, pursuant to the GLBA, securities and insurance firms are permitted to purchase full-service banks. While the GLBA facilitates the ability of financial institutions to offer a wide range of financial services, large financial institutions would appear to be the beneficiaries as a result of this Act because many community banks lack the capital and management resources needed to facilitate broad expansion of financial services.

### Sarbanes-Oxley Act

-----

In July, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002. The purpose of the Sarbanes-Oxley Act is to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes.

The Sarbanes-Oxley Act amends the Securities Exchange Act of 1934 to prohibit a registered public accounting firm from performing specified nonaudit services contemporaneously with a mandatory audit. The Sarbanes-Oxley Act also vests the audit committee of an issuer with responsibility for the appointment, compensation, and oversight of any registered public accounting firm employed to perform audit services. It requires each committee member to be a member of the board of directors of the issuer, and to be otherwise independent. The Sarbanes-Oxley Act further requires the chief executive officer and chief financial officer of an issuer to make certain certifications as to each annual or quarterly report. In addition, the Sarbanes-Oxley Act requires officers to forfeit certain bonuses and profits under certain circumstances. Specifically, if an issuer is required to prepare an accounting restatement due to the material noncompliance of the issuer as a result of misconduct with any financial reporting requirements under the securities laws, the chief executive officer and chief financial officer of the issuer shall be required to reimburse the issuer for (1) any bonus or other incentive-based or equity based compensation received by that person from the issuer during the 12-month period following the first public issuance or filing

with the SEC of the financial document embodying such financial reporting requirements; and (2) any profits realized from the sale of securities of the



## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

issuer during that 12-month period.

The Sarbanes-Oxley Act also instructs the SEC to require by rule:

- o Disclosure of all material off-balance sheet transactions and relationships that may have a material effect upon the financial status of an issuer; and
- o The presentation of pro forma financial information in a manner that is not misleading, and which is reconcilable with the financial condition of the issuer under generally accepted accounting principles.

The Sarbanes-Oxley Act also prohibits insider transactions in the Company's stock during a lock out period of Company's pension plans, and any profits of such insider transactions are to be disgorged. In addition, there is a prohibition of Company loans to its executives, except in certain circumstances. The Sarbanes-Oxley Act also provides for mandated internal control report and assessment with the annual report and an attestation and a report on such report by the Company's auditor. The SEC also requires an issuer to institute a code of ethics for senior financial officers of the Company. Furthermore, the Sarbanes-Oxley Act adds a criminal penalty of fines and imprisonment of up to 10 years for securities fraud.

The Patriot Act

-----  
The terrorist attacks in September, 2001 have impacted the financial services industry and led to federal legislation that attempts to address certain issues involving financial institutions. In 2001, President Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Patriot Act"). On March 10, 2006, the President signed legislation making permanent certain provisions of the Patriot Act.

Part of the Patriot Act is the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 ("IMLA"). IMLA authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to banks, bank holding companies, and/or other financial institutions. These measures may include enhanced recordkeeping and reporting requirements for certain financial transactions that are of primary money laundering concern, due diligence requirements concerning the beneficial ownership of certain types of accounts, and restrictions or prohibitions on certain types of accounts with foreign financial institutions.

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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

### Connecticut Regulation

-----

The Company is incorporated in the State of Connecticut and is subject to the Connecticut Business Corporation Act and the Connecticut Bank Holding Company Statutes. As a state-chartered bank and member of the Federal Deposit Insurance Corporation ("FDIC"), the Bank is subject to regulation both by the Connecticut Banking Commissioner and the FDIC. Applicable laws and regulations impose restrictions and requirements in many areas, including capital requirements, maintenance of reserves, establishment of new branch offices, mergers, making of loans and investments, consumer protection, employment practices and other matters. Any new regulations or amendments to existing regulations may materially affect the services offered, expenses incurred and/or income generated by the Bank.

The Connecticut Banking Commissioner regulates the Bank's internal organization as well as its deposit, lending and investment activities. The approval of the Connecticut Banking Commissioner is required to, among other things, open branch offices and consummate merger transactions and other business combinations. The Connecticut Banking

5

Commissioner conducts periodic examinations of the Bank. The Connecticut banking statutes also restrict the ability of a bank to declare cash dividends to its shareholders.

Subject to certain limited exceptions, loans made to any one obligor may not exceed fifteen percent (15%) of the Bank's capital, surplus, undivided profits and loan reserves. In addition, under Connecticut law, the beneficial ownership of more than ten percent (10%) of any class of voting securities of a bank may not be acquired by any person or groups of persons acting in concert without the approval of the Connecticut Banking Commissioner.

### FDIC Regulation

-----

The FDIC currently insures the Bank's deposit accounts in an amount up to \$100,000 for each insured depositor. In addition, effective April 1, 2006, the federal deposit insurance limits on certain retirement accounts increased so that such retirement accounts are separately insured up to \$250,000. FDIC insurance of deposits may be terminated by the FDIC, after notice and a hearing, upon a finding by the FDIC that the insured institution has engaged in unsafe or unsound practices, or is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule or order of, or condition imposed by, the FDIC. A bank's failure to meet the minimum capital and risk-based capital guidelines discussed below would be considered to be unsafe and unsound banking practices. The Bank, as a Connecticut-chartered FDIC-insured bank, is regulated by the FDIC in many of the areas also regulated by the Connecticut Banking Commissioner. The FDIC also conducts its own periodic examinations of the Bank, and the Bank is required to submit financial and other reports to the FDIC on a quarterly and annual basis, or as otherwise required by the FDIC.

FDIC-insured banks, such as the Bank, pay premium assessments to the FDIC for the insurance of deposits.

Under FDIC regulations, FDIC-insured, state-chartered banks which are not members of the Federal Reserve System, must meet certain minimum capital requirements, including a leverage capital ratio and a risk-based capital ratio. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

OPERATION".

The Community Reinvestment Act ("CRA") requires lenders to identify the communities served by the institution's offices and to identify the types of credit the institution is prepared to extend within such communities. The FDIC conducts examinations of insured institutions' CRA compliance and rates such institutions as "Outstanding", "Satisfactory", "Needs to Improve" and "Substantial Noncompliance". As of its last CRA examination, the Bank received a rating of "Satisfactory". Failure to receive at least a "Satisfactory" rating may inhibit an institution from engaging in certain activities, including acquisitions of other financial institutions, which require regulatory approval based, in part, on CRA compliance considerations. Similarly, failure of a bank to maintain a CRA rating of "Satisfactory" or better would preclude it or its holding company from engaging in any new financial activities pursuant to the GLBA.

Employees

-----

The Company's current workforce at March 9, 2007 consists of 133 employees of whom 118 were full time and 15 were part time. The employees are not represented by a collective bargaining unit.

(d) Financial Information about Geographic Areas

The Company does not have any foreign business operations or export sales of its own. However, it does provide financial services including wire transfers and foreign currency exchange to other businesses involved in foreign trade.

6

STATISTICAL DISCLOSURE REQUIRED PURSUANT TO SECURITIES EXCHANGE ACT, INDUSTRY GUIDE 3

The statistical disclosures required pursuant to Industry Guide 3, not contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, are presented on the following pages of this Report on Form 10-K.

Item of Guide 3	Page(s) of This Report
-----	-----
I. Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential	22
II. Investment Portfolio	8
III. Loan Portfolio	9
IV. Summary of Loan Loss Experience	10
V. Deposits	30
VI. Return on Equity and Assets	9
VII. Short-Term Borrowings	11

7

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Investment Portfolio

The Company categorizes investments into three groups and further provides for the accounting and reporting treatment of each group. Investments may be classified as held-to-maturity, available-for-sale, or trading. The Bank does not purchase or hold any investment securities for the purpose of trading such investments. The following tables set forth the carrying amounts of the investment securities as of December 31:

(dollars in thousands)	2006	2005	2004
	-----		
Available-for-sale securities:			
(at fair value)			
Equity securities	\$ 181	\$ 148	\$ 146
U.S. government agencies preferred stock	2,512	12,446	12,209
U.S. Treasury securities and other			
U.S. government corporations and agencies	54,146	50,516	53,416
Obligations of states and political subdivisions	45,236	41,332	58,452
Mortgage-backed securities	54,417	41,166	54,432
	-----		
	\$156,492	\$145,608	\$178,655
	=====		
Held-to-maturity securities			
(at amortized cost)			
Mortgage-backed securities	\$ 75	\$ 147	\$ 218
	=====		
Federal Home Loan Bank stock	\$ 4,664	\$ 5,413	\$ 5,413
	=====		

For the following table, yields are not presented on a fully taxable-equivalent ("FTE") basis.

The scheduled maturities of held-to-maturity securities and available-for-sale securities (other than equity securities) were as follows as of December 31, 2006:

(dollars in thousands)

	Maturing ----- Within	Yield -----	Maturing ----- After 1 but	Yield -----	Maturing ----- After 5	Yield -----	Mat ----- Aft
	1 year		within 5		but within		Yea
	Amount		Years		10 Years		Amo
	-----		Amount		Amount		-----
Held-to-maturity							
-----							
securities							
-----							
(at amortized cost)							
Mortgage-backed	\$ 0		\$ 0		\$ 0		\$
securities	=====		=====		=====		=====

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Available-for-sale

-----

securities

-----

(at fair value)

U.S. Treasury

securities

and other U.S.

government

corporations and

agencies

	\$ 0	\$ 0	\$ 17,794	5.46%	\$ 3
--	------	------	-----------	-------	------

Obligations of states and

political subdivisions

	0	0	173	3.55%	4
--	---	---	-----	-------	---

Mortgage-backed

securities

	0	623	4.57%	271	5.63%	5
--	---	-----	-------	-----	-------	---

	\$ 0	\$ 623	\$ 18,238	\$13
--	------	--------	-----------	------

=====

8

Loan Portfolio Analysis by Category

(dollars in thousands)

	December 31				
	2006	2005	2004	2003	2002
Commercial, financial and agricultural	\$ 16,465	\$ 15,354	\$ 15,127	\$ 9,149	\$ 10,127
Real Estate-construction and land development	21,169	18,814	14,290	15,307	6,027
Real Estate - residential	145,395	135,619	130,414	90,807	93,636
Real Estate-commercial	50,859	40,889	35,487	19,199	18,002
Consumer	8,816	7,900	9,122	6,692	9,007
Term federal funds	12,000	0	0	0	0
Other	69	47	69	73	291
	254,773	218,623	204,509	141,227	137,090
Deferred costs, net	168	0	0	0	0
Allowance for loan losses	(2,474)	(2,626)	(2,512)	(1,664)	(1,458)
Unearned income	(3)	(8)	(19)	(0)	(0)
Net loans	\$ 252,464	\$ 215,989	\$ 201,978	\$ 139,563	\$ 135,632

There are no industry concentrations in the Bank's loan portfolio.

The following table shows the maturity of commercial, financial and agricultural loans, real estate commercial loans and real estate-construction loans outstanding as of December 31, 2006. Also provided are the amounts due after one (1) year classified according to the sensitivity to changes in interest rates.

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

(dollars in thousands)	Due in one year or less	Due after one year to five years	Due after five years
	-----	-----	-----
Commercial, financial, agricultural and real estate commercial	\$ 2,232	\$ 8,754	\$ 56,338
Real estate-construction and land development	20,990	179	0
	-----	-----	-----
	\$ 23,222	\$ 8,933	\$ 56,338
	=====	=====	=====
Maturities after one year with:			
Fixed interest rates		\$ 6,338	\$ 10,410
Variable interest rates		2,595	45,928
		-----	-----
		\$ 8,933	\$ 56,338
		=====	=====

Return on Equity and Assets

The following table summarizes various financial ratios of the Company for each of the last three (3) years:

	At or for the ----- Year ended December 31, -----		
	2006	2005	2004
	----	----	----
Return on average total assets (net income divided by average total assets)	1.02%	1.12%	1.14%
Return on average shareholders' equity (net income divided by average shareholders' equity)	9.83%	10.81%	12.34%
Dividend payout ratio (total declared dividends per share divided by net income per share)	41.11%	36.90%	35.96%
Equity to assets ratio (average shareholders' equity divided by average total assets)	10.37%	10.38%	9.20%

Nonaccrual, Past Due and Restructured Loans

At December 31, 2006, there were seven (7) nonaccrual loans in the Bank's portfolio six of which were secured by real estate. In the month following the month in which a mortgage loan becomes 90 days past due, the Bank generally stops accruing interest unless there are unusual circumstances which warrant an exception. Generally the only loan types that the Bank reclassifies to nonaccrual are those secured by real estate or large commercial loans on which

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

substantial collateral exists. Other types of loans are generally charged off when they become 120 days or more delinquent. However, exceptions may be made as warranted.

### Nonaccrual, Past Due and Restructured Loans (dollars in thousands)

	December 31				
	2006	2005	2004	2003	2002
Nonaccrual	\$ 886	\$ 694	\$1,739	\$ 75	\$ 855
90 days or more past due	77	79	528	535	124
Restructured loans	0	0	0	0	271
<b>Total nonperforming loans</b>	<b>\$ 963</b>	<b>\$ 773</b>	<b>\$2,267</b>	<b>\$ 610</b>	<b>\$1,250</b>
Total nonperforming loans as percentage of the loan portfolio	0.38%	0.35%	1.11%	0.43%	0.92%
Allowance for loan losses as a percentage of nonperforming loans	256.91%	339.72%	110.81%	272.79%	116.64%

Information with respect to nonaccrual and restructured loans  
at December 31, 2006, 2005 and 2004 is as follows:

(dollars in thousands)

	Year Ended December 31		
	2006	2005	2004
Interest income that would have been recorded under original terms	\$ 66	\$157	\$100
Less gross interest recorded	37	133	72
<b>Foregone interest</b>	<b>\$ 29</b>	<b>\$ 24</b>	<b>\$ 28</b>

### Summary of Loan Loss Experience (dollars in thousands)

	Year Ended December 31				
	2006	2005	2004	2003	2002
Balance of the allowance for loan losses at beginning of year	\$ 2,626	\$ 2,512	\$ 1,664	\$ 1,458	\$ 1,445
Charge-offs:					
Commercial, financial and agricultural	25	7	0	71	60
Real estate mortgage	0	0	0	0	46
Consumer	106	128	70	84	146
<b>Total charge-offs</b>	<b>131</b>	<b>135</b>	<b>70</b>	<b>155</b>	<b>252</b>

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Recoveries:

Commercial, financial and agricultural	6	0	0	25	2
Real estate mortgage	0	0	0	0	1
Consumer	60	39	28	24	26
	-----				
Total recoveries	66	39	28	49	29
	-----				
Net charge-offs	65	96	42	106	223
(Benefit) provision charged to operations	(87)	210	250	312	300
Balance acquired from CNB	0	0	640	0	0
Transfer of allowance for loan losses to other liabilities	0	0	0	0	(64)
	-----				
Balance at end of year	\$ 2,474	\$ 2,626	\$ 2,512	\$ 1,664	\$ 1,458
	=====				
Ratio of net charge-offs to average loans outstanding	.03%	.05%	.03%	.07%	.02%
Ratio of allowance for loan losses to year end loans	.97%	1.20%	1.23%	1.18%	1.07%

10

Allocation of the Allowance for Loan Losses; Percentage of loans by type to total loans (dollars in thousands)

	2006		2005		2004		2003
	Amount	Percent	Amount	Percent	Amount	Percent	Amount
Commercial, financial and agricultural	\$ 342	6.46%	\$ 495	7.02%	\$ 613	7.40%	\$ 441
Real estate construction and land development	85	8.31%	95	8.61%	83	6.99%	112
Real estate mortgage	1,832	77.03%	1,761	80.74%	1,614	81.12%	749
Consumer	173	3.46%	247	3.61%	198	4.46%	357
Term Federal Funds	0	4.71%	0				
Other loans	42	.03%	28	.02%	4	.03%	5
	-----	-----	-----	-----	-----	-----	-----
	\$2,474	100.00%	\$2,626	100.00%	\$2,512	100.00%	\$1,664
	=====	=====	=====	=====	=====	=====	=====

Provisions to the allowance for loan losses are charged to operating expenses and are based on past experience, current economic conditions and management's judgement of the amount necessary to cover losses inherent in the portfolio. The Bank records provisions for estimated loan losses, which are charged against earnings, in the period they are established.

Short-Term Borrowings  
(dollars in thousands)

	December 31		
	2006	2005	2004
	-----		
Federal Home Loan Bank Advances			
Average interest rate			
At year end	4.97%	4.90%	4.29%
For the year	5.00%	4.69%	3.90%



## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Average amount outstanding during the year	\$ 71,471	\$ 67,793	\$ 74,954
Maximum amount outstanding at any month	\$ 90,403	\$ 75,536	\$100,680
Amount outstanding at year end	\$ 87,093	\$ 71,016	\$ 79,213

### ITEM 1A. RISK FACTORS

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

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

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

- o problem assets and foreclosures may increase;
- o demand for the Bank's products and services may decline;
- o low cost or non-interest bearing deposits may decrease; and,
- o collateral for loans made by the Bank, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with the Bank's existing loans.

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

11

The Company is dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect the Company's prospects.

Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the banking industry within the communities the Bank serves. The Company's and the Bank's success depends to a significant degree upon the ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of management and personnel. The loss of the services of the senior executive management team members or other key executives could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Bank's business is subject to interest rate risk.

A substantial portion of the Company's income is derived from the differential or "spread" between the Bank's interest earned on loans, securities and other interest earning assets, and interest paid on deposits, borrowings and other

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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

Certain types of loans have a higher degree of risk.

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

The ability to attract deposits may effect Bank's growth.

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

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

A source of risk arises from the possibility that losses could be sustained because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that the Company has adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. Unexpected

losses may arise from a wide variety of specific or systemic factors, many of which are beyond the Company's ability to predict, influence or control.

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

Banks rely on communications, information, operating and financial control systems technology from third-party service providers, and banks may suffer an interruption in those systems that may result in lost business and banks may not be able to obtain substitute providers on terms that are as favorable if bank's relationships with bank's existing service providers are interrupted.

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

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

Increased competition in the Bank's markets may result in reduced loans and deposits. Ultimately, the Bank may not be able to compete successfully against current and future competitors. Many competitors offer the banking services that the Bank offers in its service areas. These competitors include national banks, regional banks and other community banks. The Bank also faces competition from many other types of financial institutions, including savings and loan associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, the Bank's competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

numerous locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions may have larger lending limits, which would allow them to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain loan and deposit customers and a range in quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services. The Bank also faces competition from out-of-state financial intermediaries that solicit deposits in the Bank's market areas. If the Bank is unable to attract and retain banking customers, it may be unable to continue the Bank's loan and deposit growth and the Company's business, financial condition, results of operations and cash flows may be adversely affected.

The Company and the Bank are subject to extensive government regulation.

The operations of the Company and the Bank are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of the operations of the Company and the Bank. Because the Company's and the Bank's business is highly regulated, the applicable laws, rules and regulations are subject to regular modification and change. The Company cannot be

13

certain that laws, rules and regulations will not be adopted in the future, which could make compliance much more difficult or expensive, or otherwise adversely affect the Company's and the Bank's business, financial condition, results of operations or cash flows.

The Company may be exposed to risk of environmental liabilities with respect to properties to which the Bank takes title.

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

Customer Information may be obtained and used fraudulently.

Risk of theft of customer information resulting from security breaches by third parties exposes the Company to reputation risk and potential monetary loss. The Company has exposure to fraudulent use of its customers' personal information resulting from its general business operations and through customer use of financial instruments, such as debit cards. If a breach in security does occur and the financial data of customers is compromised, the Company will react as quickly as possible to protect customer accounts and limit potential losses to the Company.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

None

### ITEM 2. PROPERTIES

The Bank serves its customers from its six (6) offices which are located in Canaan, Lakeville, Salisbury and Sharon, Connecticut and Sheffield and South Egremont, Massachusetts. The Bank's trust and investment services division is

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

located in a separate building adjacent to the main office of the Bank.

The Bank leases the following properties: a branch office at 51 Main Street, South Egremont, Massachusetts; a branch office at 73 Main Street, Sheffield, Massachusetts; and the Bank has agreed to assume a short term lease for space in a supermarket which is located in Mount Vernon, New York. Such branch is expected to be acquired from NYCB later in 2007. (See "Business" above).

The following table includes all property owned by the Bank, but does not include Other Real Estate Owned.

OFFICES	LOCATION
Main Office Lakeville, Connecticut	5 Bissell Street
Trust and Investment Services division	19 Bissell Street Lakeville, Connecticut
Salisbury Office Salisbury, Connecticut	18 Main Street
Sharon Office Sharon, Connecticut	29 Low Road
Canaan Operations Canaan, Connecticut	94 Main Street
Canaan Office Canaan, Connecticut	100 Main Street

14

### ITEM 3. LEGAL PROCEEDINGS

Other than routine litigation incidental to its business, there are no material legal proceedings pending to which the Company, Bank, or their properties are subject.

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

No matters were submitted to a vote of security holders during the fourth quarter of the Company's 2006 fiscal year.

## PART II

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

#### 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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

### 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

### Holder

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.

### 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 \$.27 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.

15

### Securities Authorized for Issuance Under Equity Compensation Plans (as of December 31, 2006)

#### Recent Sales of Unregistered Securities

The shareholders of the Company voted to approve the Directors Stock Retainer Plan (the "Plan") at the 2001 Annual Meeting of Shareholders. The Plan provides non-employee directors of the Company with shares of Common Stock as a component of their compensation for services as non-employee directors. The maximum number of shares of Common Stock that may be issued pursuant to the plan is 15,000. Each year a grant under the Plan consists of 120 shares of Common Stock for each non-employee director who served for twelve months and a prorated number of shares to reflect the number of months served for any new non-employee director. On May 10, 2006, 840 shares were issued pursuant to the Plan. The next grant

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

date under the Plan will immediately precede the Annual Meeting of Shareholders which is to be held on May 16, 2007, and will be in the amount of 120 shares per director. All such issuances shall be exempt from registration under the Securities Act of 1933, as amended pursuant to Section 3(a)(2) and Section 4(2), as they are transactions by a bank not involving any public offering.

16

### 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

[GRAPH]

	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

17

### ITEM 6. SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA OF THE COMPANY

	At or For the Years Ended December 31			
	2006	2005	2004	2003
	-----	-----	-----	-----
Statement of Condition Data:	(dollars in thousands except per share data)			
Loans, Net	\$ 252,464	\$215,989	\$201,978	\$139,563
Allowance For Loan Losses	2,474	2,626	2,512	1,664
Investments	161,231	151,168	184,286	147,021
Total Assets	450,340	402,922	423,101	311,100
Deposits	313,586	287,271	298,842	218,457
Borrowings	87,093	71,016	79,213	60,897

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Shareholders' Equity	44,349	41,442	40,700	28,850
Nonperforming Assets	963	773	2,267	685

### Statement of Income Data:

Interest and Fees on Loans	\$ 15,687	\$ 13,320	\$ 9,592	\$ 9,226
Interest and Dividends on Securities and Other Interest Income	8,043	7,496	6,959	6,423
Interest Expense	10,459	7,352	5,659	5,613
	-----	-----	-----	-----
Net Interest and Dividend Income	13,271	13,464	10,892	10,036
(Benefit) Provision for Loan Losses	(87)	210	250	313
Trust Department Income	1,981	1,571	1,411	1,252
Other Income	2,085	2,084	1,854	1,674
Net Gain on Sales of Securities	517	1,210	1,490	1,058
Other Expenses	12,245	12,444	10,603	8,599
	-----	-----	-----	-----
Pre Tax Income	5,696	5,675	4,794	5,108
Income Taxes	1,442	1,114	775	1,268
	-----	-----	-----	-----
Net Income	\$ 4,254	\$ 4,561	\$ 4,019	\$ 3,840
	=====	=====	=====	=====

### Per Share Data:

Earnings per common share	\$ 2.53	\$ 2.71	\$ 2.67	\$ 2.70
Earnings per common share, assuming dilution	\$ 2.53	\$ 2.71	\$ 2.67	\$ 2.70
Cash Dividends Declared per share	\$ 1.04	\$ 1.00	\$ 0.96	\$ 0.92
Book Value (at year end)	\$ 26.33	\$ 24.61	\$ 24.19	\$ 20.26

### Selected Statistical Data:

Return on Average Assets	1.02%	1.12%	1.14%	1.24%
Return on Average Shareholders' Equity	9.83%	10.81%	12.34%	13.47%
Dividend Payout Ratio	41.11%	36.90%	35.96%	34.07%
Average Shareholders' Equity to Average Assets	10.37%	10.38%	9.20%	9.21%
Net Interest Spread	2.93%	3.35%	3.22%	3.37%
Net Interest Margin	3.67%	3.89%	3.63%	3.80%

18

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

Salisbury Bancorp, Inc.  
and Subsidiary

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



## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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 on Form 10-K.

### 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
	=====	=====	=====

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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 as 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

20

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%.

21

### YIELD ANALYSIS

Average Balances, Interest Earned/Paid and Rates

Years Ended December 31

(dollars in thousands)

	2006			2005		
AVERAGE BALANCE	INTEREST EARNED/ PAID	YIELD RATE	AVERAGE BALANCE	INTEREST EARNED/ PAID	YIELD RATE	

ASSETS

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Interest-Earning Assets:						
Loans	\$ 229,704	\$ 15,687	6.83%	\$ 208,786	\$ 13,320	6.38%
Taxable Securities	\$ 111,635	\$ 5,883	5.27%	\$ 112,746	\$ 5,097	4.52%
Tax-Exempt Securities*	\$ 47,215	\$ 3,152	6.68%	\$ 52,435	\$ 3,529	6.73%
Federal Funds	\$ 1,154	\$ 56	4.85%	\$ 1,840	\$ 48	2.61%
Other Interest-Earning	\$ 703	\$ 24	3.41%	\$ 1,096	\$ 22	2.01%
	-----	-----		-----	-----	
Total Interest-Earning Assets	\$ 390,411	\$ 24,802	6.35%	\$ 376,903	\$ 22,016	5.84%
		-----			-----	
Allowance for Loan Losses	(\$ 2,603)			(\$ 2,652)		
Cash & Due From Banks	\$ 6,949			\$ 8,189		
Premises, Equipment	\$ 6,388			\$ 6,432		
Net unrealized loss on AFS Securities	(\$ 4,106)			(\$ 2,127)		
Other Assets	\$ 20,348			\$ 19,707		
	-----			-----		
Total Average Assets	\$ 417,387			\$ 406,452		
	=====			=====		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-Bearing Liabilities:						
NOW/Money Market Deposits						
	\$ 79,356	\$ 1,812	2.28%	\$ 81,602	\$ 1,229	1.51%
Savings Deposits	\$ 48,882	\$ 640	1.31%	\$ 59,466	\$ 456	0.77%
Time Deposits	\$ 106,395	\$ 4,434	4.17%	\$ 86,794	\$ 2,486	2.86%
Borrowed Funds	\$ 71,471	\$ 3,573	5.00%	\$ 67,793	\$ 3,181	4.69%
	-----	-----		-----	-----	
Total Interest-Bearing Liabilities	\$ 306,104	\$ 10,459	3.42%	\$ 295,655	\$ 7,352	2.49%
		-----			-----	
Demand Deposits	\$ 65,151			\$ 65,591		
Other Liabilities	\$ 2,842			\$ 3,008		
Shareholders' Equity	\$ 43,290			\$ 42,198		
	-----			-----		
Total Liabilities and Shareholders' Equity	\$ 417,387			\$ 406,452		
	=====			=====		
Net Interest Income		\$ 14,343			\$ 14,664	
		=====			=====	
Net Interest Spread			2.93%			3.35%
Net Interest Margin			3.67%			3.89%

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

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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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

### 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.

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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)
	=====	=====	=====	

23

### 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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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

24

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 as 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.

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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%.

25

YIELD ANALYSIS

Average Balances, Interest Earned/Paid and Rates

Years Ended December 31

(dollars in thousands)

	2005			2004		
	AVERAGE BALANCE	INTEREST EARNED/ PAID	YIELD RATE	AVERAGE BALANCE	INTEREST EARNED/ PAID	YIELD RATE
<b>ASSETS</b>						
Interest-Earning Assets:						
Loans	\$ 208,786	\$ 13,320	6.38%	\$ 160,382	\$ 9,592	5.98%
Taxable Securities	\$ 112,746	\$ 5,097	4.52%	\$ 117,535	\$ 4,613	3.92%
Tax-Exempt Securities*	\$ 52,435	\$ 3,529	6.73%	\$ 49,017	\$ 3,475	7.09%
Federal Funds	\$ 1,840	\$ 48	2.61%	\$ 3,455	\$ 39	1.13%
Other Interest-Earning	\$ 1,096	\$ 22	2.01%	\$ 1,809	\$ 14	0.77%
<b>Total Interest-Earning Assets</b>	<b>\$ 376,903</b>	<b>\$ 22,016</b>	<b>5.84%</b>	<b>\$ 332,198</b>	<b>\$ 17,733</b>	<b>5.34%</b>
Allowance for Loan Losses	(\$ 2,652)			(\$ 1,952)		
Cash & Due From Banks	\$ 8,189			\$ 7,987		
Premises, Equipment	\$ 6,432			\$ 3,865		
Net unrealized (loss)gain on AFS Securities	(\$ 2,127)			(\$ 412)		
Other Assets	\$ 19,707			\$ 12,330		
<b>Total Average Assets</b>	<b>\$ 406,452</b>			<b>\$ 354,016</b>		
<b>LIABILITIES AND SHAREHOLDERS'</b>						
<b>EQUITY</b>						
Interest-Bearing Liabilities:						
NOW/Money Market Deposits	\$ 81,602	\$ 1,229	1.51%	\$ 62,681	\$ 382	0.61%
Savings Deposits	\$ 59,466	\$ 456	0.77%	\$ 54,596	\$ 373	0.68%
Time Deposits	\$ 86,794	\$ 2,486	2.86%	\$ 75,241	\$ 1,984	2.64%
Borrowed Funds	\$ 67,793	\$ 3,181	4.69%	\$ 74,954	\$ 2,920	3.90%
<b>Total Interest-Bearing Liabilities</b>	<b>\$ 295,655</b>	<b>\$ 7,352</b>	<b>2.49%</b>	<b>\$ 267,472</b>	<b>\$ 5,659</b>	<b>2.12%</b>



Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Demand Deposits	\$ 65,591		\$ 51,649	
Other Liabilities	\$ 3,008		\$ 2,329	
Shareholders' Equity	\$ 42,198		\$ 32,566	
	-----		-----	
Total Liabilities and Shareholders' Equity	\$ 406,452		\$ 354,016	
	=====		=====	
Net Interest Income	\$ 14,664		\$ 12,074	
	=====		=====	
Net Interest Spread		3.35%		3.22%
Net Interest Margin		3.89%		3.63%

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

26

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)	\$ 3,012
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	\$ 866
Savings deposits	33	50	83	84	(161)	(77)
Time deposits	305	197	502	189	(259)	(110)
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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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
	=====	=====	=====	

27

### 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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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,

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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.

28

The following table represents the composition of the loan portfolio comparing

	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 ALLL. As a result, loans outstanding at December 31, 2006 was \$242,773,000 net of term federal funds sold compared to net loans outstanding of \$218,623,000 at December 31, 2005. This is an increase of \$24,150,000 or 11.05%. This growth can be attributed primarily to an increase in both 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.

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

The Allowance for Loan and Lease Losses (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

29

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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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:

	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%
	=====		=====		=====	

30

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

	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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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.

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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.

31

### 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



## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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

32

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;

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

- (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.

### Statement of Management's Responsibility

-----

Management is responsible for the integrity and objectivity of the consolidated financial statements and other information appearing in this Form 10-K. 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 of 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 on Form 10-K.

### ITEM 7A. 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.

34

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### Index to Consolidated Financial Statements

-----

Report of Independent Registered Public Accounting Firm, March 14, 2007.....	F-1
Consolidated Balance Sheets at December 31, 2006 and 2005.....	F-2
Consolidated Statements of Income for the Years Ended December 31, 2006, 2005 and 2004.....	F-3

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2006, 2005 and 2004.....	F-4
Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004.....	F-5
Notes to Consolidated Financial Statements for the Years Ended December 31, 2006, 2005 and 2004.....	F-7
Salisbury Bancorp, Inc. (parent company only) Balance Sheet at December 31, 2006 and 2005.....	F-27
Statements of Income for the Years Ended December 31, 2006, 2005 and 2004.....	F-27
Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004.....	F-28
Quarterly Results of Operations (unaudited).....	F-29

[SHATSWELL, MACLEOD & COMPANY, P.C. LETTERHEAD]

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.

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

/s/ Shatswell, MacLeod & Company, P.C.  
SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts  
March 14, 2007

F-1

SALISBURY BANCORP, INC. AND SUBSIDIARY

-----  
CONSOLIDATED BALANCE SHEETS  
-----

December 31, 2006 and 2005  
-----

ASSETS	2006
-----	-----
Cash and due from banks	\$ 8,988,609
Interest-bearing demand deposits with other banks	568,693
Money market mutual funds	1,199,881
Federal Funds sold	1,000,000
	-----
Cash and cash equivalents	11,757,183
Investments in available-for-sale securities (at fair value)	156,492,547
Investments in held-to-maturity securities (fair values of \$74,818 and \$147,202 as of December 31, 2006 and 2005, respectively)	74,931
Federal Home Loan Bank stock, at cost	4,663,700
Loan held-for-sale	304,000
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
Investment in real estate	75,000
Premises and equipment	6,135,546
Goodwill	9,509,305
Core deposit intangible	1,493,499
Accrued interest receivable	2,483,547
Cash surrender value of life insurance policies	3,554,995
Other assets	1,330,987
	-----
Total assets	\$ 450,339,670 =====
LIABILITIES AND SHAREHOLDERS' EQUITY	
-----	
Deposits:	
Noninterest-bearing	\$ 70,502,249
Interest-bearing	243,084,032
	-----
Total deposits	313,586,281
Federal Home Loan Bank advances	87,093,402
Due to broker 1,579,611	0
Other liabilities	3,731,195
	-----
Total liabilities	405,990,489
	-----
Shareholders' equity:	

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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
Paid-in capital	13,099,881
Retained earnings	33,602,991
Accumulated other comprehensive loss	(2,522,109)
	-----
Total shareholders' equity	44,349,181
	-----
Total liabilities and shareholders' equity	\$ 450,339,670
	=====

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

F-2

### SALISBURY BANCORP, INC. AND SUBSIDIARY

#### ----- CONSOLIDATED STATEMENTS OF INCOME -----

Years Ended December 31, 2006, 2005 and 2004  
-----

	2006	2005
	-----	-----
Interest and dividend income:		
Interest and fees on loans	\$ 15,686,978	\$ 13,319,9
Interest on debt securities:		
Taxable	5,604,866	4,814,9
Tax-exempt	2,079,981	2,329,4
Dividends on equity securities	277,356	282,5
Other interest	80,412	69,5
	-----	-----
Total interest and dividend income	23,729,593	20,816,3
	-----	-----
Interest expense:		
Interest on deposits	6,885,893	4,171,3
Interest on Federal Home Loan Bank advances	3,573,052	3,180,5
	-----	-----
Total interest expense	10,458,945	7,351,9
	-----	-----
Net interest and dividend income	13,270,648	13,464,4
(Benefit) provision for loan losses	(87,488)	210,0
	-----	-----
Net interest and dividend income after (benefit) provision for loan losses	13,358,136	13,254,4
	-----	-----
Noninterest income:		
Trust department income	1,980,500	1,571,3
Loan commissions	117,298	260,9
Service charges on deposit accounts	707,431	642,2
Gain on sales and writedown of available-for-sale securities, net	517,326	1,209,7
Gain on sales of loans held-for-sale	357,628	270,0
Other income	902,394	910,7
	-----	-----
Total noninterest income	4,582,577	4,865,1

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Noninterest expense:		
Salaries and employee benefits	7,150,746	7,355,3
Occupancy expense	751,670	728,3
Equipment expense	786,637	776,7
Data processing	1,134,078	1,013,7
Conversion expense	0	
Insurance	154,562	148,3
Printing and stationery	239,617	277,6
Professional fees	554,686	306,7
Legal expense	151,414	263,5
Amortization of core deposit intangible	164,216	164,4
Other expense	1,157,534	1,408,9
	-----	-----
Total noninterest expense	12,245,160	12,443,7
	-----	-----
Income before income taxes	5,695,553	5,675,7
Income taxes	1,441,935	1,114,4
	-----	-----
Net income	\$ 4,253,618	\$ 4,561,3
	=====	=====
Earnings per common share	\$ 2.53	\$ 2.
	=====	=====

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

F-3

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	A C (
	-----	-----	-----	-----	
Balance, December 31, 2003	1,424,078	\$ 142,408	\$ 2,327,151	\$ 25,694,836	
Comprehensive income:					
Net income				4,018,942	
Other comprehensive loss, net of tax effect					
Comprehensive income					
Shares issued for merger	257,483	25,748	10,672,670		
Issuance of 840 shares for Directors' fees	840	84	31,752		
Dividends declared (\$.96 per share)				(1,491,312)	
	-----	-----	-----	-----	
Balance, December 31, 2004	1,682,401	168,240	13,031,573	28,222,466	
Comprehensive income:					
Net income				4,561,341	

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Other comprehensive loss, net of tax effect				
Comprehensive income				
Issuance of 940 shares for Directors' fees			940	94
Dividends declared (\$1.00 per share)				(1,683,105)
	-----	-----	-----	-----
Balance, December 31, 2005	1,683,341	168,334	13,068,045	31,100,702
Comprehensive income:				
Net income				4,253,618
Other comprehensive income, net of tax effect				
Comprehensive income				
Issuance of 840 shares for Directors' fees	840	84	31,836	
Dividends declared (\$1.04 per share)				
	-----	-----	-----	-----
Balance, December 31, 2006	1,684,181	\$ 168,418	\$ 13,099,881	\$ 33,602,991
	=====	=====	=====	=====

Reclassification disclosure for the years ended December 31:

	2006
	-----
Unrealized holding gains (losses) on available-for-sale securities	
Net unrealized holding gains (losses) on available-for-sale securities	\$ 2,654,494
Reclassification adjustment for net realized gains in net income	(517,326)
	-----
	2,137,168
Income tax (expense) benefit	(726,637)
	-----
Unrealized holding gains (losses) on available-for-sale securities, net of tax	1,410,531
	-----
Adjustment to initially apply SFAS No. 158	(1,572,548)
Minimum pension liability adjustment	0
Income tax benefit (expense)	534,666
	-----
SFAS No. 158 pension liability or minimum pension liability, net of tax	(1,037,882)
	-----
Other comprehensive income (loss), net of tax	\$ 372,649
	=====

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

	2006
	-----
Net unrealized holding losses on available-for-sale securities, net of taxes	\$ (1,190,323)
SFAS No. 158 pension liability, net of taxes	(1,331,786)
Minimum pension liability adjustment, net of taxes	0
	-----
Accumulated other comprehensive loss	\$ (2,522,109)
	=====

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



Edgar Filing: SALISBURY BANCORP INC - Form 10-K

F-4

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006, 2005 and 2004

	2006	2005
	-----	-----
Cash flows from operating activities:		
Net income	\$ 4,253,618	\$ 4,5
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	34,953	3
Gain on sales and writedown of available-for-sale securities, net	(517,326)	(1,2
(Benefit) provision for loan losses	(87,488)	2
Change in loans held-for-sale	(304,000)	3
Change in deferred loan costs, net	(168,573)	
(Decrease) increase in unearned income on loans	(4,913)	(
Net decrease (increase) in mortgage servicing rights	78,715	
Write-off of equipment	0	
Depreciation and amortization	538,449	5
Amortization of core deposit intangible	164,216	1
Amortization of fair value adjustment on loans	112,712	1
Accretion of fair value adjustments on deposits and borrowings	(134,217)	(1
(Increase) decrease in interest receivable	(111,012)	(1
Deferred tax expense	396,418	
(Increase) decrease in prepaid expenses	(1,031,510)	
Increase in cash surrender value of insurance policies	(130,809)	(1
Decrease (increase) in income tax receivable	181,005	3
Increase in other assets	(91,796)	(
Decrease in accrued expenses	(243,196)	(2
Increase in interest payable	257,975	
(Decrease) increase in other liabilities	(57,050)	
Issuance of shares for Directors' fees	31,920	
	-----	-----
Net cash provided by operating activities	3,168,091	5,0
	-----	-----
Cash flows from investing activities:		
Redemption of Federal Home Loan Bank stock	860,200	
Purchases of Federal Home Loan Bank stock	(110,700)	
Purchases of available-for-sale securities	(83,058,698)	(87,7
Proceeds from sales of available-for-sale securities	62,356,620	83,5
Proceeds from maturities of available-for-sale securities	14,007,603	34,3
Proceeds from maturities of held-to-maturity securities	71,691	
Loan originations and principal collections, net	(36,142,073)	(12,4
Purchases of loans	(252,000)	(2,0
Recoveries of loans previously charged off	67,054	
Capital expenditures	(207,787)	(1,0
Proceeds from sale of equipment	0	
Cash and cash equivalents acquired from Canaan National Bancorp, Inc. net of expenses paid of \$309,419	0	
Cash paid to Canaan National Bancorp, Inc. shareholders	0	

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Net cash (used in) provided by investing activities	(42,408,090)	14,7
---	--------------	------

F-5

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006, 2005 and 2004

(continued)

	2006	2005
Cash flows from financing activities:		
Net (decrease) increase in demand deposits, NOW and savings accounts	(5,638,393)	(8,516,59)
Net increase (decrease) in time deposits	31,957,486	(3,029,96)
Federal Home Loan Bank advances	25,000,000	10,000,00
Principal payments on advances from Federal Home Loan Bank	(10,460,009)	(1,346,52)
Net change in short-term advances from Federal Home Loan Bank	1,668,000	(16,720,94)
Decrease in other borrowed funds	0	
Dividends paid	(1,734,277)	(1,666,04)
Net cash provided by (used in) financing activities	40,792,807	(21,280,07)
Net increase (decrease) in cash and cash equivalents	1,552,808	(1,473,11)
Cash and cash equivalents at beginning of year	10,204,375	11,677,49
Cash and cash equivalents at end of year	\$ 11,757,183	\$ 10,204,37
Supplemental disclosures:		
Interest paid	\$ 10,335,187	\$ 7,463,41
Income taxes paid	864,512	710,85
Transfer from equipment to other assets		
Canaan National Bancorp, Inc. merger:		
Cash and cash equivalents acquired		
Available-for-sale securities		
Federal Home Loan Bank stock		
Federal Reserve Bank stock		
Net loans acquired		
Fixed assets acquired		
Accrued interest receivable		
Other assets acquired		
Core deposit intangible		
Deposits assumed		

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Federal Home Loan Bank borrowings assumed  
Other borrowings assumed  
Other liabilities assumed

Net assets acquired

Merger costs

Goodwill

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

F-6

SALISBURY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006, 2005 and 2004

### 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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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.

F-7

### 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.

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

- 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.

F-8

### 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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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:

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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

F-9

### 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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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.

F-10

### 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



## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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.

F-11

### 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
	-----	-----	-----
Available-for-sale securities:			
December 31, 2006:			
Equity securities	\$ 3,031	\$ 178,395	\$ 0
U.S. government agencies preferred stock	2,975,000	0	462,900
Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	55,323,358	23,343	1,200,395
Debt securities issued by states of the United States and political subdivisions			

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

of the states	44,891,148	379,553	34,667
Money market mutual funds	1,199,881	0	0
Mortgage-backed securities	55,103,530	191,698	878,547
	-----	-----	-----
	159,495,948	772,989	2,576,509
Money market mutual funds included in cash and cash equivalents	(1,199,881)		
	-----	-----	-----
	\$158,296,067	\$ 772,989	\$ 2,576,509
	=====	=====	=====
December 31, 2005:			
Equity securities	\$ 3,031	\$ 145,058	\$ 0
U.S. government agencies preferred stock	13,292,628	99,660	946,300
Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	52,390,332	0	1,874,694
Debt securities issued by states of the United States and political subdivisions of the states	41,550,010	75,980	293,765
Money market mutual funds	1,119,724	0	0
Mortgage-backed securities	42,312,984	15,325	1,161,952
	-----	-----	-----
	150,668,709	336,023	4,276,711
Money market mutual funds included in cash and cash equivalents	(1,119,724)		
	-----	-----	-----
	\$149,548,985	\$ 336,023	\$ 4,276,711
	=====	=====	=====
Held-to-maturity securities:			
December 31, 2006:			
Mortgage-backed securities	\$ 74,931	\$ 0	\$ 113
	=====	=====	=====
December 31, 2005:			
Mortgage-backed securities	\$ 146,856	\$ 346	\$ 0
	=====	=====	=====

F-12

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

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

=====

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 Long	
	Fair Value	Unrealized Losses	Fair Value	Unreal Loss
U.S. government agencies preferred stock	\$ 0	\$ 0	\$ 2,512,100	\$ 46
Debt securities issued by the U.S.				
Treasury and other U. S. government corporations and agencies	792,581	57,553	49,159,124	1,14
Debt securities issued by states of the United States and political subdivisions of the states	1,809,175	12,100	2,094,013	2
Mortgage-backed securities	13,486,446	54,270	27,940,134	82
	-----	-----	-----	-----
Total temporarily impaired securities	\$ 16,088,202	\$ 123,923	\$ 81,705,371	\$ 2,45
	=====	=====	=====	=====

F-13

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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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
	\$ 2,474,118	\$ 2,626,170	\$ 2,511,546
	\$ 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



## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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.

F-15

### 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:

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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

F-16

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.

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

F-17

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	\$ 2,700,000
Adjustment	0	0	9,000
Actuarial (gain) loss	(128,601)	783,390	(1,000)
Service cost	430,035	466,570	2,000
Interest cost	318,310	290,825	2,000
Benefits paid	(87,521)	(154,050)	(1,000)
	-----	-----	-----
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	1,700,000
Actual return on plan assets	392,231	94,489	1,000
Contributions	1,341,000	591,000	9,000
Benefits paid	(87,521)	(154,050)	(1,000)
	-----	-----	-----
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)	(1,200,000)
Unrecognized net loss	N/A	2,330,482	1,500,000
Unrecognized prior service cost	N/A	2,696	0
Unamortized net obligation existing at date of adoption of SFAS No. 87	N/A	0	0
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)	\$ 2,000,000
	=====	=====	=====

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



Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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

F-18

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

200

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Service cost	\$ 430,035	\$ 466
Interest cost on benefit obligation	318,310	290
Expected return on assets	(295,598)	(236)
Amortization of transition obligation	0	2
Amortization of prior service cost	893	
Recognized net loss	89,194	97
	-----	-----
Net periodic benefit cost	542,834	622
	-----	-----
Other changes in plan assets and benefit obligations recognized in other comprehensive loss:		
Net actuarial loss	2,016,054	
Prior service cost	1,803	
	-----	-----
Total recognized in other comprehensive loss	2,017,857	
	-----	-----
Total recognized in net periodic cost and other comprehensive loss	\$ 2,560,691	\$ 622
	=====	=====

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.

F-19

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.

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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

Asset Category	December 31, 2006		December 31, 2005	
	Fair Value	Percent	Fair Value	Percent
Equity securities	\$2,537,994	50.6%	\$ 987,888	29.5%
U.S. Government treasury and agency securities	1,480,289	29.5	1,319,226	39.5
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."

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

### NOTE 9 - INCOME TAXES

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

	2006	2005	2004
	-----	-----	-----
<b>Current:</b>			
Federal	\$ 990,839	\$ 986,976	\$ 631,007
State	54,678	60,164	250
	-----	-----	-----
	1,045,517	1,047,140	631,257
	-----	-----	-----
<b>Deferred:</b>			
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
	-----	-----	-----
<b>Total income tax expense</b>	<b>\$1,441,935</b>	<b>\$1,114,413</b>	<b>\$ 774,948</b>
	=====	=====	=====

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	2005	2004
	-----	-----	-----
	% of	% of	% of
	Income	Income	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
	-----	-----	-----
<b>Effective tax rates</b>	<b>25.3%</b>	<b>19.6%</b>	<b>16.2%</b>
	=====	=====	=====

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

	2006	2005
	-----	-----
<b>Deferred tax assets:</b>		
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
	-----	-----

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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
	=====	=====

F-21

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

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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

F-22

	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.

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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.

F-23

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

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
(Dollar amounts in thousand)				
As of December 31, 2006:				
Total Capital (to Risk Weighted Assets)				
Consolidated	\$38,030	15.28%	\$19,914	>8.0%
Salisbury Bank and Trust Company	37,295	14.98	19,929	>8.0
				-
Tier 1 Capital (to Risk Weighted Assets)				
Consolidated	35,555	14.28	9,957	>4.0
Salisbury Bank and Trust Company	34,785	13.97	9,964	>4.0
				-
Tier 1 Capital (to Average Assets)				
Consolidated	35,555	8.43	16,879	>4.0
Salisbury Bank and Trust Company	34,785	8.26	16,848	>4.0
				-
As of December 31, 2005:				
Total Capital (to Risk Weighted Assets)				
Consolidated	34,058	15.76	17,801	>8.0
Salisbury Bank and Trust Company	34,492	15.53	17,771	>8.0
				-
Tier 1 Capital (to Risk Weighted Assets)				
Consolidated	32,432	14.58	8,900	>4.0
Salisbury Bank and Trust Company	31,732	14.29	8,885	>4.0
				-
Tier 1 Capital (to Average Assets)				
Consolidated	32,432	8.27	15,687	>4.0
Salisbury Bank and Trust Company	31,732	8.11	15,649	>4.0
				-

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.



## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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.

F-24

### 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

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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.

F-25

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:

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

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.

F-26

SALISBURY BANCORP, INC.

-----

(Parent Company Only)

BALANCE SHEETS

-----

December 31, 2006 and 2005

ASSETS	2006	2005
-----	-----	-----
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

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Years Ended December 31, 2006, 2005 and 2004  
-----

	2006	2005	
	-----	-----	-----
Dividend income from subsidiary	\$ 1,800,000	\$ 1,780,000	\$
Taxable interest on securities	34,435	24,068	
	-----	-----	-----
	1,834,435	1,804,068	
	-----	-----	-----
Legal expense 9,984	0	10,500	
Supplies and printing	3,503	1,632	
Other expense	37,517	27,559	
	-----	-----	-----
	51,004	29,191	
	-----	-----	-----
Income before income tax benefit and equity in undistributed (distributed) net income of subsidiary	1,783,431	1,774,877	
Income tax benefit	(5,469)	(1,577)	
	-----	-----	-----
Income before equity in undistributed (distributed) net income of subsidiary	1,788,900	1,776,454	
Equity in undistributed (distributed) net income of subsidiary	2,464,718	2,784,887	(
	-----	-----	-----
Net income	\$ 4,253,618	\$ 4,561,341	\$
	=====	=====	=====

F-27

SALISBURY BANCORP, INC.  
-----

(Parent Company Only)

STATEMENTS OF CASH FLOWS  
-----

Years Ended December 31, 2006, 2005 and 2004  
-----

	2006	2005
	-----	-----
Cash flows from operating activities:		
Net income	\$ 4,253,618	\$ 4,561,341
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)
(Increase) decrease in taxes receivable	(3,892)	4,077
Decrease in due from subsidiary	0	
Decrease in other assets	0	29,833
Decrease in other liabilities	0	(3,677)
Issuance of shares for Directors' fees	31,920	36,561
	-----	-----

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Net cash provided by operating activities	1,816,928	1,843,25
Cash flows from investing activities:		
Cash paid to Canaan National Bancorp, Inc. shareholders	0	
Cash and cash equivalents acquired from Canaan National Bancorp, Inc., net of expenses paid of \$309,419	0	
Net cash used in investing activities	0	
Cash flows from financing activities:		
Dividends paid	(1,734,277)	(1,666,04
Net cash used in financing activities	(1,734,277)	(1,666,04
Net increase in cash and cash equivalents	82,651	177,20
Cash and cash equivalents at beginning of year	1,119,724	942,52
Cash and cash equivalents at end of year	\$ 1,202,375	\$ 1,119,72
Supplemental disclosure:		
Liability assumed in merger with Canaan National Bancorp, Inc.	\$ 0	\$

F-28

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)

Edgar Filing: SALISBURY BANCORP INC - Form 10-K

	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

F-29

ITEM 9. 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 independent accountants on accounting and financial disclosure matters.

ITEM 9A. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer concluded that, based upon an evaluation as of December 31, 2006, as required by 13a-15(b) or 15d-15(b), the Company's disclosure controls and procedures, as defined in ss.240.13a-15(e) or 15d-15(e), are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. During the fourth quarter ended December 31, 2006, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding Directors and Executive Officers of the Registrant required by this Item pursuant to Item 401 of Regulation S-K is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Sections "Election of Directors" and "Executive Officers," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 405 of Regulation S-K regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is omitted from this report on Form 10-K and is contained in the Bank's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K under the Section "Section 16(a) Beneficial Ownership Reporting Compliance," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 407(c)(3) of Regulation S-K regarding material changes, if any, to procedures by which shareholders may recommend nominees to the Board, is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Deadline for Receipt of Shareholder Proposals," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 407(d)(4) and Item 407(d)(5) of Regulation S-K regarding the audit committee and audit committee financial expert(s), respectively, is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Corporate Governance," and the information included therein is incorporated by reference.

### Code of Ethics

-----

The Company has adopted a Code of Ethics that applies to the Company's Chief Executive Officer and Chief Financial Officer. A copy of such Code of Ethics is available upon request to any person, without charge, by writing to John F. Foley, Chief Financial Officer and Secretary, Salisbury Bancorp, Inc., 5 Bissell Street, P. O. Box 1868, Lakeville, CT 06039.

36

### ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item pursuant to Item 402 of Regulation S-K regarding Directors and Executive Compensation, including the Compensation Discussion & Analysis, is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Sections "Board Compensation" and "Executive Compensation," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 407(e)(4) of Regulation S-K is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Compensation Committee Interlocks and Insider Participation," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 407(e)(5) is omitted from

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Compensation Committee Report," and the information included therein is incorporated by reference.

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

Information required by this Item pursuant to Item 403 of Regulation S-K regarding Security Ownership of Certain Beneficial Owners and Management is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Security Ownership," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 201(d) of Regulation S-K regarding securities authorized for issuance under equity compensation plans is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Equity Compensation Plan Information," and the information included therein is incorporated by reference.

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

Information required by this Item pursuant to Item 404 of Regulation S-K regarding Certain Relationships and Related Transactions is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Certain Relationships and Related Transactions," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 407(a) of Regulation S-K regarding the independence of directors is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Corporate Governance," and the information included therein is incorporated by reference.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this Item regarding Principal Accounting Fees and Services is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Independent Public Accountants," and the information included therein is incorporated by reference.

Information required by this Item regarding pre-approval policies for audit and non-audit services is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the



## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Section "Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors," and the information included therein is incorporated by reference.

### PART IV

#### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report on Form 10-K.

##### 1. Financial Statements:

The financial statements filed as part of this report are listed in the index appearing at Item 8.

##### 2. Financial Statement Schedules:

Such schedules are omitted because they are inapplicable or the information is included in the consolidated financial statements or notes thereto.

##### 3. Exhibits Required by Item 601 of Regulation S-K:

Exhibit No.	Description
3.1	Certificate of Incorporation of Salisbury Bancorp, Inc. (1)
3.2	Bylaws of Salisbury Bancorp, Inc., as amended (2)
10	Pension Supplement Agreement with John F. Perotti (3)
10.2	Form of Change in Control Agreement with Executive Officers (4)
10.3	Director Stock Retainer Plan (5)
11	Computation of Earnings per Share
21	Subsidiaries of the Company
31.1	Rule 13a-15(e) Certification
31.2	Rule 13a-15(e) Certification
32	Section 1350 Certifications

- (1) Exhibit was filed on April 23, 1998 as Exhibit 3.1 to Company's Registration Statement on Form S-4 (No. 333-50857) and is incorporated herein by reference.
- (2) Exhibit was filed on February 10, 2005 as Exhibit 3.2 to Company's Form 8-K/A and is incorporated herein by reference.
- (3) Exhibit was filed on April 23, 1998 as Exhibit 10 to Company's Registration Statement on Form S-4 (No. 333-50857) and is incorporated herein by reference.
- (4) Exhibit was filed on May 8, 2002, as Exhibit 10.2 to the Company's Annual Report on Form 10-KSB/A for the fiscal year ended December 31, 2002 and is incorporated herein by reference. Such agreements were extended on September 29, 2006 as set forth in the Company's Form 8-K filed on October 20, 2006.
- (5) Exhibit was filed on May 8, 2002, as Exhibit 10.3 to the Company's Annual Report on Form 10KSB for the fiscal year ended December 31, 2002 and is incorporated herein by reference.

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange

## Edgar Filing: SALISBURY BANCORP INC - Form 10-K

Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Lakeville, Connecticut on March 30, 2007.

SALISBURY BANCORP, INC.

By: /s/ John F. Perotti  
 -----  
 John F. Perotti  
 Chairman and  
 Chief Executive Officer

By: /s/ John F. Foley  
 -----  
 John F. Foley  
 Chief Financial Officer,  
 Treasurer and Secretary

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

Signature	Title	Date
/s/ John F. Perotti ----- (John F. Perotti)	Chairman, Chief Executive Officer and Director	March 30, 2007
/s/ Louis E. Allyn, II ----- (Louis E. Allyn, II)	Director	March 30, 2007
/s/ John R. H. Blum ----- (John R. H. Blum)	Director	March 30, 2007
/s/ Louise F. Brown ----- (Louise F. Brown)	Director	March 30, 2007
/s/ Richard J. Cantele, Jr. ----- (Richard J. Cantele, Jr.)	Director	March 30, 2007
/s/ Robert S. Drucker ----- (Robert S. Drucker)	Director	March 30, 2007
/s/ Nancy F. Humphreys ----- (Nancy F. Humphreys)	Director	March 30, 2007
/s/ Holly J. Nelson ----- (Holly J. Nelson)	Director	March 30, 2007
/s/ Michael A. Varet ----- (Michael A. Varet)	Director	March 30, 2007