

## OFFICERS

### Salisbury Bancorp, Inc.

John F. Perotti, *Chairman & CEO*

Richard J. Cantele, Jr., *President & COO*

John F. Foley, *CFO, Treasurer & Secretary*

## DIRECTORS

### Salisbury Bancorp, Inc.

#### and Salisbury Bank and Trust Company

Louis E. Allyn II

Robert S. Drucker

John R. H. Blum, *Presiding Director*

Nancy F. Humphreys

Louise F. Brown

John F. Perotti, *Chairman*

Richard J. Cantele, Jr.

Holly J. Nelson

Michael A. Varet

## SBT ADVISORY BOARD

Mary Cooper

Jean R. Perotti

Edward O. Heacox

Barclay Prindle

Mary T. Kirby

Richard Rennia

Eileen M. Mulligan

John P. Tuke

## TELEPHONE NUMBERS

(860) 435-9801

(860) 824-5423

(860) 364-0500

1-800-222-9801 Toll Free from CT, NY, MA

SBT Link

Toll Free 1-877-SBT-1212

Local 824-8262

## STOCK LISTING:

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

## WEBSITE:

[www.salisburybank.com](http://www.salisburybank.com)

## SHAREHOLDER INFORMATION

Stock Transfer Agent & Registrar

Registrar and Transfer Company

10 Commerce Drive

Cranford, New Jersey 07016

1-800-368-5948

## MAIN OFFICE

5 Bissell Street

Lakeville, Connecticut 06039

Facsimile (860) 435-0631

## CANAAN OFFICE

100 Main Street

Canaan, Connecticut 06018

Facsimile (860) 824-7506

## SALISBURY OFFICE

18 Main Street

Salisbury, Connecticut 06068

Facsimile (860) 435-5216

## SHARON OFFICE

29 Low Road

Sharon, Connecticut 06069

Facsimile (860) 364-4318

## SOUTH EGREMONT OFFICE

51 Main Street

South Egremont, Massachusetts 01258-0313

Telephone (413) 528-5100

Facsimile (413) 528-8868

## SHEFFIELD OFFICE

73 Main Street

Sheffield, Massachusetts 01257-1069

Telephone (413) 229-5000

Facsimile (413) 229-2388

## SBT TRUST & INVESTMENT SERVICES OFFICE

19 Bissell Street

Lakeville, Connecticut 06039

Facsimile (860) 435-5224

## SBT MORTGAGE MAKERS

18A Main Street

Salisbury, CT 06068

Facsimile (860) 435-4005

# Second Quarter Report June 30, 2006



## SALISBURY BANCORP, INC.

*the holding company for*

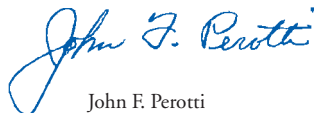
## Salisbury Bank and Trust Company

To Our Shareholders, Customers and Friends:

Net income for the second quarter of 2006 totaled \$1,005,979 which represents earnings per average share outstanding of \$.60. This compares to net income of \$1,308,371 or \$.78 per average share outstanding for the second quarter of 2005. Net income for the first six months of 2006 totaled \$2,152,901 and represents earnings per average share outstanding of \$1.28. This compares to net income of \$2,636,937 or earnings per average share outstanding of \$1.57 for the corresponding period in 2005. Among the factors impacting the quarter as well as the first half is reduced income from gains in securities transactions. In this current interest rate environment the Federal Reserve Bank is continuing to move interest rates upward. This action is raising short term rates higher than long term rates resulting in a flat and sometimes inverted yield curve. As a result, the cost of deposits and the cost of borrowed funds are increasing at a faster pace than the earnings yield on the loan and securities portfolios. This environment produces challenging compression pressures on net interest margins. We are pleased that our core business continues to strengthen. Our new business development efforts have resulted in growth of our net loan portfolio to \$228,454,820. This is an increase of \$21,847,969 or 10.6% when compared to the balance at June 30, 2005. The Bank constantly monitors the quality of the loan portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Company's objectives. Total deposits have increased to \$298,433,710 and compares to total deposits of \$287,492,118 last year at this time. As of June 30, 2006, the most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. Our trust and investment services division continues to grow. Income at June 30, 2006 totaled \$935,000. This is an increase of 20.4% when compared to the corresponding period in 2005. Management also continues its efforts to control operating expenses which has resulted in a decrease in other noninterest expenses of \$162,915 or 2.7%. Overall, we remain confident that the Bank is well positioned to meet the goals and objectives that have been established to enhance shareholder value as we move forward to the challenges of the second half of 2006.

Your Board of Directors has declared a second quarter cash dividend of \$.26 per common share. This compares to a cash dividend of \$.25 per common share for the second quarter of 2005. Year-to-date dividends total \$.52 per common share for the year 2006. This compares to total year-to-date dividends of \$.50 per common share one year ago. The dividend is payable on July 31, 2006 to shareholders of record as of June 30, 2006.

I'd like to take this opportunity to thank our shareholders and customers for their confidence in Salisbury Bank and Trust Company. Please continue to refer us to your friends and neighbors. Special thanks to the Board of Directors, SBT Advisory Board, our officers and staff for their dedication and for providing exemplary service to the Bank's various constituencies.



John F. Perotti  
Chairman & CEO

## CONSOLIDATED STATEMENTS OF CONDITION

	June 30	
	2006	2005
	<i>(unaudited)</i>	
<b>Assets</b>		
Cash and due from banks	\$ 7,513,326	\$ 8,969,846
Money market mutual funds	823,527	1,026,463
Investments in available-for-sale securities at fair value	145,191,100	154,219,987
Investments in held-to-maturity securities at amortized cost	76,986	206,915
Federal Home Loan Bank Stock	4,553,000	5,413,200
Loans, net	228,454,820	206,606,851
Investment in real estate	75,000	75,000
Premises & equipment	6,318,732	6,399,363
Due from broker	0	813,280
Goodwill	9,509,305	9,509,305
Core deposit intangible	1,575,607	1,739,823
Accrued interest receivable	2,391,613	2,296,973
Cash surrender value of life insurance policies	3,484,090	3,354,981
Other assets	3,198,338	2,616,170
Total assets	<u>\$413,165,444</u>	<u>\$403,248,157</u>
<b>Liabilities</b>		
Deposits:		
Demand	\$67,991,454	\$ 65,068,089
Savings, NOW	70,395,042	83,187,672
Money market	53,034,214	53,343,782
Time deposits	107,013,000	85,892,575
Total deposits	298,433,710	287,492,118
Federal Home Loan Bank advances	70,413,205	69,922,455
Due to Broker	1,099,776	0
Other liabilities	2,214,187	3,224,680
Total liabilities	<u>372,160,878</u>	<u>360,639,253</u>
<b>Shareholders' Equity</b>		
Common stock, par value \$.10 per share		
Authorized: 3,000,000 shares		
Issued and outstanding shares		
1,684,181 in 2006		168,418
and 1,683,341 in 2005	168,418	168,334
Paid-in capital	13,099,881	13,068,045
Retained earnings	32,378,048	30,017,969
Accumulated other comprehensive loss	(4,641,781)	(645,444)
Total shareholders' equity	<u>41,004,566</u>	<u>42,608,904</u>
Total liabilities and shareholders' equity	<u>\$413,165,444</u>	<u>\$ 403,248,157</u>

## CONSOLIDATED STATEMENTS OF INCOME

	Six Months Ended	
	2006	2005
	<i>(unaudited)</i>	
<b>June 30</b>		
Interest & fees on loans	\$ 7,471,379	\$ 6,448,891
Interest & dividends on securities	3,778,004	3,654,228
Total interest income	11,249,383	10,103,119
Interest expense on deposits	2,957,172	1,887,016
Interest expense on borrowed funds	1,740,592	1,501,725
Total interest expense	4,697,764	3,388,741
Net interest and dividend income	6,551,619	6,714,378
Provision for loan losses	0	180,000
Net interest and dividend income after provision for loan losses	6,551,619	6,534,378
Trust/Investment services income	935,000	776,730
Gains on sales of available-for-sale securities, net	60,682	836,522
Other non interest income	1,030,361	1,001,860
Other non interest expense	5,828,951	5,991,866
Provision for income taxes	595,810	520,687
Net income	<u>\$ 2,152,901</u>	<u>\$ 2,636,937</u>

## CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	2006	2005
	<i>(unaudited)</i>	
<b>June 30</b>		
Interest & fees on loans	\$ 3,843,463	\$ 3,238,811
Interest & dividends on securities	1,945,702	1,830,201
Total interest and dividend income	5,789,165	5,069,012
Interest expense on deposits	1,619,589	978,997
Interest expense on borrowed funds	911,643	764,141
Total interest expense	2,531,232	1,743,138
Net interest and dividend income	3,257,933	3,325,874
Provision for loan losses	0	90,000
Net interest and dividend income after provision for loan losses	3,257,933	3,235,874
Trust/Investment services income	450,000	388,365
(Loss) gains on sales of available-for-sale securities, net	(13,685)	350,560
Other noninterest income	563,907	486,887
Other noninterest expense	2,991,583	2,965,553
Provision for income taxes	260,593	187,762
Net income	<u>\$ 1,005,979</u>	<u>\$ 1,308,371</u>

## SELECTED FINANCIAL DATA

	At or for the six months ended June 30		
	2006	2005	2004
	<i>(unaudited)</i>		
Total risk based capital	16.13%	15.14%	15.54%
Tier 1 risk based capital	15.00%	13.89%	14.98%
Leverage ratio	8.54%	7.58%	7.53%
Earnings per average share outstanding	\$ 1.28	\$ 1.57	\$ 1.52

## Dividends declared per share Year to Date

