

UNITED STATES DEPARTMENT OF THE TREASURY  
1500 PENNSYLVANIA AVENUE, NW  
WASHINGTON, D.C. 20220

Dear Ladies and Gentlemen:

The company set forth on the signature page hereto (the "*Company*") intends to issue in a private placement the number of shares of a series of its preferred stock set forth on Schedule A hereto (the "*Preferred Shares*") and a warrant to purchase the number of shares of a series of its preferred stock set forth on Schedule A hereto (the "*Warrant*" and, together with the Preferred Shares, the "*Purchased Securities*") and the United States Department of the Treasury (the "*Investor*") intends to purchase from the Company the Purchased Securities.

The purpose of this letter agreement is to confirm the terms and conditions of the purchase by the Investor of the Purchased Securities. Except to the extent supplemented or superseded by the terms set forth herein or in the Schedules hereto, the provisions contained in the Securities Purchase Agreement - Standard Terms attached hereto as Exhibit A (the "*Securities Purchase Agreement*") are incorporated by reference herein. Terms that are defined in the Securities Purchase Agreement are used in this letter agreement as so defined. In the event of any inconsistency between this letter agreement and the Securities Purchase Agreement, the terms of this letter agreement shall govern.

Each of the Company and the Investor hereby confirms its agreement with the other party with respect to the issuance by the Company of the Purchased Securities and the purchase by the Investor of the Purchased Securities pursuant to this letter agreement and the Securities Purchase Agreement on the terms specified on Schedule A hereto.

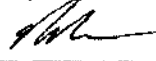
This letter agreement (including the Schedules hereto) and the Securities Purchase Agreement (including the Annexes thereto), the Disclosure Schedules and the Warrant constitute the entire agreement, and supersede all other prior agreements, understandings, representations and warranties, both written and oral, between the parties, with respect to the subject matter hereof. This letter agreement constitutes the "Letter Agreement" referred to in the Securities Purchase Agreement.

This letter agreement may be executed in any number of separate counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts will together constitute the same agreement. Executed signature pages to this letter agreement may be delivered by facsimile and such facsimiles will be deemed as sufficient as if actual signature pages had been delivered.

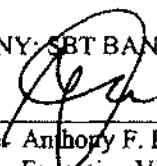
\* \* \*

In witness whereof, this letter agreement has been duly executed and delivered by the duly authorized representatives of the parties hereto as of the date written below.

UNITED STATES DEPARTMENT OF THE  
TREASURY

By:   
Name: **Neel Kashkari**  
Title: **Interim Assistant Secretary  
For Financial Stability**

COMPANY: SBT BANCORP, INC.

By:   
Name: **Anthony F. Bisceglia**  
Title: **Executive Vice President,  
Chief Financial Officer and  
Treasurer**

Date: March 27, 2009

**EXHIBIT A**

**SECURITIES PURCHASE AGREEMENT**

**EXHIBIT A**  
(Non-Exchange-Traded QFIs, excluding S Corps  
and Mutual Organizations)

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**SECURITIES PURCHASE AGREEMENT**  
**STANDARD TERMS**

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## SECURITIES PURCHASE AGREEMENT – STANDARD TERMS

### Recitals:

WHEREAS, the United States Department of the Treasury (the “*Investor*”) may from time to time agree to purchase shares of preferred stock and warrants from eligible financial institutions which elect to participate in the Troubled Asset Relief Program Capital Purchase Program (“*CPP*”);

WHEREAS, an eligible financial institution electing to participate in the CPP and issue securities to the Investor (referred to herein as the “*Company*”) shall enter into a letter agreement (the “*Letter Agreement*”) with the Investor which incorporates this Securities Purchase Agreement – Standard Terms;

WHEREAS, the Company agrees to expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy;

WHEREAS, the Company agrees to work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market;

WHEREAS, the Company intends to issue in a private placement the number of shares of the series of its Preferred Stock (“*Preferred Stock*”) set forth on Schedule A to the Letter Agreement (the “*Preferred Shares*”) and a warrant to purchase the number of shares of the series of its Preferred Stock (“*Warrant Preferred Stock*”) set forth on Schedule A to the Letter Agreement (the “*Warrant*” and, together with the Preferred Shares, the “*Purchased Securities*”) and the Investor intends to purchase (the “*Purchase*”) from the Company the Purchased Securities; and

WHEREAS, the Purchase will be governed by this Securities Purchase Agreement – Standard Terms and the Letter Agreement, including the schedules thereto (the “*Schedules*”), specifying additional terms of the Purchase. This Securities Purchase Agreement – Standard Terms (including the Annexes hereto) and the Letter Agreement (including the Schedules thereto) are together referred to as this “*Agreement*”. All references in this Securities Purchase Agreement – Standard Terms to “*Schedules*” are to the Schedules attached to the Letter Agreement.

**NOW, THEREFORE**, in consideration of the premises, and of the representations, warranties, covenants and agreements set forth herein, the parties agree as follows:

### Article I Purchase; Closing

1.1 Purchase. On the terms and subject to the conditions set forth in this Agreement, the Company agrees to sell to the Investor, and the Investor agrees to purchase from the Company, at the Closing (as hereinafter defined), the Purchased Securities for the price set forth on Schedule A (the “*Purchase Price*”).

1.2 Closing.

(a) On the terms and subject to the conditions set forth in this Agreement, the closing of the Purchase (the "*Closing*") will take place at the location specified in Schedule A, at the time and on the date set forth in Schedule A or as soon as practicable thereafter, or at such other place, time and date as shall be agreed between the Company and the Investor. The time and date on which the Closing occurs is referred to in this Agreement as the "*Closing Date*".

(b) Subject to the fulfillment or waiver of the conditions to the Closing in this Section 1.2, at the Closing the Company will deliver the Preferred Shares and the Warrant, in each case as evidenced by one or more certificates dated the Closing Date and bearing appropriate legends as hereinafter provided for, in exchange for payment in full of the Purchase Price by wire transfer of immediately available United States funds to a bank account designated by the Company on Schedule A.

(c) The respective obligations of each of the Investor and the Company to consummate the Purchase are subject to the fulfillment (or waiver by the Investor and the Company, as applicable) prior to the Closing of the conditions that (i) any approvals or authorizations of all United States and other governmental, regulatory or judicial authorities (collectively, "*Governmental Entities*") required for the consummation of the Purchase shall have been obtained or made in form and substance reasonably satisfactory to each party and shall be in full force and effect and all waiting periods required by United States and other applicable law, if any, shall have expired and (ii) no provision of any applicable United States or other law and no judgment, injunction, order or decree of any Governmental Entity shall prohibit the purchase and sale of the Purchased Securities as contemplated by this Agreement.

(d) The obligation of the Investor to consummate the Purchase is also subject to the fulfillment (or waiver by the Investor) at or prior to the Closing of each of the following conditions:

(i) (A) the representations and warranties of the Company set forth in (x) Section 2.2(g) of this Agreement shall be true and correct in all respects as though made on and as of the Closing Date, (y) Sections 2.2(a) through (f) shall be true and correct in all material respects as though made on and as of the Closing Date (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct in all material respects as of such other date) and (z) Sections 2.2(h) through (v) (disregarding all qualifications or limitations set forth in such representations and warranties as to "materiality", "Company Material Adverse Effect" and words of similar import) shall be true and correct as though made on and as of the Closing Date (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct as of such other date), except to the extent that the failure of such representations and warranties referred to in this Section 1.2(d)(i)(A)(z) to be so true and correct, individually or in the aggregate, does not have and would not reasonably be expected to have a Company Material Adverse Effect and (B) the Company shall have

performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing;

(ii) the Investor shall have received a certificate signed on behalf of the Company by a senior executive officer certifying to the effect that the conditions set forth in Section 1.2(d)(i) have been satisfied;

(iii) the Company shall have duly adopted and filed with the Secretary of State of its jurisdiction of organization or other applicable Governmental Entity the amendments to its certificate or articles of incorporation, articles of association, or similar organizational document ("*Charter*") in substantially the forms attached hereto as Annex A and Annex B (the "*Certificates of Designations*") and such filing shall have been accepted;

(iv) (A) the Company shall have effected such changes to its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "*Benefit Plans*") with respect to its Senior Executive Officers (and to the extent necessary for such changes to be legally enforceable, each of its Senior Executive Officers shall have duly consented in writing to such changes), as may be necessary, during the period that the Investor owns any debt or equity securities of the Company acquired pursuant to this Agreement or the Warrant, in order to comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 ("*EESA*") as implemented by guidance or regulation thereunder that has been issued and is in effect as of the Closing Date, and (B) the Investor shall have received a certificate signed on behalf of the Company by a senior executive officer certifying to the effect that the condition set forth in Section 1.2(d)(iv)(A) has been satisfied;

(v) each of the Company's Senior Executive Officers shall have delivered to the Investor a written waiver in the form attached hereto as Annex C releasing the Investor from any claims that such Senior Executive Officers may otherwise have as a result of the issuance, on or prior to the Closing Date, of any regulations which require the modification of, and the agreement of the Company hereunder to modify, the terms of any Benefit Plans with respect to its Senior Executive Officers to eliminate any provisions of such Benefit Plans that would not be in compliance with the requirements of Section 111(b) of the EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the Closing Date;

(vi) the Company shall have delivered to the Investor a written opinion from counsel to the Company (which may be internal counsel), addressed to the Investor and dated as of the Closing Date, in substantially the form attached hereto as Annex D;

(vii) the Company shall have delivered certificates in proper form or, with the prior consent of the Investor, evidence of shares in book-entry form, evidencing the Preferred Shares to Investor or its designee(s); and

(viii) the Company shall have duly executed the Warrant in substantially the form attached hereto as Annex E and delivered such executed Warrant to the Investor or its designee(s).

1.3 Interpretation. When a reference is made in this Agreement to “Recitals,” “Articles,” “Sections,” or “Annexes” such reference shall be to a Recital, Article or Section of, or Annex to, this Securities Purchase Agreement – Standard Terms, and a reference to “Schedules” shall be to a Schedule to the Letter Agreement, in each case, unless otherwise indicated. The terms defined in the singular have a comparable meaning when used in the plural, and vice versa. References to “herein”, “hereof”, “hereunder” and the like refer to this Agreement as a whole and not to any particular section or provision, unless the context requires otherwise. The table of contents and headings contained in this Agreement are for reference purposes only and are not part of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed followed by the words “without limitation.” No rule of construction against the draftsman shall be applied in connection with the interpretation or enforcement of this Agreement, as this Agreement is the product of negotiation between sophisticated parties advised by counsel. All references to “\$” or “dollars” mean the lawful currency of the United States of America. Except as expressly stated in this Agreement, all references to any statute, rule or regulation are to the statute, rule or regulation as amended, modified, supplemented or replaced from time to time (and, in the case of statutes, include any rules and regulations promulgated under the statute) and to any section of any statute, rule or regulation include any successor to the section. References to a “*business day*” shall mean any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

## Article II Representations and Warranties

### 2.1 Disclosure.

(a) On or prior to the Signing Date, the Company delivered to the Investor a schedule (“*Disclosure Schedule*”) setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in Section 2.2.

(b) “*Company Material Adverse Effect*” means a material adverse effect on (i) the business, results of operation or financial condition of the Company and its consolidated subsidiaries taken as a whole; *provided, however*, that Company Material Adverse Effect shall not be deemed to include the effects of (A) changes after the date of the Letter Agreement (the “*Signing Date*”) in general business, economic or market conditions (including changes generally in prevailing interest rates, credit availability and liquidity, currency exchange rates and price levels or trading volumes in the United States or foreign securities or credit markets), or any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism, in

each case generally affecting the industries in which the Company and its subsidiaries operate, (B) changes or proposed changes after the Signing Date in generally accepted accounting principles in the United States (“GAAP”) or regulatory accounting requirements, or authoritative interpretations thereof, or (C) changes or proposed changes after the Signing Date in securities, banking and other laws of general applicability or related policies or interpretations of Governmental Entities (in the case of each of these clauses (A), (B) and (C), other than changes or occurrences to the extent that such changes or occurrences have or would reasonably be expected to have a materially disproportionate adverse effect on the Company and its consolidated subsidiaries taken as a whole relative to comparable U.S. banking or financial services organizations); or (ii) the ability of the Company to consummate the Purchase and other transactions contemplated by this Agreement and the Warrant and perform its obligations hereunder or thereunder on a timely basis.

(c) “*Previously Disclosed*” means information set forth on the Disclosure Schedule, provided, however, that disclosure in any section of such Disclosure Schedule shall apply only to the indicated section of this Agreement except to the extent that it is reasonably apparent from the face of such disclosure that such disclosure is relevant to another section of this Agreement.

2.2 Representations and Warranties of the Company. Except as Previously Disclosed, the Company represents and warrants to the Investor that as of the Signing Date and as of the Closing Date (or such other date specified herein):

(a) Organization, Authority and Significant Subsidiaries. The Company has been duly incorporated and is validly existing and in good standing under the laws of its jurisdiction of organization, with the necessary power and authority to own its properties and conduct its business in all material respects as currently conducted, and except as has not, individually or in the aggregate, had and would not reasonably be expected to have a Company Material Adverse Effect, has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification; each subsidiary of the Company that would be considered a “significant subsidiary” within the meaning of Rule 1-02(w) of Regulation S-X under the Securities Act of 1933 (the “*Securities Act*”), has been duly organized and is validly existing in good standing under the laws of its jurisdiction of organization. The Charter and bylaws of the Company, copies of which have been provided to the Investor prior to the Signing Date, are true, complete and correct copies of such documents as in full force and effect as of the Signing Date.

(b) Capitalization. The authorized capital stock of the Company, and the outstanding capital stock of the Company (including securities convertible into, or exercisable or exchangeable for, capital stock of the Company) as of the most recent fiscal month-end preceding the Signing Date (the “*Capitalization Date*”) is set forth on Schedule B. The outstanding shares of capital stock of the Company have been duly authorized and are validly issued and outstanding, fully paid and nonassessable, and subject to no preemptive rights (and were not issued in violation of any preemptive rights). As of the Signing Date, the Company does not have outstanding any securities or other obligations providing the holder the right to

acquire its Common Stock (“*Common Stock*”) that is not reserved for issuance as specified on Schedule B, and the Company has not made any other commitment to authorize, issue or sell any Common Stock. Since the Capitalization Date, the Company has not issued any shares of Common Stock, other than (i) shares issued upon the exercise of stock options or delivered under other equity-based awards or other convertible securities or warrants which were issued and outstanding on the Capitalization Date and disclosed on Schedule B and (ii) shares disclosed on Schedule B. Each holder of 5% or more of any class of capital stock of the Company and such holder’s primary address are set forth on Schedule B.

(c) Preferred Shares. The Preferred Shares have been duly and validly authorized, and, when issued and delivered pursuant to this Agreement, such Preferred Shares will be duly and validly issued and fully paid and non-assessable, will not be issued in violation of any preemptive rights, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(d) The Warrant and Warrant Shares. The Warrant has been duly authorized and, when executed and delivered as contemplated hereby, will constitute a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors’ rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity (“*Bankruptcy Exceptions*”). The shares of Warrant Preferred Stock issuable upon exercise of the Warrant (the “*Warrant Shares*”) have been duly authorized and reserved for issuance upon exercise of the Warrant and when so issued in accordance with the terms of the Warrant will be validly issued, fully paid and non-assessable, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(e) Authorization, Enforceability.

(i) The Company has the corporate power and authority to execute and deliver this Agreement and the Warrant and to carry out its obligations hereunder and thereunder (which includes the issuance of the Preferred Shares, Warrant and Warrant Shares). The execution, delivery and performance by the Company of this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of the Company and its stockholders, and no further approval or authorization is required on the part of the Company. This Agreement is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to the Bankruptcy Exceptions.

(ii) The execution, delivery and performance by the Company of this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby and compliance by the Company with the provisions hereof and thereof, will not (A) violate, conflict with, or result in a breach of any provision of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or accelerate the performance required by, or result in a right of termination or acceleration of, or result in the creation of, any lien, security interest, charge or encumbrance upon any of the properties or assets of the Company or any subsidiary of the Company (each a "*Company Subsidiary*" and, collectively, the "*Company Subsidiaries*") under any of the terms, conditions or provisions of (i) its organizational documents or (ii) any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which the Company or any Company Subsidiary is a party or by which it or any Company Subsidiary may be bound, or to which the Company or any Company Subsidiary or any of the properties or assets of the Company or any Company Subsidiary may be subject, or (B) subject to compliance with the statutes and regulations referred to in the next paragraph, violate any statute, rule or regulation or any judgment, ruling, order, writ, injunction or decree applicable to the Company or any Company Subsidiary or any of their respective properties or assets except, in the case of clauses (A)(ii) and (B), for those occurrences that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect.

(iii) Other than the filing of the Certificates of Designations with the Secretary of State of its jurisdiction of organization or other applicable Governmental Entity, such filings and approvals as are required to be made or obtained under any state "blue sky" laws and such as have been made or obtained, no notice to, filing with, exemption or review by, or authorization, consent or approval of, any Governmental Entity is required to be made or obtained by the Company in connection with the consummation by the Company of the Purchase except for any such notices, filings, exemptions, reviews, authorizations, consents and approvals the failure of which to make or obtain would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(f) Anti-takeover Provisions and Rights Plan. The Board of Directors of the Company (the "*Board of Directors*") has taken all necessary action to ensure that the transactions contemplated by this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby, including the exercise of the Warrant in accordance with its terms, will be exempt from any anti-takeover or similar provisions of the Company's Charter and bylaws, and any other provisions of any applicable "moratorium", "control share", "fair price", "interested stockholder" or other anti-takeover laws and regulations of any jurisdiction.

(g) No Company Material Adverse Effect. Since the last day of the last completed fiscal period for which financial statements are included in the Company Financial Statements (as defined below), no fact, circumstance, event, change, occurrence, condition or development



has occurred that, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect.

(h) Company Financial Statements. The Company has Previously Disclosed each of the consolidated financial statements of the Company and its consolidated subsidiaries for each of the last three completed fiscal years of the Company (which shall be audited to the extent audited financial statements are available prior to the Signing Date) and each completed quarterly period since the last completed fiscal year (collectively the "*Company Financial Statements*"). The Company Financial Statements present fairly in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates indicated therein and the consolidated results of their operations for the periods specified therein; and except as stated therein, such financial statements (A) were prepared in conformity with GAAP applied on a consistent basis (except as may be noted therein) and (B) have been prepared from, and are in accordance with, the books and records of the Company and the Company Subsidiaries.

(i) Reports.

(i) Since December 31, 2006, the Company and each Company Subsidiary has filed all reports, registrations, documents, filings, statements and submissions, together with any amendments thereto, that it was required to file with any Governmental Entity (the foregoing, collectively, the "*Company Reports*") and has paid all fees and assessments due and payable in connection therewith, except, in each case, as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. As of their respective dates of filing, the Company Reports complied in all material respects with all statutes and applicable rules and regulations of the applicable Governmental Entities.

(ii) The records, systems, controls, data and information of the Company and the Company Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of the Company or the Company Subsidiaries or their accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would not reasonably be expected to have a material adverse effect on the system of internal accounting controls described below in this Section 2.2(i)(ii). The Company (A) has implemented and maintains adequate disclosure controls and procedures to ensure that material information relating to the Company, including the consolidated Company Subsidiaries, is made known to the chief executive officer and the chief financial officer of the Company by others within those entities, and (B) has disclosed, based on its most recent evaluation prior to the Signing Date, to the Company's outside auditors and the audit committee of the Board of Directors (x) any significant deficiencies and material weaknesses in the design or operation of internal controls that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and (y) any fraud, whether or not material, that involves management or

other employees who have a significant role in the Company's internal controls over financial reporting.

(j) No Undisclosed Liabilities. Neither the Company nor any of the Company Subsidiaries has any liabilities or obligations of any nature (absolute, accrued, contingent or otherwise) which are not properly reflected or reserved against in the Company Financial Statements to the extent required to be so reflected or reserved against in accordance with GAAP, except for (A) liabilities that have arisen since the last fiscal year end in the ordinary and usual course of business and consistent with past practice and (B) liabilities that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect.

(k) Offering of Securities. Neither the Company nor any person acting on its behalf has taken any action (including any offering of any securities of the Company under circumstances which would require the integration of such offering with the offering of any of the Purchased Securities under the Securities Act, and the rules and regulations of the Securities and Exchange Commission (the "SEC") promulgated thereunder), which might subject the offering, issuance or sale of any of the Purchased Securities to Investor pursuant to this Agreement to the registration requirements of the Securities Act.

(l) Litigation and Other Proceedings. Except (i) as set forth on Schedule C or (ii) as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, there is no (A) pending or, to the knowledge of the Company, threatened, claim, action, suit, investigation or proceeding, against the Company or any Company Subsidiary or to which any of their assets are subject nor is the Company or any Company Subsidiary subject to any order, judgment or decree or (B) unresolved violation, criticism or exception by any Governmental Entity with respect to any report or relating to any examinations or inspections of the Company or any Company Subsidiaries.

(m) Compliance with Laws. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries have all permits, licenses, franchises, authorizations, orders and approvals of, and have made all filings, applications and registrations with, Governmental Entities that are required in order to permit them to own or lease their properties and assets and to carry on their business as presently conducted and that are material to the business of the Company or such Company Subsidiary. Except as set forth on Schedule D, the Company and the Company Subsidiaries have complied in all respects and are not in default or violation of, and none of them is, to the knowledge of the Company, under investigation with respect to or, to the knowledge of the Company, have been threatened to be charged with or given notice of any violation of, any applicable domestic (federal, state or local) or foreign law, statute, ordinance, license, rule, regulation, policy or guideline, order, demand, writ, injunction, decree or judgment of any Governmental Entity, other than such noncompliance, defaults or violations that would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. Except for statutory or regulatory restrictions of general application or as set forth on Schedule D, no Governmental Entity has placed any restriction on the business or properties of

the Company or any Company Subsidiary that would, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(n) Employee Benefit Matters. Except as would not reasonably be expected to have, either individually or in the aggregate, a Company Material Adverse Effect: (A) each "employee benefit plan" (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("*ERISA*")) providing benefits to any current or former employee, officer or director of the Company or any member of its "*Controlled Group*" (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the "*Code*")) that is sponsored, maintained or contributed to by the Company or any member of its Controlled Group and for which the Company or any member of its Controlled Group would have any liability, whether actual or contingent (each, a "*Plan*") has been maintained in compliance with its terms and with the requirements of all applicable statutes, rules and regulations, including ERISA and the Code; (B) with respect to each Plan subject to Title IV of ERISA (including, for purposes of this clause (B), any plan subject to Title IV of ERISA that the Company or any member of its Controlled Group previously maintained or contributed to in the six years prior to the Signing Date), (1) no "reportable event" (within the meaning of Section 4043(c) of ERISA), other than a reportable event for which the notice period referred to in Section 4043(c) of ERISA has been waived, has occurred in the three years prior to the Signing Date or is reasonably expected to occur, (2) no "accumulated funding deficiency" (within the meaning of Section 302 of ERISA or Section 412 of the Code), whether or not waived, has occurred in the three years prior to the Signing Date or is reasonably expected to occur, (3) the fair market value of the assets under each Plan exceeds the present value of all benefits accrued under such Plan (determined based on the assumptions used to fund such Plan) and (4) neither the Company nor any member of its Controlled Group has incurred in the six years prior to the Signing Date, or reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the PBGC in the ordinary course and without default) in respect of a Plan (including any Plan that is a "multiemployer plan", within the meaning of Section 4001(c)(3) of ERISA); and (C) each Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service with respect to its qualified status that has not been revoked, or such a determination letter has been timely applied for but not received by the Signing Date, and nothing has occurred, whether by action or by failure to act, which could reasonably be expected to cause the loss, revocation or denial of such qualified status or favorable determination letter.

(o) Taxes. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) the Company and the Company Subsidiaries have filed all federal, state, local and foreign income and franchise Tax returns required to be filed through the Signing Date, subject to permitted extensions, and have paid all Taxes due thereon, and (ii) no Tax deficiency has been determined adversely to the Company or any of the Company Subsidiaries, nor does the Company have any knowledge of any Tax deficiencies. "*Tax*" or "*Taxes*" means any federal, state, local or foreign income, gross receipts, property, sales, use, license, excise, franchise, employment, payroll, withholding, alternative or add on minimum, ad valorem, transfer or excise tax, or any other tax, custom, duty,

governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or penalty, imposed by any Governmental Entity.

(p) Properties and Leases. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries have good and marketable title to all real properties and all other properties and assets owned by them, in each case free from liens, encumbrances, claims and defects that would affect the value thereof or interfere with the use made or to be made thereof by them. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries hold all leased real or personal property under valid and enforceable leases with no exceptions that would interfere with the use made or to be made thereof by them.

(q) Environmental Liability. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect:

(i) there is no legal, administrative, or other proceeding, claim or action of any nature seeking to impose, or that would reasonably be expected to result in the imposition of, on the Company or any Company Subsidiary, any liability relating to the release of hazardous substances as defined under any local, state or federal environmental statute, regulation or ordinance, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, pending or, to the Company's knowledge, threatened against the Company or any Company Subsidiary;

(ii) to the Company's knowledge, there is no reasonable basis for any such proceeding, claim or action; and

(iii) neither the Company nor any Company Subsidiary is subject to any agreement, order, judgment or decree by or with any court, Governmental Entity or third party imposing any such environmental liability.

(r) Risk Management Instruments. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, all derivative instruments, including, swaps, caps, floors and option agreements, whether entered into for the Company's own account, or for the account of one or more of the Company Subsidiaries or its or their customers, were entered into (i) only in the ordinary course of business, (ii) in accordance with prudent practices and in all material respects with all applicable laws, rules, regulations and regulatory policies and (iii) with counterparties believed to be financially responsible at the time; and each of such instruments constitutes the valid and legally binding obligation of the Company or one of the Company Subsidiaries, enforceable in accordance with its terms, except as may be limited by the Bankruptcy Exceptions. Neither the Company or the Company Subsidiaries, nor, to the knowledge of the Company, any other party thereto, is in breach of any of its obligations under any such agreement or arrangement other than such breaches that would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(s) Agreements with Regulatory Agencies. Except as set forth on Schedule E, neither the Company nor any Company Subsidiary is subject to any material cease-and-desist or other similar order or enforcement action issued by, or is a party to any material written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any capital directive by, or since December 31, 2006, has adopted any board resolutions at the request of, any Governmental Entity (other than the Appropriate Federal Banking Agencies with jurisdiction over the Company and the Company Subsidiaries) that currently restricts in any material respect the conduct of its business or that in any material manner relates to its capital adequacy, its liquidity and funding policies and practices, its ability to pay dividends, its credit, risk management or compliance policies or procedures, its internal controls, its management or its operations or business (each item in this sentence, a "*Regulatory Agreement*"), nor has the Company or any Company Subsidiary been advised since December 31, 2006 by any such Governmental Entity that it is considering issuing, initiating, ordering, or requesting any such Regulatory Agreement. The Company and each Company Subsidiary are in compliance in all material respects with each Regulatory Agreement to which it is party or subject, and neither the Company nor any Company Subsidiary has received any notice from any Governmental Entity indicating that either the Company or any Company Subsidiary is not in compliance in all material respects with any such Regulatory Agreement. "*Appropriate Federal Banking Agency*" means the "appropriate Federal banking agency" with respect to the Company or such Company Subsidiaries, as applicable, as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)).

(t) Insurance. The Company and the Company Subsidiaries are insured with reputable insurers against such risks and in such amounts as the management of the Company reasonably has determined to be prudent and consistent with industry practice. The Company and the Company Subsidiaries are in material compliance with their insurance policies and are not in default under any of the material terms thereof, each such policy is outstanding and in full force and effect, all premiums and other payments due under any material policy have been paid, and all claims thereunder have been filed in due and timely fashion, except, in each case, as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(u) Intellectual Property. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) the Company and each Company Subsidiary owns or otherwise has the right to use, all intellectual property rights, including all trademarks, trade dress, trade names, service marks, domain names, patents, inventions, trade secrets, know-how, works of authorship and copyrights therein, that are used in the conduct of their existing businesses and all rights relating to the plans, design and specifications of any of its branch facilities ("*Proprietary Rights*") free and clear of all liens and any claims of ownership by current or former employees, contractors, designers or others and (ii) neither the Company nor any of the Company Subsidiaries is materially infringing, diluting, misappropriating or violating, nor has the Company or any of the Company Subsidiaries received any written (or, to the knowledge of the Company, oral) communications alleging that any of them has materially infringed, diluted, misappropriated or violated, any of the Proprietary Rights owned by any other person. Except as would not, individually or in the aggregate, reasonably be

expected to have a Company Material Adverse Effect, to the Company's knowledge, no other person is infringing, diluting, misappropriating or violating, nor has the Company or any of the Company Subsidiaries sent any written communications since January 1, 2006 alleging that any person has infringed, diluted, misappropriated or violated, any of the Proprietary Rights owned by the Company and the Company Subsidiaries.

(v) Brokers and Finders. No broker, finder or investment banker is entitled to any financial advisory, brokerage, finder's or other fee or commission in connection with this Agreement or the Warrant or the transactions contemplated hereby or thereby based upon arrangements made by or on behalf of the Company or any Company Subsidiary for which the Investor could have any liability.

### Article III Covenants

3.1 Commercially Reasonable Efforts. Subject to the terms and conditions of this Agreement, each of the parties will use its commercially reasonable efforts in good faith to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or desirable, or advisable under applicable laws, so as to permit consummation of the Purchase as promptly as practicable and otherwise to enable consummation of the transactions contemplated hereby and shall use commercially reasonable efforts to cooperate with the other party to that end.

3.2 Expenses. Unless otherwise provided in this Agreement or the Warrant, each of the parties hereto will bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated under this Agreement and the Warrant, including fees and expenses of its own financial or other consultants, investment bankers, accountants and counsel.

3.3 Sufficiency of Authorized Warrant Preferred Stock; Exchange Listing.

(a) During the period from the Closing Date until the date on which the Warrant has been fully exercised, the Company shall at all times have reserved for issuance, free of preemptive or similar rights, a sufficient number of authorized and unissued Warrant Shares to effectuate such exercise.

(b) If the Company lists its Common Stock on any national securities exchange, the Company shall, if requested by the Investor, promptly use its reasonable best efforts to cause the Preferred Shares and Warrant Shares to be approved for listing on a national securities exchange as promptly as practicable following such request.

3.4 Certain Notifications Until Closing. From the Signing Date until the Closing, the Company shall promptly notify the Investor of (i) any fact, event or circumstance of which it is aware and which would reasonably be expected to cause any representation or warranty of the Company contained in this Agreement to be untrue or inaccurate in any material respect or to

cause any covenant or agreement of the Company contained in this Agreement not to be complied with or satisfied in any material respect and (ii) except as Previously Disclosed, any fact, circumstance, event, change, occurrence, condition or development of which the Company is aware and which, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect; *provided, however*, that delivery of any notice pursuant to this Section 3.4 shall not limit or affect any rights of or remedies available to the Investor; *provided, further*, that a failure to comply with this Section 3.4 shall not constitute a breach of this Agreement or the failure of any condition set forth in Section 1.2 to be satisfied unless the underlying Company Material Adverse Effect or material breach would independently result in the failure of a condition set forth in Section 1.2 to be satisfied.

### 3.5 Access, Information and Confidentiality.

(a) From the Signing Date until the date when the Investor holds an amount of Preferred Shares having an aggregate liquidation value of less than 10% of the Purchase Price, the Company will permit the Investor and its agents, consultants, contractors and advisors (x) acting through the Appropriate Federal Banking Agency, or otherwise to the extent necessary to evaluate, manage, or transfer its investment in the Company, to examine the corporate books and make copies thereof and to discuss the affairs, finances and accounts of the Company and the Company Subsidiaries with the principal officers of the Company, all upon reasonable notice and at such reasonable times and as often as the Investor may reasonably request and (y) to review any information material to the Investor's investment in the Company provided by the Company to its Appropriate Federal Banking Agency. Any investigation pursuant to this Section 3.5 shall be conducted during normal business hours and in such manner as not to interfere unreasonably with the conduct of the business of the Company, and nothing herein shall require the Company or any Company Subsidiary to disclose any information to the Investor to the extent (i) prohibited by applicable law or regulation, or (ii) that such disclosure would reasonably be expected to cause a violation of any agreement to which the Company or any Company Subsidiary is a party or would cause a risk of a loss of privilege to the Company or any Company Subsidiary (*provided* that the Company shall use commercially reasonable efforts to make appropriate substitute disclosure arrangements under circumstances where the restrictions in this clause (ii) apply).

(b) From the Signing Date until the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole, the Company will deliver, or will cause to be delivered, to the Investor:

(i) as soon as available after the end of each fiscal year of the Company, and in any event within 90 days thereafter, a consolidated balance sheet of the Company as of the end of such fiscal year, and consolidated statements of income, retained earnings and cash flows of the Company for such year, in each case prepared in accordance with GAAP and setting forth in each case in comparative form the figures for the previous fiscal year of the Company, and which shall be audited to the extent audited financial statements are available; and

(ii) as soon as available after the end of the first, second and third quarterly periods in each fiscal year of the Company, a copy of any quarterly reports provided to other stockholders of the Company or Company management.

(c) The Investor will use reasonable best efforts to hold, and will use reasonable best efforts to cause its agents, consultants, contractors and advisors to hold, in confidence all non-public records, books, contracts, instruments, computer data and other data and information (collectively, "*Information*") concerning the Company furnished or made available to it by the Company or its representatives pursuant to this Agreement (except to the extent that such information can be shown to have been (i) previously known by such party on a non-confidential basis, (ii) in the public domain through no fault of such party or (iii) later lawfully acquired from other sources by the party to which it was furnished (and without violation of any other confidentiality obligation)); *provided* that nothing herein shall prevent the Investor from disclosing any Information to the extent required by applicable laws or regulations or by any subpoena or similar legal process.

(d) The Investor's information rights pursuant to Section 3.5(b) may be assigned by the Investor to a transferee or assignee of the Purchased Securities or the Warrant Shares or with a liquidation preference or, in the case of the Warrant, the liquidation preference of the underlying shares of Warrant Preferred Stock, no less than an amount equal to 2% of the initial aggregate liquidation preference of the Preferred Shares.

#### Article IV Additional Agreements

4.1 Purchase for Investment. The Investor acknowledges that the Purchased Securities and the Warrant Shares have not been registered under the Securities Act or under any state securities laws. The Investor (a) is acquiring the Purchased Securities pursuant to an exemption from registration under the Securities Act solely for investment with no present intention to distribute them to any person in violation of the Securities Act or any applicable U.S. state securities laws, (b) will not sell or otherwise dispose of any of the Purchased Securities or the Warrant Shares, except in compliance with the registration requirements or exemption provisions of the Securities Act and any applicable U.S. state securities laws, and (c) has such knowledge and experience in financial and business matters and in investments of this type that it is capable of evaluating the merits and risks of the Purchase and of making an informed investment decision.

#### 4.2 Legends.

(a) The Investor agrees that all certificates or other instruments representing the Warrant will bear a legend substantially to the following effect:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD



OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS.

THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID."

(b) In addition, the Investor agrees that all certificates or other instruments representing the Preferred Shares and the Warrant Shares will bear a legend substantially to the following effect:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE NOT SAVINGS ACCOUNTS, DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY.

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS. EACH PURCHASER OF THE SECURITIES REPRESENTED BY THIS INSTRUMENT IS NOTIFIED THAT THE SELLER MAY BE RELYING ON THE EXEMPTION FROM SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. ANY TRANSFEREE OF THE SECURITIES REPRESENTED BY THIS INSTRUMENT BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (2) AGREES THAT IT WILL NOT OFFER, SELL OR OTHERWISE TRANSFER THE SECURITIES REPRESENTED BY THIS INSTRUMENT EXCEPT (A) PURSUANT TO A REGISTRATION STATEMENT WHICH IS THEN EFFECTIVE UNDER THE SECURITIES ACT, (B) FOR SO LONG AS THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER

TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) TO THE ISSUER OR (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID."

(c) In the event that any Purchased Securities or Warrant Shares (i) become registered under the Securities Act or (ii) are eligible to be transferred without restriction in accordance with Rule 144 or another exemption from registration under the Securities Act (other than Rule 144A), the Company shall issue new certificates or other instruments representing such Purchased Securities or Warrant Shares, which shall not contain the applicable legends in Sections 4.2(a) and (b) above; *provided* that the Investor surrenders to the Company the previously issued certificates or other instruments.

4.3 Certain Transactions. The Company will not merge or consolidate with, or sell, transfer or lease all or substantially all of its property or assets to, any other party unless the successor, transferee or lessee party (or its ultimate parent entity), as the case may be (if not the Company), expressly assumes the due and punctual performance and observance of each and every covenant, agreement and condition of this Agreement to be performed and observed by the Company.

4.4 Transfer of Purchased Securities and Warrant Shares; Restrictions on Exercise of the Warrant. Subject to compliance with applicable securities laws, the Investor shall be permitted to transfer, sell, assign or otherwise dispose of ("*Transfer*") all or a portion of the Purchased Securities or Warrant Shares at any time, and the Company shall take all steps as may be reasonably requested by the Investor to facilitate the Transfer of the Purchased Securities and the Warrant Shares; *provided* that the Investor shall not Transfer any Purchased Securities or Warrant Shares if such transfer would require the Company to be subject to the periodic reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "*Exchange Act*"). In furtherance of the foregoing, the Company shall provide reasonable cooperation to facilitate any Transfers of the Purchased Securities or Warrant Shares, including, as is reasonable under the circumstances, by furnishing such information concerning the Company and its business as a proposed transferee may reasonably request (including such information as is required by Section 4.5(k)) and making management of the Company

reasonably available to respond to questions of a proposed transferee in accordance with customary practice, subject in all cases to the proposed transferee agreeing to a customary confidentiality agreement.

4.5 Registration Rights.

(a) Unless and until the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall have no obligation to comply with the provisions of this Section 4.5 (other than Section 4.5(b)(iv)-(vi)); *provided* that the Company covenants and agrees that it shall comply with this Section 4.5 as soon as practicable after the date that it becomes subject to such reporting requirements.

(b) Registration.

(i) Subject to the terms and conditions of this Agreement, the Company covenants and agrees that as promptly as practicable after the date that the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act (and in any event no later than 30 days thereafter), the Company shall prepare and file with the SEC a Shelf Registration Statement covering all Registrable Securities (or otherwise designate an existing Shelf Registration Statement filed with the SEC to cover the Registrable Securities), and, to the extent the Shelf Registration Statement has not theretofore been declared effective or is not automatically effective upon such filing, the Company shall use reasonable best efforts to cause such Shelf Registration Statement to be declared or become effective and to keep such Shelf Registration Statement continuously effective and in compliance with the Securities Act and usable for resale of such Registrable Securities for a period from the date of its initial effectiveness until such time as there are no Registrable Securities remaining (including by refiling such Shelf Registration Statement (or a new Shelf Registration Statement) if the initial Shelf Registration Statement expires). Notwithstanding the foregoing, if the Company is not eligible to file a registration statement on Form S-3, then the Company shall not be obligated to file a Shelf Registration Statement unless and until requested to do so in writing by the Investor.

(ii) Any registration pursuant to Section 4.5(b)(i) shall be effected by means of a shelf registration on an appropriate form under Rule 415 under the Securities Act (a "*Shelf Registration Statement*"). If the Investor or any other Holder intends to distribute any Registrable Securities by means of an underwritten offering it shall promptly so advise the Company and the Company shall take all reasonable steps to facilitate such distribution, including the actions required pursuant to Section 4.5(d); *provided* that the Company shall not be required to facilitate an underwritten offering of Registrable Securities unless the expected gross proceeds from such offering exceed (i) 2% of the initial aggregate liquidation preference of the Preferred Shares if such initial aggregate liquidation preference is less than \$2 billion and (ii) \$200 million if the initial aggregate liquidation preference of the Preferred Shares is equal to or greater than \$2 billion. The lead underwriters in any such distribution shall be selected by the Holders of a majority

of the Registrable Securities to be distributed; *provided* that to the extent appropriate and permitted under applicable law, such Holders shall consider the qualifications of any broker-dealer Affiliate of the Company in selecting the lead underwriters in any such distribution.

(iii) The Company shall not be required to effect a registration (including a resale of Registrable Securities from an effective Shelf Registration Statement) or an underwritten offering pursuant to Section 4.5(b): (A) with respect to securities that are not Registrable Securities; or (B) if the Company has notified the Investor and all other Holders that in the good faith judgment of the Board of Directors, it would be materially detrimental to the Company or its securityholders for such registration or underwritten offering to be effected at such time, in which event the Company shall have the right to defer such registration for a period of not more than 45 days after receipt of the request of the Investor or any other Holder; *provided* that such right to delay a registration or underwritten offering shall be exercised by the Company (1) only if the Company has generally exercised (or is concurrently exercising) similar black-out rights against holders of similar securities that have registration rights and (2) not more than three times in any 12-month period and not more than 90 days in the aggregate in any 12-month period.

(iv) If during any period when an effective Shelf Registration Statement is not available, the Company proposes to register any of its equity securities, other than a registration pursuant to Section 4.5(b)(i) or a Special Registration, and the registration form to be filed may be used for the registration or qualification for distribution of Registrable Securities, the Company will give prompt written notice to the Investor and all other Holders of its intention to effect such a registration (but in no event less than ten days prior to the anticipated filing date) and will include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within ten business days after the date of the Company's notice (a "*Piggyback Registration*"). Any such person that has made such a written request may withdraw its Registrable Securities from such Piggyback Registration by giving written notice to the Company and the managing underwriter, if any, on or before the fifth business day prior to the planned effective date of such Piggyback Registration. The Company may terminate or withdraw any registration under this Section 4.5(b)(iv) prior to the effectiveness of such registration, whether or not Investor or any other Holders have elected to include Registrable Securities in such registration.

(v) If the registration referred to in Section 4.5(b)(iv) is proposed to be underwritten, the Company will so advise Investor and all other Holders as a part of the written notice given pursuant to Section 4.5(b)(iv). In such event, the right of Investor and all other Holders to registration pursuant to Section 4.5(b) will be conditioned upon such persons' participation in such underwriting and the inclusion of such person's Registrable Securities in the underwriting if such securities are of the same class of securities as the securities to be offered in the underwritten offering, and each such person will (together with the Company and the other persons distributing their securities through such underwriting) enter into an underwriting agreement in customary form with

the underwriter or underwriters selected for such underwriting by the Company; *provided* that the Investor (as opposed to other Holders) shall not be required to indemnify any person in connection with any registration. If any participating person disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to the Company, the managing underwriters and the Investor (if the Investor is participating in the underwriting).

(vi) If either (x) the Company grants “piggyback” registration rights to one or more third parties to include their securities in an underwritten offering under the Shelf Registration Statement pursuant to Section 4.5(b)(ii) or (y) a Piggyback Registration under Section 4.5(b)(iv) relates to an underwritten offering on behalf of the Company, and in either case the managing underwriters advise the Company that in their reasonable opinion the number of securities requested to be included in such offering exceeds the number which can be sold without adversely affecting the marketability of such offering (including an adverse effect on the per share offering price), the Company will include in such offering only such number of securities that in the reasonable opinion of such managing underwriters can be sold without adversely affecting the marketability of the offering (including an adverse effect on the per share offering price), which securities will be so included in the following order of priority: (A) first, in the case of a Piggyback Registration under Section 4.5(b)(iv), the securities the Company proposes to sell, (B) then the Registrable Securities of the Investor and all other Holders who have requested inclusion of Registrable Securities pursuant to Section 4.5(b)(ii) or Section 4.5(b)(iv), as applicable, *pro rata* on the basis of the aggregate number of such securities or shares owned by each such person and (C) lastly, any other securities of the Company that have been requested to be so included, subject to the terms of this Agreement; *provided, however*, that if the Company has, prior to the Signing Date, entered into an agreement with respect to its securities that is inconsistent with the order of priority contemplated hereby then it shall apply the order of priority in such conflicting agreement to the extent that it would otherwise result in a breach under such agreement.

(c) Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance hereunder shall be borne by the Company. All Selling Expenses incurred in connection with any registrations hereunder shall be borne by the holders of the securities so registered *pro rata* on the basis of the aggregate offering or sale price of the securities so registered.

(d) Obligations of the Company. Whenever required to effect the registration of any Registrable Securities or facilitate the distribution of Registrable Securities pursuant to an effective Shelf Registration Statement, the Company shall, as expeditiously as reasonably practicable:

(i) Prepare and file with the SEC a prospectus supplement or post-effective amendment with respect to a proposed offering of Registrable Securities pursuant to an effective registration statement, subject to Section 4.5(d), keep such registration

statement effective and keep such prospectus supplement current until the securities described therein are no longer Registrable Securities.

(ii) Prepare and file with the SEC such amendments and supplements to the applicable registration statement and the prospectus or prospectus supplement used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(iii) Furnish to the Holders and any underwriters such number of copies of the applicable registration statement and each such amendment and supplement thereto (including in each case all exhibits) and of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned or to be distributed by them.

(iv) Use its reasonable best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders or any managing underwriter(s), to keep such registration or qualification in effect for so long as such registration statement remains in effect, and to take any other action which may be reasonably necessary to enable such seller to consummate the disposition in such jurisdictions of the securities owned by such Holder; *provided* that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(v) Notify each Holder of Registrable Securities at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the applicable prospectus, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing.

(vi) Give written notice to the Holders:

(A) when any registration statement filed pursuant to Section 4.5(a) or any amendment thereto has been filed with the SEC (except for any amendment effected by the filing of a document with the SEC pursuant to the Exchange Act) and when such registration statement or any post-effective amendment thereto has become effective;

(B) of any request by the SEC for amendments or supplements to any registration statement or the prospectus included therein or for additional information;

(C) of the issuance by the SEC of any stop order suspending the effectiveness of any registration statement or the initiation of any proceedings for that purpose;

(D) of the receipt by the Company or its legal counsel of any notification with respect to the suspension of the qualification of the applicable Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose;

(E) of the happening of any event that requires the Company to make changes in any effective registration statement or the prospectus related to the registration statement in order to make the statements therein not misleading (which notice shall be accompanied by an instruction to suspend the use of the prospectus until the requisite changes have been made); and

(F) if at any time the representations and warranties of the Company contained in any underwriting agreement contemplated by Section 4.5(d)(x) cease to be true and correct.

(vii) Use its reasonable best efforts to prevent the issuance or obtain the withdrawal of any order suspending the effectiveness of any registration statement referred to in Section 4.5(d)(vi)(C) at the earliest practicable time.

(viii) Upon the occurrence of any event contemplated by Section 4.5(d)(v) or 4.5(d)(vi)(E), promptly prepare a post-effective amendment to such registration statement or a supplement to the related prospectus or file any other required document so that, as thereafter delivered to the Holders and any underwriters, the prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Holders in accordance with Section 4.5(d)(vi)(E) to suspend the use of the prospectus until the requisite changes to the prospectus have been made, then the Holders and any underwriters shall suspend use of such prospectus and use their reasonable best efforts to return to the Company all copies of such prospectus (at the Company's expense) other than permanent file copies then in such Holders' or underwriters' possession. The total number of days that any such suspension may be in effect in any 12-month period shall not exceed 90 days.

(ix) Use reasonable best efforts to procure the cooperation of the Company's transfer agent in settling any offering or sale of Registrable Securities, including with respect to the transfer of physical stock certificates into book-entry form in accordance with any procedures reasonably requested by the Holders or any managing underwriter(s).

(x) If an underwritten offering is requested pursuant to Section 4.5(b)(ii), enter into an underwriting agreement in customary form, scope and substance and take all

such other actions reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith or by the managing underwriter(s), if any, to expedite or facilitate the underwritten disposition of such Registrable Securities, and in connection therewith in any underwritten offering (including making members of management and executives of the Company available to participate in “road shows”, similar sales events and other marketing activities), (A) make such representations and warranties to the Holders that are selling stockholders and the managing underwriter(s), if any, with respect to the business of the Company and its subsidiaries, and the Shelf Registration Statement, prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, in customary form, substance and scope, and, if true, confirm the same if and when requested, (B) use its reasonable best efforts to furnish the underwriters with opinions of counsel to the Company, addressed to the managing underwriter(s), if any, covering the matters customarily covered in such opinions requested in underwritten offerings, (C) use its reasonable best efforts to obtain “cold comfort” letters from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of any business acquired by the Company for which financial statements and financial data are included in the Shelf Registration Statement) who have certified the financial statements included in such Shelf Registration Statement, addressed to each of the managing underwriter(s), if any, such letters to be in customary form and covering matters of the type customarily covered in “cold comfort” letters, (D) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures customary in underwritten offerings (provided that the Investor shall not be obligated to provide any indemnity), and (E) deliver such documents and certificates as may be reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith, their counsel and the managing underwriter(s), if any, to evidence the continued validity of the representations and warranties made pursuant to clause (i) above and to evidence compliance with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

(xi) Make available for inspection by a representative of Holders that are selling stockholders, the managing underwriter(s), if any, and any attorneys or accountants retained by such Holders or managing underwriter(s), at the offices where normally kept, during reasonable business hours, financial and other records, pertinent corporate documents and properties of the Company, and cause the officers, directors and employees of the Company to supply all information in each case reasonably requested (and of the type customarily provided in connection with due diligence conducted in connection with a registered public offering of securities) by any such representative, managing underwriter(s), attorney or accountant in connection with such Shelf Registration Statement.

(xii) Use reasonable best efforts to cause all such Registrable Securities to be listed on each national securities exchange on which similar securities issued by the Company are then listed or, if no similar securities issued by the Company are then listed on any national securities exchange, use its reasonable best efforts to cause all such



Registrable Securities to be listed on such securities exchange as the Investor may designate.

(xiii) If requested by Holders of a majority of the Registrable Securities being registered and/or sold in connection therewith, or the managing underwriter(s), if any, promptly include in a prospectus supplement or amendment such information as the Holders of a majority of the Registrable Securities being registered and/or sold in connection therewith or managing underwriter(s), if any, may reasonably request in order to permit the intended method of distribution of such securities and make all required filings of such prospectus supplement or such amendment as soon as practicable after the Company has received such request.

(xiv) Timely provide to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

(e) Suspension of Sales. Upon receipt of written notice from the Company that a registration statement, prospectus or prospectus supplement contains or may contain an untrue statement of a material fact or omits or may omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that circumstances exist that make inadvisable use of such registration statement, prospectus or prospectus supplement, the Investor and each Holder of Registrable Securities shall forthwith discontinue disposition of Registrable Securities until the Investor and/or Holder has received copies of a supplemented or amended prospectus or prospectus supplement, or until the Investor and/or such Holder is advised in writing by the Company that the use of the prospectus and, if applicable, prospectus supplement may be resumed, and, if so directed by the Company, the Investor and/or such Holder shall deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in the Investor and/or such Holder's possession, of the prospectus and, if applicable, prospectus supplement covering such Registrable Securities current at the time of receipt of such notice. The total number of days that any such suspension may be in effect in any 12-month period shall not exceed 90 days.

(f) Termination of Registration Rights. A Holder's registration rights as to any securities held by such Holder (and its Affiliates, partners, members and former members) shall not be available unless such securities are Registrable Securities.

(g) Furnishing Information.

(i) Neither the Investor nor any Holder shall use any free writing prospectus (as defined in Rule 405) in connection with the sale of Registrable Securities without the prior written consent of the Company.

(ii) It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 4.5(d) that Investor and/or the selling Holders and the underwriters, if any, shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of

disposition of such securities as shall be required to effect the registered offering of their Registrable Securities.

(h) Indemnification.

(i) The Company agrees to indemnify each Holder and, if a Holder is a person other than an individual, such Holder's officers, directors, employees, agents, representatives and Affiliates, and each Person, if any, that controls a Holder within the meaning of the Securities Act (each, an "*Indemnitee*"), against any and all losses, claims, damages, actions, liabilities, costs and expenses (including reasonable fees, expenses and disbursements of attorneys and other professionals incurred in connection with investigating, defending, settling, compromising or paying any such losses, claims, damages, actions, liabilities, costs and expenses), joint or several, arising out of or based upon any untrue statement or alleged untrue statement of material fact contained in any registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto or any documents incorporated therein by reference or contained in any free writing prospectus (as such term is defined in Rule 405) prepared by the Company or authorized by it in writing for use by such Holder (or any amendment or supplement thereto); or any omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided*, that the Company shall not be liable to such Indemnitee in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon (A) an untrue statement or omission made in such registration statement, including any such preliminary prospectus or final prospectus contained therein or any such amendments or supplements thereto or contained in any free writing prospectus (as such term is defined in Rule 405) prepared by the Company or authorized by it in writing for use by such Holder (or any amendment or supplement thereto), in reliance upon and in conformity with information regarding such Indemnitee or its plan of distribution or ownership interests which was furnished in writing to the Company by such Indemnitee for use in connection with such registration statement, including any such preliminary prospectus or final prospectus contained therein or any such amendments or supplements thereto, or (B) offers or sales effected by or on behalf of such Indemnitee "by means of" (as defined in Rule 159A) a "free writing prospectus" (as defined in Rule 405) that was not authorized in writing by the Company.

(ii) If the indemnification provided for in Section 4.5(h)(i) is unavailable to an Indemnitee with respect to any losses, claims, damages, actions, liabilities, costs or expenses referred to therein or is insufficient to hold the Indemnitee harmless as contemplated therein, then the Company, in lieu of indemnifying such Indemnitee, shall contribute to the amount paid or payable by such Indemnitee as a result of such losses, claims, damages, actions, liabilities, costs or expenses in such proportion as is appropriate to reflect the relative fault of the Indemnitee, on the one hand, and the Company, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, actions, liabilities, costs or expenses as well as any other relevant

equitable considerations. The relative fault of the Company, on the one hand, and of the Indemnitee, on the other hand, shall be determined by reference to, among other factors, whether the untrue statement of a material fact or omission to state a material fact relates to information supplied by the Company or by the Indemnitee and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; the Company and each Holder agree that it would not be just and equitable if contribution pursuant to this Section 4.5(h)(ii) were determined by *pro rata* allocation or by any other method of allocation that does not take account of the equitable considerations referred to in Section 4.5(h)(i). No Indemnitee guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from the Company if the Company was not guilty of such fraudulent misrepresentation.

(i) Assignment of Registration Rights. The rights of the Investor to registration of Registrable Securities pursuant to Section 4.5(b) may be assigned by the Investor to a transferee or assignee of Registrable Securities with a liquidation preference or, in the case of the Warrant, the liquidation preference of the underlying shares of Warrant Preferred Stock, no less than an amount equal to (i) 2% of the initial aggregate liquidation preference of the Preferred Shares if such initial aggregate liquidation preference is less than \$2 billion and (ii) \$200 million if the initial aggregate liquidation preference of the Preferred Shares is equal to or greater than \$2 billion; *provided, however*, the transferor shall, within ten days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the number and type of Registrable Securities that are being assigned.

(j) Clear Market. With respect to any underwritten offering of Registrable Securities by the Investor or other Holders pursuant to this Section 4.5, the Company agrees not to effect (other than pursuant to such registration or pursuant to a Special Registration) any public sale or distribution, or to file any Shelf Registration Statement (other than such registration or a Special Registration) covering any preferred stock of the Company or any securities convertible into or exchangeable or exercisable for preferred stock of the Company, during the period not to exceed ten days prior and 60 days following the effective date of such offering or such longer period up to 90 days as may be requested by the managing underwriter for such underwritten offering. The Company also agrees to cause such of its directors and senior executive officers to execute and deliver customary lock-up agreements in such form and for such time period up to 90 days as may be requested by the managing underwriter. "*Special Registration*" means the registration of (A) equity securities and/or options or other rights in respect thereof solely registered on Form S-4 or Form S-8 (or successor form) or (B) shares of equity securities and/or options or other rights in respect thereof to be offered to directors, members of management, employees, consultants, customers, lenders or vendors of the Company or Company Subsidiaries or in connection with dividend reinvestment plans.

(k) Rule 144; Rule 144A. With a view to making available to the Investor and Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its reasonable best efforts to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144(c)(1) or any similar or analogous rule promulgated under the Securities Act, at all times after the Signing Date;

(ii) (A) file with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act, and (B) if at any time the Company is not required to file such reports, make available, upon the request of any Holder, such information necessary to permit sales pursuant to Rule 144A (including the information required by Rule 144A(d)(4) under the Securities Act);

(iii) so long as the Investor or a Holder owns any Registrable Securities, furnish to the Investor or such Holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of Rule 144 under the Securities Act, and of the Exchange Act; a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as the Investor or Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities to the public without registration; and

(iv) take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act.

(l) As used in this Section 4.5, the following terms shall have the following respective meanings:

(i) “*Holder*” means the Investor and any other holder of Registrable Securities to whom the registration rights conferred by this Agreement have been transferred in compliance with Section 4.5(h) hereof.

(ii) “*Holders’ Counsel*” means one counsel for the selling Holders chosen by Holders holding a majority interest in the Registrable Securities being registered.

(iii) “*Register*,” “*registered*,” and “*registration*” shall refer to a registration effected by preparing and (A) filing a registration statement or amendment thereto in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of effectiveness of such registration statement or amendment thereto or (B) filing a prospectus and/or prospectus supplement in respect of an appropriate effective registration statement on Form S-3.

(iv) “*Registrable Securities*” means (A) all Preferred Shares, (B) the Warrant (subject to Section 4.5(q)) and (C) any equity securities issued or issuable directly or indirectly with respect to the securities referred to in the foregoing clauses (A) or (B) by way of conversion, exercise or exchange thereof, including the Warrant Shares, or share dividend or share split or in connection with a combination of shares, recapitalization, reclassification, merger, amalgamation, arrangement, consolidation or other

reorganization, *provided* that, once issued, such securities will not be Registrable Securities when (1) they are sold pursuant to an effective registration statement under the Securities Act, (2) except as provided below in Section 4.5(p), they may be sold pursuant to Rule 144 without limitation thereunder on volume or manner of sale, (3) they shall have ceased to be outstanding or (4) they have been sold in a private transaction in which the transferor's rights under this Agreement are not assigned to the transferee of the securities. No Registrable Securities may be registered under more than one registration statement at any one time.

(v) “*Registration Expenses*” mean all expenses incurred by the Company in effecting any registration pursuant to this Agreement (whether or not any registration or prospectus becomes effective or final) or otherwise complying with its obligations under this Section 4.5, including all registration, filing and listing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses, expenses incurred in connection with any “road show”, the reasonable fees and disbursements of Holders’ Counsel, and expenses of the Company’s independent accountants in connection with any regular or special reviews or audits incident to or required by any such registration, but shall not include Selling Expenses.

(vi) “*Rule 144*”, “*Rule 144A*”, “*Rule 159A*”, “*Rule 405*” and “*Rule 415*” mean, in each case, such rule promulgated under the Securities Act (or any successor provision), as the same shall be amended from time to time.

(vii) “*Selling Expenses*” mean all discounts, selling commissions and stock transfer taxes applicable to the sale of Registrable Securities and fees and disbursements of counsel for any Holder (other than the fees and disbursements of Holders’ Counsel included in Registration Expenses).

(m) At any time, any holder of Securities (including any Holder) may elect to forfeit its rights set forth in this Section 4.5 from that date forward; *provided*, that a Holder forfeiting such rights shall nonetheless be entitled to participate under Section 4.5(b)(iv) – (vi) in any Pending Underwritten Offering to the same extent that such Holder would have been entitled to if the holder had not withdrawn; and *provided, further*, that no such forfeiture shall terminate a Holder’s rights or obligations under Section 4.5(g) with respect to any prior registration or Pending Underwritten Offering. “*Pending Underwritten Offering*” means, with respect to any Holder forfeiting its rights pursuant to this Section 4.5(m), any underwritten offering of Registrable Securities in which such Holder has advised the Company of its intent to register its Registrable Securities either pursuant to Section 4.5(b)(ii) or 4.5(b)(iv) prior to the date of such Holder’s forfeiture.

(n) Specific Performance. The parties hereto acknowledge that there would be no adequate remedy at law if the Company fails to perform any of its obligations under this Section 4.5 and that the Investor and the Holders from time to time may be irreparably harmed by any such failure, and accordingly agree that the Investor and such Holders, in addition to any other remedy to which they may be entitled at law or in equity, to the fullest extent permitted and

enforceable under applicable law shall be entitled to compel specific performance of the obligations of the Company under this Section 4.5 in accordance with the terms and conditions of this Section 4.5.

(o) No Inconsistent Agreements. The Company shall not, on or after the Signing Date, enter into any agreement with respect to its securities that may impair the rights granted to the Investor and the Holders under this Section 4.5 or that otherwise conflicts with the provisions hereof in any manner that may impair the rights granted to the Investor and the Holders under this Section 4.5. In the event the Company has, prior to the Signing Date, entered into any agreement with respect to its securities that is inconsistent with the rights granted to the Investor and the Holders under this Section 4.5 (including agreements that are inconsistent with the order of priority contemplated by Section 4.5(b)(vi)) or that may otherwise conflict with the provisions hereof, the Company shall use its reasonable best efforts to amend such agreements to ensure they are consistent with the provisions of this Section 4.5.

(p) Certain Offerings by the Investor. In the case of any securities held by the Investor that cease to be Registrable Securities solely by reason of clause (2) in the definition of "Registrable Securities," the provisions of Sections 4.5(b)(ii), clauses (iv), (ix) and (x)-(xii) of Section 4.5(d), Section 4.5(h) and Section 4.5(j) shall continue to apply until such securities otherwise cease to be Registrable Securities. In any such case, an "underwritten" offering or other disposition shall include any distribution of such securities on behalf of the Investor by one or more broker-dealers, an "underwriting agreement" shall include any purchase agreement entered into by such broker-dealers, and any "registration statement" or "prospectus" shall include any offering document approved by the Company and used in connection with such distribution.

(q) Registered Sales of the Warrant. The Holders agree to sell the Warrant or any portion thereof under the Shelf Registration Statement only beginning 30 days after notifying the Company of any such sale, during which 30-day period the Investor and all Holders of the Warrant shall take reasonable steps to agree to revisions to the Warrant to permit a public distribution of the Warrant, including entering into a warrant agreement and appointing a warrant agent.

4.6 Depository Shares. Upon request by the Investor at any time following the Closing Date, the Company shall promptly enter into a depository arrangement, pursuant to customary agreements reasonably satisfactory to the Investor and with a depository reasonably acceptable to the Investor, pursuant to which the Preferred Shares or the Warrant Shares may be deposited and depository shares, each representing a fraction of a Preferred Share or Warrant Share, as applicable, as specified by the Investor, may be issued. From and after the execution of any such depository arrangement, and the deposit of any Preferred Shares or Warrant Shares, as applicable, pursuant thereto, the depository shares issued pursuant thereto shall be deemed "Preferred Shares", "Warrant Shares" and, as applicable, "Registrable Securities" for purposes of this Agreement.

4.7 Restriction on Dividends and Repurchases.

(a) Prior to the earlier of (x) the third anniversary of the Closing Date and (y) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, declare or pay any dividend or make any distribution on capital stock or other equity securities of any kind of the Company or any Company Subsidiary (other than (i) regular quarterly cash dividends of not more than the amount of the last quarterly cash dividend per share declared or, if lower, announced to its holders of Common Stock an intention to declare, on the Common Stock prior to November 17, 2008, as adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction, (ii) dividends payable solely in shares of Common Stock, (iii) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, (iv) dividends or distributions by any wholly-owned Company Subsidiary or (v) dividends or distributions by any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008).

(b) During the period beginning on the third anniversary of the Closing Date and ending on the earlier of (i) the tenth anniversary of the Closing Date and (ii) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, (A) pay any per share dividend or distribution on capital stock or other equity securities of any kind of the Company at a per annum rate that is in excess of 103% of the aggregate per share dividends and distributions for the immediately prior fiscal year (other than regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares); *provided* that no increase in the aggregate amount of dividends or distributions on Common Stock shall be permitted as a result of any dividends or distributions paid in shares of Common Stock, any stock split or any similar transaction or (B) pay aggregate dividends or distributions on capital stock or other equity securities of any kind of any Company Subsidiary that is in excess of 103% of the aggregate dividends and distributions paid for the immediately prior fiscal year (other than in the case of this clause (B), (1) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, (2) dividends or distributions by any wholly-owned Company Subsidiary, (3) dividends or distributions by any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008) or (4) dividends or distributions on newly issued shares of capital stock for cash or other property.

(c) Prior to the earlier of (x) the tenth anniversary of the Closing Date and (y) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, redeem, purchase or acquire any shares of Common Stock or other capital stock or other equity securities of any kind of the Company or any Company Subsidiary, or any trust preferred securities issued by the Company or any Affiliate of the Company, other

than (i) redemptions, purchases or other acquisitions of the Preferred Shares and Warrant Shares, (ii) in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice, (iii) the acquisition by the Company or any of the Company Subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Company or any other Company Subsidiary), including as trustees or custodians, (iv) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock or trust preferred securities for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case set forth in this clause (iv), solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock (clauses (ii) and (iii), collectively, the "*Permitted Repurchases*"), (v) redemptions of securities held by the Company or any wholly-owned Company Subsidiary or (vi) redemptions, purchases or other acquisitions of capital stock or other equity securities of any kind of any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008.

(d) Until such time as the Investor ceases to own any Preferred Shares or Warrant Shares, the Company shall not repurchase any Preferred Shares or Warrant Shares from any holder thereof, whether by means of open market purchase, negotiated transaction, or otherwise, other than Permitted Repurchases, unless it offers to repurchase a ratable portion of the Preferred Shares or Warrant Shares, as the case may be, then held by the Investor on the same terms and conditions.

(e) During the period beginning on the tenth anniversary of the Closing and ending on the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, (i) declare or pay any dividend or make any distribution on capital stock or other equity securities of any kind of the Company or any Company Subsidiary; or (ii) redeem, purchase or acquire any shares of Common Stock or other capital stock or other equity securities of any kind of the Company or any Company Subsidiary, or any trust preferred securities issued by the Company or any Affiliate of the Company, other than (A) redemptions, purchases or other acquisitions of the Preferred Shares and Warrant Shares, (B) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, or (C) dividends or distributions by any wholly-owned Company Subsidiary.

(f) "*Junior Stock*" means Common Stock and any other class or series of stock of the Company the terms of which expressly provide that it ranks junior to the Preferred Shares as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Company. "*Parity Stock*" means any class or series of stock of the Company the terms of which do not expressly provide that such class or series will rank senior or junior to the Preferred Shares as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Company (in each case without regard to whether dividends accrue cumulatively or non-cumulatively).



4.8 Executive Compensation. Until such time as the Investor ceases to own any debt or equity securities of the Company acquired pursuant to this Agreement or the Warrant, the Company shall take all necessary action to ensure that its Benefit Plans with respect to its Senior Executive Officers comply in all respects with Section 111(b) of the EESA as implemented by any guidance or regulation thereunder that has been issued and is in effect as of the Closing Date, and shall not adopt any new Benefit Plan with respect to its Senior Executive Officers that does not comply therewith. “*Senior Executive Officers*” means the Company’s “senior executive officers” as defined in subsection 111(b)(3) of the EESA and regulations issued thereunder, including the rules set forth in 31 C.F.R. Part 30.

4.9 Related Party Transactions. Until such time as the Investor ceases to own any Purchased Securities or Warrant Shares, the Company and the Company Subsidiaries shall not enter into transactions with Affiliates or related persons (within the meaning of Item 404 under the SEC’s Regulation S-K) unless (i) such transactions are on terms no less favorable to the Company and the Company Subsidiaries than could be obtained from an unaffiliated third party, and (ii) have been approved by the audit committee of the Board of Directors or comparable body of independent directors of the Company.

4.10 Bank and Thrift Holding Company Status. If the Company is a Bank Holding Company or a Savings and Loan Holding Company on the Signing Date, then the Company shall maintain its status as a Bank Holding Company or Savings and Loan Holding Company, as the case may be, for as long as the Investor owns any Purchased Securities or Warrant Shares. The Company shall redeem all Purchased Securities and Warrant Shares held by the Investor prior to terminating its status as a Bank Holding Company or Savings and Loan Holding Company, as applicable. “*Bank Holding Company*” means a company registered as such with the Board of Governors of the Federal Reserve System (the “*Federal Reserve*”) pursuant to 12 U.S.C. §1842 and the regulations of the Federal Reserve promulgated thereunder. “*Savings and Loan Holding Company*” means a company registered as such with the Office of Thrift Supervision pursuant to 12 U.S.C. §1467(a) and the regulations of the Office of Thrift Supervision promulgated thereunder.

4.11 Predominantly Financial. For as long as the Investor owns any Purchased Securities or Warrant Shares, the Company, to the extent it is not itself an insured depository institution, agrees to remain predominantly engaged in financial activities. A company is predominantly engaged in financial activities if the annual gross revenues derived by the company and all subsidiaries of the company (excluding revenues derived from subsidiary depository institutions), on a consolidated basis, from engaging in activities that are financial in nature or are incidental to a financial activity under subsection (k) of Section 4 of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(k)) represent at least 85 percent of the consolidated annual gross revenues of the company.

## Article V Miscellaneous

5.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by either the Investor or the Company if the Closing shall not have occurred by the 30<sup>th</sup> calendar day following the Signing Date; *provided, however*, that in the event the Closing has not occurred by such 30<sup>th</sup> calendar day, the parties will consult in good faith to determine whether to extend the term of this Agreement, it being understood that the parties shall be required to consult only until the fifth day after such 30<sup>th</sup> calendar day and not be under any obligation to extend the term of this Agreement thereafter; *provided, further*, that the right to terminate this Agreement under this Section 5.1(a) shall not be available to any party whose breach of any representation or warranty or failure to perform any obligation under this Agreement shall have caused or resulted in the failure of the Closing to occur on or prior to such date; or

(b) by either the Investor or the Company in the event that any Governmental Entity shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and nonappealable; or

(c) by the mutual written consent of the Investor and the Company.

In the event of termination of this Agreement as provided in this Section 5.1, this Agreement shall forthwith become void and there shall be no liability on the part of either party hereto except that nothing herein shall relieve either party from liability for any breach of this Agreement.

5.2 Survival of Representations and Warranties. All covenants and agreements, other than those which by their terms apply in whole or in part after the Closing, shall terminate as of the Closing. The representations and warranties of the Company made herein or in any certificates delivered in connection with the Closing shall survive the Closing without limitation.

5.3 Amendment. No amendment of any provision of this Agreement will be effective unless made in writing and signed by an officer or a duly authorized representative of each party; *provided* that the Investor may unilaterally amend any provision of this Agreement to the extent required to comply with any changes after the Signing Date in applicable federal statutes. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative of any rights or remedies provided by law.

5.4 Waiver of Conditions. The conditions to each party's obligation to consummate the Purchase are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable law. No waiver will be effective unless it is in a writing signed by a duly authorized officer of the waiving party that makes express reference to the provision or provisions subject to such waiver.

5.5 Governing Law: Submission to Jurisdiction, Etc. This Agreement will be governed by and construed in accordance with the federal law of the United States if and to

the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the parties hereto agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia and the United States Court of Federal Claims for any and all civil actions, suits or proceedings arising out of or relating to this Agreement or the Warrant or the transactions contemplated hereby or thereby, and (b) that notice may be served upon (i) the Company at the address and in the manner set forth for notices to the Company in Section 5.6 and (ii) the Investor in accordance with federal law. To the extent permitted by applicable law, each of the parties hereto hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to this Agreement or the Warrant or the transactions contemplated hereby or thereby.

5.6 Notices. Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second business day following the date of dispatch if delivered by a recognized next day courier service. All notices to the Company shall be delivered as set forth in Schedule A, or pursuant to such other instruction as may be designated in writing by the Company to the Investor. All notices to the Investor shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the Investor to the Company.

If to the Investor:

United States Department of the Treasury  
1500 Pennsylvania Avenue, NW, Room 2312  
Washington, D.C. 20220  
Attention: Assistant General Counsel (Banking and Finance)  
Facsimile: (202) 622-1974

5.7 Definitions

(a) When a reference is made in this Agreement to a subsidiary of a person, the term “*subsidiary*” means any corporation, partnership, joint venture, limited liability company or other entity (x) of which such person or a subsidiary of such person is a general partner or (y) of which a majority of the voting securities or other voting interests, or a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or persons performing similar functions with respect to such entity, is directly or indirectly owned by such person and/or one or more subsidiaries thereof.

(b) The term “*Affiliate*” means, with respect to any person, any person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, “*control*” (including, with correlative meanings, the terms “*controlled by*” and “*under common control with*”) when used with respect to any person, means the possession, directly or indirectly, of the power to cause the direction of management and/or

policies of such person, whether through the ownership of voting securities by contract or otherwise.

(c) The terms “*knowledge of the Company*” or “*Company’s knowledge*” mean the actual knowledge after reasonable and due inquiry of the “*officers*” (as such term is defined in Rule 3b-2 under the Exchange Act, but excluding any Vice President or Secretary) of the Company.

5.8 Assignment. Neither this Agreement nor any right, remedy, obligation nor liability arising hereunder or by reason hereof shall be assignable by any party hereto without the prior written consent of the other party, and any attempt to assign any right, remedy, obligation or liability hereunder without such consent shall be void, except (a) an assignment, in the case of a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Company’s stockholders (a “*Business Combination*”) where such party is not the surviving entity, or a sale of substantially all of its assets, to the entity which is the survivor of such Business Combination or the purchaser in such sale and (b) as provided in Sections 3.5 and 4.5.

5.9 Severability. If any provision of this Agreement or the Warrant, or the application thereof to any person or circumstance, is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, will remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

5.10 No Third Party Beneficiaries. Nothing contained in this Agreement, expressed or implied, is intended to confer upon any person or entity other than the Company and the Investor any benefit, right or remedies, except that the provisions of Section 4.5 shall inure to the benefit of the persons referred to in that Section.

\* \* \*

ANNEX A

**FORM OF CERTIFICATE OF DESIGNATIONS FOR PREFERRED STOCK**

[SEE ATTACHED]

**FORM OF [CERTIFICATE OF DESIGNATIONS]**

**OF**

**FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]**

**OF**

**[●]**

*[Insert name of Issuer]*, a [corporation/bank/banking association] organized and existing under the laws of the *[Insert jurisdiction of organization]* (the “Issuer”), in accordance with the provisions of Section[s] [●] of the *[Insert applicable statute]* thereof, does hereby certify:

The board of directors of the Issuer (the “Board of Directors”) or an applicable committee of the Board of Directors, in accordance with the [[certificate of incorporation/articles of association] and bylaws] of the Issuer and applicable law, adopted the following resolution on [●] creating a series of [●] shares of Preferred Stock of the Issuer designated as “Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]”.

**RESOLVED**, that pursuant to the provisions of the [[certificate of incorporation/articles of association] and the bylaws] of the Issuer and applicable law, a series of Preferred Stock, par value \$[●] per share, of the Issuer be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Part 1. Designation and Number of Shares. There is hereby created out of the authorized and unissued shares of preferred stock of the Issuer a series of preferred stock designated as the “Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]” (the “Designated Preferred Stock”). The authorized number of shares of Designated Preferred Stock shall be [●].

Part 2. Standard Provisions. The Standard Provisions contained in Schedule A attached hereto are incorporated herein by reference in their entirety and shall be deemed to be a part of this [Certificate of Designations] to the same extent as if such provisions had been set forth in full herein.

Part 3. Definitions. The following terms are used in this [Certificate of Designations] (including the Standard Provisions in Schedule A hereto) as defined below:

(a) “Common Stock” means the common stock, par value \$[●] per share, of the Issuer.

(b) “Dividend Payment Date” means February 15, May 15, August 15 and November 15 of each year.

(c) “Junior Stock” means the Common Stock, *[Insert titles of any existing Junior Stock]* and any other class or series of stock of the Issuer the terms of which expressly provide that it ranks junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer.

(d) “Liquidation Amount” means \$[1,000]<sup>1</sup> per share of Designated Preferred Stock.

(e) “Minimum Amount” means \$*[Insert \$ amount equal to 25% of the aggregate value of the Designated Preferred Stock issued on the Original Issue Date]*.

(f) “Parity Stock” means any class or series of stock of the Issuer (other than Designated Preferred Stock) the terms of which do not expressly provide that such class or series will rank senior or junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer (in each case without regard to whether dividends accrue cumulatively or non-cumulatively). Without limiting the foregoing, Parity Stock shall include the Issuer’s *[Insert title(s) of existing classes or series of Parity Stock]*.

(g) “Signing Date” means *[Insert date of applicable securities purchase agreement]*.

Part. 4. Certain Voting Matters. *[To be inserted if the Charter provides for voting in proportion to liquidation preferences:* Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Designated Preferred Stock and any Voting Parity Stock has been cast or given on any matter on which the holders of shares of Designated Preferred Stock are entitled to vote shall be determined by the Issuer by reference to the specified liquidation amount of the shares voted or covered by the consent as if the Issuer were liquidated on the record date for such vote or consent, if any, or, in the absence of a record date, on the date for such vote or consent. For purposes of determining the voting rights of the holders of Designated Preferred Stock under Section 7 of the Standard Provisions forming part of this *[Certificate of Designations]*, each holder will be entitled to one vote for each \$1,000 of liquidation preference to which such holder’s shares are entitled.] *[To be inserted if the Charter does not provide for voting in proportion to liquidation preferences:* Holders of shares of Designated Preferred Stock will be entitled to one vote for each such share on any matter on which holders of Designated Preferred Stock are entitled to vote, including any action by written consent.]

*[Remainder of Page Intentionally Left Blank]*

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<sup>1</sup> If Issuer desires to issue shares with a higher dollar amount liquidation preference, liquidation preference references will be modified accordingly. In such case (in accordance with Section 4.6 of the Securities Purchase Agreement), the issuer will be required to enter into a deposit agreement.

IN WITNESS WHEREOF, [*Insert name of Issuer*] has caused this [Certificate of Designations] to be signed by [●], its [●], this [●] day of [●].

*[Insert name of Issuer]*

By: \_\_\_\_\_

Name:

Title:



**STANDARD PROVISIONS**

Section 1. General Matters. Each share of Designated Preferred Stock shall be identical in all respects to every other share of Designated Preferred Stock. The Designated Preferred Stock shall be perpetual, subject to the provisions of Section 5 of these Standard Provisions that form a part of the Certificate of Designations. The Designated Preferred Stock shall rank equally with Parity Stock and shall rank senior to Junior Stock with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Issuer.

Section 2. Standard Definitions. As used herein with respect to Designated Preferred Stock:

(a) “Applicable Dividend Rate” means (i) during the period from the Original Issue Date to, but excluding, the first day of the first Dividend Period commencing on or after the fifth anniversary of the Original Issue Date, 5% per annum and (ii) from and after the first day of the first Dividend Period commencing on or after the fifth anniversary of the Original Issue Date, 9% per annum.

(b) “Appropriate Federal Banking Agency” means the “appropriate Federal banking agency” with respect to the Issuer as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)), or any successor provision.

(c) “Business Combination” means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Issuer’s stockholders.

(d) “Business Day” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

(e) “Bylaws” means the bylaws of the Issuer, as they may be amended from time to time.

(f) “Certificate of Designations” means the Certificate of Designations or comparable instrument relating to the Designated Preferred Stock, of which these Standard Provisions form a part, as it may be amended from time to time.

(g) “Charter” means the Issuer’s certificate or articles of incorporation, articles of association, or similar organizational document.

(h) “Dividend Period” has the meaning set forth in Section 3(a).

(i) “Dividend Record Date” has the meaning set forth in Section 3(a).

(j) “Liquidation Preference” has the meaning set forth in Section 4(a).

(k) “Original Issue Date” means the date on which shares of Designated Preferred Stock are first issued.

(l) “Preferred Director” has the meaning set forth in Section 7(b).

(m) “Preferred Stock” means any and all series of preferred stock of the Issuer, including the Designated Preferred Stock.

(n) “Qualified Equity Offering” means the sale and issuance for cash by the Issuer to persons other than the Issuer or any of its subsidiaries after the Original Issue Date of shares of perpetual Preferred Stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Issuer at the time of issuance under the applicable risk-based capital guidelines of the Issuer’s Appropriate Federal Banking Agency (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to November 17, 2008).

(o) “Standard Provisions” mean these Standard Provisions that form a part of the Certificate of Designations relating to the Designated Preferred Stock.

(p) “Successor Preferred Stock” has the meaning set forth in Section 5(a).

(q) “Voting Parity Stock” means, with regard to any matter as to which the holders of Designated Preferred Stock are entitled to vote as specified in Sections 7(a) and 7(b) of these Standard Provisions that form a part of the Certificate of Designations, any and all series of Parity Stock upon which like voting rights have been conferred and are exercisable with respect to such matter.

### Section 3. Dividends.

(a) Rate. Holders of Designated Preferred Stock shall be entitled to receive, on each share of Designated Preferred Stock if, as and when declared by the Board of Directors or any duly authorized committee of the Board of Directors, but only out of assets legally available therefor, cumulative cash dividends with respect to each Dividend Period (as defined below) at a rate per annum equal to the Applicable Dividend Rate on (i) the Liquidation Amount per share of Designated Preferred Stock and (ii) the amount of accrued and unpaid dividends for any prior Dividend Period on such share of Designated Preferred Stock, if any. Such dividends shall begin to accrue and be cumulative from the Original Issue Date, shall compound on each subsequent Dividend Payment Date (*i.e.*, no dividends shall accrue on other dividends unless and until the first Dividend Payment Date for such other dividends has passed without such other dividends having been paid on such date) and shall be payable quarterly in arrears on each Dividend Payment Date, commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date. In the event that any Dividend Payment Date would otherwise fall on a day that is not a Business Day, the dividend payment due on that date will be postponed to the next day that is a Business Day and no additional dividends will accrue as a result of that postponement. The period from and including any Dividend Payment Date to, but excluding, the next Dividend Payment Date is a “Dividend Period”, provided that the initial

Dividend Period shall be the period from and including the Original Issue Date to, but excluding, the next Dividend Payment Date.

Dividends that are payable on Designated Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends payable on Designated Preferred Stock on any date prior to the end of a Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

Dividends that are payable on Designated Preferred Stock on any Dividend Payment Date will be payable to holders of record of Designated Preferred Stock as they appear on the stock register of the Issuer on the applicable record date, which shall be the 15th calendar day immediately preceding such Dividend Payment Date or such other record date fixed by the Board of Directors or any duly authorized committee of the Board of Directors that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date"). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Holders of Designated Preferred Stock shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on Designated Preferred Stock as specified in this Section 3 (subject to the other provisions of the Certificate of Designations).

(b) Priority of Dividends. So long as any share of Designated Preferred Stock remains outstanding, no dividend or distribution shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than dividends payable solely in shares of Common Stock) or Parity Stock, subject to the immediately following paragraph in the case of Parity Stock, and no Common Stock, Junior Stock or Parity Stock shall be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by the Issuer or any of its subsidiaries unless all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been or are contemporaneously declared and paid in full (or have been declared and a sum sufficient for the payment thereof has been set aside for the benefit of the holders of shares of Designated Preferred Stock on the applicable record date). The foregoing limitation shall not apply to (i) redemptions, purchases or other acquisitions of shares of Common Stock or other Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice; (ii) the acquisition by the Issuer or any of its subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Issuer or any of its subsidiaries), including as trustees or custodians; and (iii) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside for the benefit of the holders thereof on the applicable record date) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period related to such Dividend Payment Date) in full upon Designated Preferred Stock and any shares of Parity Stock, all dividends declared on Designated Preferred Stock and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared *pro rata* so that the respective amounts of such dividends declared shall bear the same ratio to each other as all accrued and unpaid dividends per share on the shares of Designated Preferred Stock (including, if applicable as provided in Section 3(a) above, dividends on such amount) and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) (subject to their having been declared by the Board of Directors or a duly authorized committee of the Board of Directors out of legally available funds and including, in the case of Parity Stock that bears cumulative dividends, all accrued but unpaid dividends) bear to each other. If the Board of Directors or a duly authorized committee of the Board of Directors determines not to pay any dividend or a full dividend on a Dividend Payment Date, the Issuer will provide written notice to the holders of Designated Preferred Stock prior to such Dividend Payment Date.

Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or any duly authorized committee of the Board of Directors may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and holders of Designated Preferred Stock shall not be entitled to participate in any such dividends.

#### Section 4. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Issuer, whether voluntary or involuntary, holders of Designated Preferred Stock shall be entitled to receive for each share of Designated Preferred Stock, out of the assets of the Issuer or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Issuer, subject to the rights of any creditors of the Issuer, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Issuer ranking junior to Designated Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount), whether or not declared, to the date of payment (such amounts collectively, the "Liquidation Preference").

(b) Partial Payment. If in any distribution described in Section 4(a) above the assets of the Issuer or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as

to such distribution, holders of Designated Preferred Stock and the holders of such other stock shall share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such distribution has been paid in full, the holders of other stock of the Issuer shall be entitled to receive all remaining assets of the Issuer (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 4, the merger or consolidation of the Issuer with any other corporation or other entity, including a merger or consolidation in which the holders of Designated Preferred Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Issuer, shall not constitute a liquidation, dissolution or winding up of the Issuer.

#### Section 5. Redemption.

(a) Optional Redemption. Except as provided below, the Designated Preferred Stock may not be redeemed prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date. On or after the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, out of funds legally available therefor, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption.

Notwithstanding the foregoing, prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption; *provided* that (x) the Issuer (or any successor by Business Combination) has received aggregate gross proceeds of not less than the Minimum Amount (plus the "Minimum Amount" as defined in the relevant certificate of designations for each other outstanding series of preferred stock of such successor that was originally issued to the United States Department of the Treasury (the "Successor Preferred Stock") in connection with the Troubled Asset Relief Program Capital Purchase Program) from one or more Qualified Equity Offerings (including Qualified Equity Offerings of such successor), and (y) the aggregate

redemption price of the Designated Preferred Stock (and any Successor Preferred Stock) redeemed pursuant to this paragraph may not exceed the aggregate net cash proceeds received by the Issuer (or any successor by Business Combination) from such Qualified Equity Offerings (including Qualified Equity Offerings of such successor).

The redemption price for any shares of Designated Preferred Stock shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Issuer or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 3 above.

(b) No Sinking Fund. The Designated Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Designated Preferred Stock will have no right to require redemption or repurchase of any shares of Designated Preferred Stock.

(c) Notice of Redemption. Notice of every redemption of shares of Designated Preferred Stock shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Issuer. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Designated Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Designated Preferred Stock. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Designated Preferred Stock at such time and in any manner permitted by such facility. Each notice of redemption given to a holder shall state: (1) the redemption date; (2) the number of shares of Designated Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of part of the shares of Designated Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either *pro rata* or in such other manner as the Board of Directors or a duly authorized committee thereof may determine to be fair and equitable. Subject to the provisions hereof, the Board of Directors or a duly authorized committee thereof shall have full power and authority to prescribe the terms and conditions upon which shares of Designated Preferred Stock shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption

have been deposited by the Issuer, in trust for the *pro rata* benefit of the holders of the shares called for redemption, with a bank or trust company doing business in the Borough of Manhattan, The City of New York, and having a capital and surplus of at least \$500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Issuer, after which time the holders of the shares so called for redemption shall look only to the Issuer for payment of the redemption price of such shares.

(f) Status of Redeemed Shares. Shares of Designated Preferred Stock that are redeemed, repurchased or otherwise acquired by the Issuer shall revert to authorized but unissued shares of Preferred Stock (*provided* that any such cancelled shares of Designated Preferred Stock may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

Section 6. Conversion. Holders of Designated Preferred Stock shares shall have no right to exchange or convert such shares into any other securities.

Section 7. Voting Rights.

(a) General. The holders of Designated Preferred Stock shall not have any voting rights except as set forth below or as otherwise from time to time required by law.

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Issuer shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of any one or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the "Preferred Directors" and each a "Preferred Director") to fill such newly created directorships at the Issuer's next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been declared and paid in full at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to revesting in the event of each and every subsequent default of the character above mentioned; *provided* that it shall be a qualification for election for any Preferred Director that the election of such Preferred Director shall not cause the Issuer to violate any corporate governance requirements of any securities exchange or other trading facility on which securities of the Issuer may then be listed or traded that listed or traded companies must have a majority of independent directors. Upon any

termination of the right of the holders of shares of Designated Preferred Stock and Voting Parity Stock as a class to vote for directors as provided above, the Preferred Directors shall cease to be qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto. Any Preferred Director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders a majority of the shares of Designated Preferred Stock at the time outstanding voting separately as a class together with the holders of shares of Voting Parity Stock, to the extent the voting rights of such holders described above are then exercisable. If the office of any Preferred Director becomes vacant for any reason other than removal from office as aforesaid, the remaining Preferred Director may choose a successor who shall hold office for the unexpired term in respect of which such vacancy occurred.

(c) Class Voting Rights as to Particular Matters. So long as any shares of Designated Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by the Charter, the vote or consent of the holders of at least 66 2/3% of the shares of Designated Preferred Stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) Authorization of Senior Stock. Any amendment or alteration of the Certificate of Designations for the Designated Preferred Stock or the Charter to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock of the Issuer ranking senior to Designated Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Issuer;

(ii) Amendment of Designated Preferred Stock. Any amendment, alteration or repeal of any provision of the Certificate of Designations for the Designated Preferred Stock or the Charter (including, unless no vote on such merger or consolidation is required by Section 7(c)(iii) below, any amendment, alteration or repeal by means of a merger, consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the Designated Preferred Stock; or

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Issuer with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Issuer is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions



thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole;

*provided, however,* that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Issuer to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Issuer will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

(d) Changes after Provision for Redemption. No vote or consent of the holders of Designated Preferred Stock shall be required pursuant to Section 7(c) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of the Designated Preferred Stock shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been deposited in trust for such redemption, in each case pursuant to Section 5 above.

(e) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Designated Preferred Stock (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules of the Board of Directors or any duly authorized committee of the Board of Directors, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Charter, the Bylaws, and applicable law and the rules of any national securities exchange or other trading facility on which Designated Preferred Stock is listed or traded at the time.

Section 8. Record Holders. To the fullest extent permitted by applicable law, the Issuer and the transfer agent for Designated Preferred Stock may deem and treat the record holder of any share of Designated Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Issuer nor such transfer agent shall be affected by any notice to the contrary.

Section 9. Notices. All notices or communications in respect of Designated Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Charter or Bylaws or by applicable law. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any similar facility, such notices may be given to the holders of Designated Preferred Stock in any manner permitted by such facility.

Section 10. No Preemptive Rights. No share of Designated Preferred Stock shall have any rights of preemption whatsoever as to any securities of the Issuer, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 11. Replacement Certificates. The Issuer shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Issuer. The Issuer shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the Issuer of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Issuer.

Section 12. Other Rights. The shares of Designated Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Charter or as provided by applicable law.

ANNEX B

**FORM OF CERTIFICATE OF DESIGNATIONS  
FOR WARRANT PREFERRED STOCK**

[SEE ATTACHED]

FORM OF [CERTIFICATE OF DESIGNATIONS]

OF

FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]

OF

[●]

[*Insert name of Issuer*], a [corporation/bank/banking association] organized and existing under the laws of the [*Insert jurisdiction of organization*] (the “Issuer”), in accordance with the provisions of Section[s] [●] of the [*Insert applicable statute*] thereof, does hereby certify:

The board of directors of the Issuer (the “Board of Directors”) or an applicable committee of the Board of Directors, in accordance with the [[certificate of incorporation/articles of association] and bylaws] of the Issuer and applicable law, adopted the following resolution on [●] creating a series of [●] shares of Preferred Stock of the Issuer designated as “Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]”.

**RESOLVED**, that pursuant to the provisions of the [[certificate of incorporation/articles of association] and the bylaws] of the Issuer and applicable law, a series of Preferred Stock, par value \$[●] per share, of the Issuer be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Part 1. Designation and Number of Shares. There is hereby created out of the authorized and unissued shares of preferred stock of the Issuer a series of preferred stock designated as the “Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]” (the “Designated Preferred Stock”). The authorized number of shares of Designated Preferred Stock shall be [●].

Part 2. Standard Provisions. The Standard Provisions contained in Schedule A attached hereto are incorporated herein by reference in their entirety and shall be deemed to be a part of this [Certificate of Designations] to the same extent as if such provisions had been set forth in full herein.

Part. 3. Definitions. The following terms are used in this [Certificate of Designations] (including the Standard Provisions in Schedule A hereto) as defined below:

(a) “Common Stock” means the common stock, par value \$[●] per share, of the Issuer.

(b) “Dividend Payment Date” means February 15, May 15, August 15 and November 15 of each year.

(c) “Junior Stock” means the Common Stock, [*Insert titles of any existing Junior Stock*] and any other class or series of stock of the Issuer the terms of which expressly provide that it ranks junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer.

(d) “Liquidation Amount” means \$[1,000]<sup>1</sup> per share of Designated Preferred Stock.

(e) “Minimum Amount” means \$[*Insert \$ amount equal to 25% of the aggregate value of the Designated Preferred Stock issued on the Original Issue Date*].

(f) “Parity Stock” means any class or series of stock of the Issuer (other than Designated Preferred Stock) the terms of which do not expressly provide that such class or series will rank senior or junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer (in each case without regard to whether dividends accrue cumulatively or non-cumulatively). Without limiting the foregoing, Parity Stock shall include the Issuer’s UST Preferred Stock [and] [*Insert title(s) of any other classes or series of Parity Stock*].

(g) “Signing Date” means [*Insert date of applicable securities purchase agreement*].

(h) “UST Preferred Stock” means the Issuer’s Fixed Rate Cumulative Perpetual Preferred Stock, Series [●].

Part. 4. Certain Voting Matters. [*To be inserted if the Charter provides for voting in proportion to liquidation preferences*: Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Designated Preferred Stock and any Voting Parity Stock has been cast or given on any matter on which the holders of shares of Designated Preferred Stock are entitled to vote shall be determined by the Issuer by reference to the specified liquidation amount of the shares voted or covered by the consent as if the Issuer were liquidated on the record date for such vote or consent, if any, or, in the absence of a record date, on the date for such vote or consent. For purposes of determining the voting rights of the holders of Designated Preferred Stock under Section 7 of the Standard Provisions forming part of this [Certificate of Designations], each holder will be entitled to one vote for each \$1,000 of liquidation preference to which such holder’s shares are entitled.] [*To be inserted if the Charter does not provide for voting in proportion to liquidation preferences*: Holders of shares of Designated Preferred Stock will be entitled to one vote for each such share on any matter on which holders of Designated Preferred Stock are entitled to vote, including any action by written consent.]

[*Remainder of Page Intentionally Left Blank*]

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<sup>1</sup> If Issuer desires to issue shares with a higher dollar amount liquidation preference, liquidation preference references will be modified accordingly. In such case (in accordance with Section 4.6 of the Securities Purchase Agreement), the issuer will be required to enter into a deposit agreement.

IN WITNESS WHEREOF, *[Insert name of Issuer]* has caused this [Certificate of Designations] to be signed by [●], its [●], this [●] day of [●].

*[Insert name of Issuer]*

By: \_\_\_\_\_

Name:

Title:

**STANDARD PROVISIONS**

Section 1. General Matters. Each share of Designated Preferred Stock shall be identical in all respects to every other share of Designated Preferred Stock. The Designated Preferred Stock shall be perpetual, subject to the provisions of Section 5 of these Standard Provisions that form a part of the Certificate of Designations. The Designated Preferred Stock shall rank equally with Parity Stock and shall rank senior to Junior Stock with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Issuer.

Section 2. Standard Definitions. As used herein with respect to Designated Preferred Stock:

(a) “Appropriate Federal Banking Agency” means the “appropriate Federal banking agency” with respect to the Issuer as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)), or any successor provision.

(b) “Business Combination” means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Issuer’s stockholders.

(c) “Business Day” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

(d) “Bylaws” means the bylaws of the Issuer, as they may be amended from time to time.

(e) “Certificate of Designations” means the Certificate of Designations or comparable instrument relating to the Designated Preferred Stock, of which these Standard Provisions form a part, as it may be amended from time to time.

(f) “Charter” means the Issuer’s certificate or articles of incorporation, articles of association, or similar organizational document.

(g) “Dividend Period” has the meaning set forth in Section 3(a).

(h) “Dividend Record Date” has the meaning set forth in Section 3(a).

(i) “Liquidation Preference” has the meaning set forth in Section 4(a).

(j) “Original Issue Date” means the date on which shares of Designated Preferred Stock are first issued.

(k) “Preferred Director” has the meaning set forth in Section 7(b).

(l) “Preferred Stock” means any and all series of preferred stock of the Issuer, including the Designated Preferred Stock.

(m) “Qualified Equity Offering” means the sale and issuance for cash by the Issuer to persons other than the Issuer or any of its subsidiaries after the Original Issue Date of shares of perpetual Preferred Stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Issuer at the time of issuance under the applicable risk-based capital guidelines of the Issuer’s Appropriate Federal Banking Agency (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to November 17, 2008).

(n) “Standard Provisions” mean these Standard Provisions that form a part of the Certificate of Designations relating to the Designated Preferred Stock.

(o) “Successor Preferred Stock” has the meaning set forth in Section 5(a).

(p) “Voting Parity Stock” means, with regard to any matter as to which the holders of Designated Preferred Stock are entitled to vote as specified in Sections 7(a) and 7(b) of these Standard Provisions that form a part of the Certificate of Designations, any and all series of Parity Stock upon which like voting rights have been conferred and are exercisable with respect to such matter.

### Section 3. Dividends.

(a) Rate. Holders of Designated Preferred Stock shall be entitled to receive, on each share of Designated Preferred Stock if, as and when declared by the Board of Directors or any duly authorized committee of the Board of Directors, but only out of assets legally available therefor, cumulative cash dividends with respect to each Dividend Period (as defined below) at a per annum rate of 9.0% on (i) the Liquidation Amount per share of Designated Preferred Stock and (ii) the amount of accrued and unpaid dividends for any prior Dividend Period on such share of Designated Preferred Stock, if any. Such dividends shall begin to accrue and be cumulative from the Original Issue Date, shall compound on each subsequent Dividend Payment Date (*i.e.*, no dividends shall accrue on other dividends unless and until the first Dividend Payment Date for such other dividends has passed without such other dividends having been paid on such date) and shall be payable quarterly in arrears on each Dividend Payment Date, commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date. In the event that any Dividend Payment Date would otherwise fall on a day that is not a Business Day, the dividend payment due on that date will be postponed to the next day that is a Business Day and no additional dividends will accrue as a result of that postponement. The period from and including any Dividend Payment Date to, but excluding, the next Dividend Payment Date is a “Dividend Period”, provided that the initial Dividend Period shall be the period from and including the Original Issue Date to, but excluding, the next Dividend Payment Date.

Dividends that are payable on Designated Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends payable on Designated Preferred Stock on any date prior to the end of a



Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

Dividends that are payable on Designated Preferred Stock on any Dividend Payment Date will be payable to holders of record of Designated Preferred Stock as they appear on the stock register of the Issuer on the applicable record date, which shall be the 15th calendar day immediately preceding such Dividend Payment Date or such other record date fixed by the Board of Directors or any duly authorized committee of the Board of Directors that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a “Dividend Record Date”). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Holders of Designated Preferred Stock shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on Designated Preferred Stock as specified in this Section 3 (subject to the other provisions of the Certificate of Designations).

(b) Priority of Dividends. So long as any share of Designated Preferred Stock remains outstanding, no dividend or distribution shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than dividends payable solely in shares of Common Stock) or Parity Stock, subject to the immediately following paragraph in the case of Parity Stock, and no Common Stock, Junior Stock or Parity Stock shall be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by the Issuer or any of its subsidiaries unless all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been or are contemporaneously declared and paid in full (or have been declared and a sum sufficient for the payment thereof has been set aside for the benefit of the holders of shares of Designated Preferred Stock on the applicable record date). The foregoing limitation shall not apply to (i) redemptions, purchases or other acquisitions of shares of Common Stock or other Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice; (ii) the acquisition by the Issuer or any of its subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Issuer or any of its subsidiaries), including as trustees or custodians; and (iii) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside for the benefit of the holders thereof on the applicable record date) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period related to such Dividend Payment Date) in full upon Designated Preferred Stock and any shares of Parity Stock, all dividends declared on Designated Preferred Stock and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend

payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared *pro rata* so that the respective amounts of such dividends declared shall bear the same ratio to each other as all accrued and unpaid dividends per share on the shares of Designated Preferred Stock (including, if applicable as provided in Section 3(a) above, dividends on such amount) and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) (subject to their having been declared by the Board of Directors or a duly authorized committee of the Board of Directors out of legally available funds and including, in the case of Parity Stock that bears cumulative dividends, all accrued but unpaid dividends) bear to each other. If the Board of Directors or a duly authorized committee of the Board of Directors determines not to pay any dividend or a full dividend on a Dividend Payment Date, the Issuer will provide written notice to the holders of Designated Preferred Stock prior to such Dividend Payment Date.

Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or any duly authorized committee of the Board of Directors may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and holders of Designated Preferred Stock shall not be entitled to participate in any such dividends.

#### Section 4. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Issuer, whether voluntary or involuntary, holders of Designated Preferred Stock shall be entitled to receive for each share of Designated Preferred Stock, out of the assets of the Issuer or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Issuer, subject to the rights of any creditors of the Issuer, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Issuer ranking junior to Designated Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount), whether or not declared, to the date of payment (such amounts collectively, the "Liquidation Preference").

(b) Partial Payment. If in any distribution described in Section 4(a) above the assets of the Issuer or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such distribution, holders of Designated Preferred Stock and the holders of such other stock shall share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such

distribution has been paid in full, the holders of other stock of the Issuer shall be entitled to receive all remaining assets of the Issuer (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not-Liquidation. For purposes of this Section 4, the merger or consolidation of the Issuer with any other corporation or other entity, including a merger or consolidation in which the holders of Designated Preferred Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Issuer, shall not constitute a liquidation, dissolution or winding up of the Issuer.

#### Section 5. Redemption.

(a) Optional Redemption. Except as provided below, the Designated Preferred Stock may not be redeemed prior to the later of (i) first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date; and (ii) the date on which all outstanding shares of UST Preferred Stock have been redeemed, repurchased or otherwise acquired by the Issuer. On or after the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, out of funds legally available therefor, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption.

Notwithstanding the foregoing, prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency and subject to the requirement that all outstanding shares of UST Preferred Stock shall previously have been redeemed, repurchased or otherwise acquired by the Issuer, may redeem, in whole or in part, at any time and from time to time, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption; *provided* that (x) the Issuer (or any successor by Business Combination) has received aggregate gross proceeds of not less than the Minimum Amount (plus the "Minimum Amount" as defined in the relevant certificate of designations for each other outstanding series of preferred stock of such successor that was originally issued to the United States Department of the Treasury (the "Successor Preferred Stock") in connection with the Troubled Asset Relief Program Capital Purchase Program) from one or more Qualified Equity Offerings (including Qualified Equity Offerings of such successor), and (y) the aggregate redemption price of the Designated Preferred Stock (and any Successor Preferred Stock) redeemed pursuant to this paragraph may not exceed the aggregate net cash proceeds received by the Issuer (or any

successor by Business Combination) from such Qualified Equity Offerings (including Qualified Equity Offerings of such successor).

The redemption price for any shares of Designated Preferred Stock shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Issuer or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 3 above.

(b) No Sinking Fund. The Designated Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Designated Preferred Stock will have no right to require redemption or repurchase of any shares of Designated Preferred Stock.

(c) Notice of Redemption. Notice of every redemption of shares of Designated Preferred Stock shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Issuer. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Designated Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Designated Preferred Stock. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Designated Preferred Stock at such time and in any manner permitted by such facility. Each notice of redemption given to a holder shall state: (1) the redemption date; (2) the number of shares of Designated Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of part of the shares of Designated Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either *pro rata* or in such other manner as the Board of Directors or a duly authorized committee thereof may determine to be fair and equitable. Subject to the provisions hereof, the Board of Directors or a duly authorized committee thereof shall have full power and authority to prescribe the terms and conditions upon which shares of Designated Preferred Stock shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been deposited by the Issuer, in trust for the *pro rata* benefit of the holders of the shares called for redemption, with a bank or trust company doing business in the Borough of

Manhattan, The City of New York, and having a capital and surplus of at least \$500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Issuer, after which time the holders of the shares so called for redemption shall look only to the Issuer for payment of the redemption price of such shares.

(f) Status of Redeemed Shares. Shares of Designated Preferred Stock that are redeemed, repurchased or otherwise acquired by the Issuer shall revert to authorized but unissued shares of Preferred Stock (*provided* that any such cancelled shares of Designated Preferred Stock may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

Section 6. Conversion. Holders of Designated Preferred Stock shares shall have no right to exchange or convert such shares into any other securities.

Section 7. Voting Rights.

(a) General. The holders of Designated Preferred Stock shall not have any voting rights except as set forth below or as otherwise from time to time required by law.

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Issuer shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of any one or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the "Preferred Directors" and each a "Preferred Director") to fill such newly created directorships at the Issuer's next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been declared and paid in full at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to reversion in the event of each and every subsequent default of the character above mentioned; *provided* that it shall be a qualification for election for any Preferred Director that the election of such Preferred Director shall not cause the Issuer to violate any corporate governance requirements of any securities exchange or other trading facility on which securities of the Issuer may then be listed or traded that listed or traded companies must have a majority of independent directors. Upon any termination of the right of the holders of shares of Designated Preferred Stock and Voting Parity Stock as a class to vote for directors as provided above, the Preferred Directors shall cease to be

qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto. Any Preferred Director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders a majority of the shares of Designated Preferred Stock at the time outstanding voting separately as a class together with the holders of shares of Voting Parity Stock, to the extent the voting rights of such holders described above are then exercisable. If the office of any Preferred Director becomes vacant for any reason other than removal from office as aforesaid, the remaining Preferred Director may choose a successor who shall hold office for the unexpired term in respect of which such vacancy occurred.

(c) Class Voting Rights as to Particular Matters. So long as any shares of Designated Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by the Charter, the vote or consent of the holders of at least 66 2/3% of the shares of Designated Preferred Stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) Authorization of Senior Stock. Any amendment or alteration of the Certificate of Designations for the Designated Preferred Stock or the Charter to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock of the Issuer ranking senior to Designated Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Issuer;

(ii) Amendment of Designated Preferred Stock. Any amendment, alteration or repeal of any provision of the Certificate of Designations for the Designated Preferred Stock or the Charter (including, unless no vote on such merger or consolidation is required by Section 7(c)(iii) below, any amendment, alteration or repeal by means of a merger, consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the Designated Preferred Stock; or

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Issuer with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Issuer is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole;

*provided, however,* that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Issuer to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Issuer will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

(d) Changes after Provision for Redemption. No vote or consent of the holders of Designated Preferred Stock shall be required pursuant to Section 7(c) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of the Designated Preferred Stock shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been deposited in trust for such redemption, in each case pursuant to Section 5 above.

(e) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Designated Preferred Stock (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules of the Board of Directors or any duly authorized committee of the Board of Directors, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Charter, the Bylaws, and applicable law and the rules of any national securities exchange or other trading facility on which Designated Preferred Stock is listed or traded at the time.

Section 8. Record Holders. To the fullest extent permitted by applicable law, the Issuer and the transfer agent for Designated Preferred Stock may deem and treat the record holder of any share of Designated Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Issuer nor such transfer agent shall be affected by any notice to the contrary.

Section 9. Notices. All notices or communications in respect of Designated Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Charter or Bylaws or by applicable law. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any similar facility, such notices may be given to the holders of Designated Preferred Stock in any manner permitted by such facility.

Section 10. No Preemptive Rights. No share of Designated Preferred Stock shall have any rights of preemption whatsoever as to any securities of the Issuer, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 11. Replacement Certificates. The Issuer shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Issuer. The Issuer shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the Issuer of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Issuer.

Section 12. Other Rights. The shares of Designated Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Charter or as provided by applicable law.



**FORM OF WAIVER**

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

I acknowledge that this regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) that I have with my employer or in which I participate as they relate to the period the United States holds any equity or debt securities of my employer acquired through the TARP Capital Purchase Program.

This waiver includes all claims I may have under the laws of the United States or any state related to the requirements imposed by the aforementioned regulation, including without limitation a claim for any compensation or other payments I would otherwise receive, any challenge to the process by which this regulation was adopted and any tort or constitutional claim about the effect of these regulations on my employment relationship.

**FORM OF OPINION**

(a) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of its incorporation.

(b) The Preferred Shares have been duly and validly authorized, and, when issued and delivered pursuant to the Agreement, the Preferred Shares will be duly and validly issued and fully paid and non-assessable, will not be issued in violation of any preemptive rights, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock issued on the Closing Date with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(c) The Warrant has been duly authorized and, when executed and delivered as contemplated by the Agreement, will constitute a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity.

(d) The shares of Warrant Preferred Stock issuable upon exercise of the Warrant have been duly authorized and reserved for issuance upon exercise of the Warrant and when so issued in accordance with the terms of the Warrant will be validly issued, fully paid and non-assessable, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(e) The Company has the corporate power and authority to execute and deliver the Agreement and the Warrant and to carry out its obligations thereunder (which includes the issuance of the Preferred Shares, Warrant and Warrant Shares).

(f) The execution, delivery and performance by the Company of the Agreement and the Warrant and the consummation of the transactions contemplated thereby have been duly authorized by all necessary corporate action on the part of the Company and its stockholders, and no further approval or authorization is required on the part of the Company.

(g) The Agreement is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity; *provided, however*, such counsel need express no opinion with respect to Section 4.5(h) or the severability provisions of the Agreement insofar as Section 4.5(h) is concerned.

ANNEX E

**FORM OF WARRANT**

[SEE ATTACHED]

**FORM OF WARRANT TO PURCHASE PREFERRED STOCK**

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS. THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID.

**WARRANT  
to purchase**

\_\_\_\_\_  
**Shares of Preferred Stock**

of \_\_\_\_\_

Issue Date: \_\_\_\_\_

1. **Definitions.** Unless the context otherwise requires, when used herein the following terms shall have the meanings indicated.

“*Board of Directors*” means the board of directors of the Company, including any duly authorized committee thereof.

“*business day*” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

“*Charter*” means, with respect to any Person, its certificate or articles of incorporation, articles of association, or similar organizational document.

“*Company*” means the Person whose name, corporate or other organizational form and jurisdiction of organization is set forth in Item 1 of Schedule A hereto.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*Exercise Price*” means the amount set forth in Item 2 of Schedule A hereto.

“*Expiration Time*” has the meaning set forth in Section 3.

“*Issue Date*” means the date set forth in Item 3 of Schedule A hereto.

“*Liquidation Amount*” means the amount set forth in Item 4 of Schedule A hereto.

“*Original Warrantholder*” means the United States Department of the Treasury. Any actions specified to be taken by the Original Warrantholder hereunder may only be taken by such Person and not by any other Warrantholder.

“*Person*” has the meaning given to it in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act.

“*Preferred Stock*” means the series of perpetual preferred stock set forth in Item 5 of Schedule A hereto.

“*Purchase Agreement*” means the Securities Purchase Agreement – Standard Terms incorporated into the Letter Agreement, dated as of the date set forth in Item 6 of Schedule A hereto, as amended from time to time, between the Company and the United States Department of the Treasury (the “*Letter Agreement*”), including all annexes and schedules thereto.

“*Regulatory Approvals*” with respect to the Warrantholder, means, to the extent applicable and required to permit the Warrantholder to exercise this Warrant for shares of Preferred Stock and to own such Preferred Stock without the Warrantholder being in violation of applicable law, rule or regulation, the receipt of any necessary approvals and authorizations of, filings and registrations with, notifications to, or expiration or termination of any applicable waiting period under, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Securities Act*” means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*Shares*” has the meaning set forth in Section 2.

“*Warrantholder*” has the meaning set forth in Section 2.

“*Warrant*” means this Warrant, issued pursuant to the Purchase Agreement.

2. Number of Shares; Exercise Price. This certifies that, for value received, the United States Department of the Treasury or its permitted assigns (the “*Warrantholder*”) is entitled, upon the terms and subject to the conditions hereinafter set forth, to acquire from the

Company, in whole or in part, after the receipt of all applicable Regulatory Approvals, if any, up to an aggregate of the number of fully paid and nonassessable shares of Preferred Stock set forth in Item 7 of Schedule A hereto (the “*Shares*”), at a purchase price per share of Preferred Stock equal to the Exercise Price.

3. Exercise of Warrant; Term. Subject to Section 2, to the extent permitted by applicable laws and regulations, the right to purchase the Shares represented by this Warrant is exercisable, in whole or in part by the Warrantholder, at any time or from time to time after the execution and delivery of this Warrant by the Company on the date hereof, but in no event later than 5:00 p.m., New York City time on the tenth anniversary of the Issue Date (the “*Expiration Time*”), by (A) the surrender of this Warrant and Notice of Exercise annexed hereto, duly completed and executed on behalf of the Warrantholder, at the principal executive office of the Company located at the address set forth in Item 8 of Schedule A hereto (or such other office or agency of the Company in the United States as it may designate by notice in writing to the Warrantholder at the address of the Warrantholder appearing on the books of the Company), and (B) payment of the Exercise Price for the Shares thereby purchased, by having the Company withhold, from the shares of Preferred Stock that would otherwise be delivered to the Warrantholder upon such exercise, shares of Preferred Stock issuable upon exercise of the Warrant with an aggregate Liquidation Amount equal in value to the aggregate Exercise Price as to which this Warrant is so exercised.

If the Warrantholder does not exercise this Warrant in its entirety, the Warrantholder will be entitled to receive from the Company within a reasonable time, and in any event not exceeding three business days, a new warrant in substantially identical form for the purchase of that number of Shares equal to the difference between the number of Shares subject to this Warrant and the number of Shares as to which this Warrant is so exercised. Notwithstanding anything in this Warrant to the contrary, the Warrantholder hereby acknowledges and agrees that its exercise of this Warrant for Shares is subject to the condition that the Warrantholder will have first received any applicable Regulatory Approvals.

4. Issuance of Shares; Authorization. Certificates for Shares issued upon exercise of this Warrant will be issued in such name or names as the Warrantholder may designate and will be delivered to such named Person or Persons within a reasonable time, not to exceed three business days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant. The Company hereby represents and warrants that any Shares issued upon the exercise of this Warrant in accordance with the provisions of Section 3 will be duly and validly authorized and issued, fully paid and nonassessable and free from all taxes, liens and charges (other than liens or charges created by the Warrantholder, income and franchise taxes incurred in connection with the exercise of the Warrant or taxes in respect of any transfer occurring contemporaneously therewith). The Company agrees that the Shares so issued will be deemed to have been issued to the Warrantholder as of the close of business on the date on which this Warrant and payment of the Exercise Price are delivered to the Company in accordance with the terms of this Warrant, notwithstanding that the stock transfer books of the Company may then be closed or certificates representing such Shares may not be actually delivered on such date. The Company will at all times reserve and keep available, out of its authorized but unissued preferred stock, solely for the purpose of providing for the exercise of this Warrant, the aggregate number of shares of Preferred Stock then issuable upon exercise of this Warrant at any

time. The Company will use reasonable best efforts to ensure that the Shares may be issued without violation of any applicable law or regulation or of any requirement of any securities exchange on which the Shares are listed or traded.

5. No Rights as Stockholders; Transfer Books. This Warrant does not entitle the Warrantholder to any voting rights or other rights as a stockholder of the Company prior to the date of exercise hereof. The Company will at no time close its transfer books against transfer of this Warrant in any manner which interferes with the timely exercise of this Warrant.

6. Charges, Taxes and Expenses. Issuance of certificates for Shares to the Warrantholder upon the exercise of this Warrant shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company.

7. Transfer/Assignment.

(A) Subject to compliance with clause (B) of this Section 7, this Warrant and all rights hereunder are transferable, in whole or in part, upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and a new warrant shall be made and delivered by the Company, of the same tenor and date as this Warrant but registered in the name of one or more transferees, upon surrender of this Warrant, duly endorsed, to the office or agency of the Company described in Section 3. All expenses (other than stock transfer taxes) and other charges payable in connection with the preparation, execution and delivery of the new warrants pursuant to this Section 7 shall be paid by the Company.

(B) The transfer of the Warrant and the Shares issued upon exercise of the Warrant are subject to the restrictions set forth in Section 4.4 of the Purchase Agreement. If and for so long as required by the Purchase Agreement, this Warrant shall contain the legends as set forth in Section 4.2(a) of the Purchase Agreement.

8. Exchange and Registry of Warrant. This Warrant is exchangeable, upon the surrender hereof by the Warrantholder to the Company, for a new warrant or warrants of like tenor and representing the right to purchase the same aggregate number of Shares. The Company shall maintain a registry showing the name and address of the Warrantholder as the registered holder of this Warrant. This Warrant may be surrendered for exchange or exercise in accordance with its terms, at the office of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

9. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in the case of any such loss, theft or destruction, upon receipt of a bond, indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company shall make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of Shares as provided for in such lost, stolen, destroyed or mutilated Warrant.

10. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a business day, then such action may be taken or such right may be exercised on the next succeeding day that is a business day.

11. Rule 144 Information. The Company covenants that it will use its reasonable best efforts to timely file all reports and other documents required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations promulgated by the SEC thereunder (or, if the Company is not required to file such reports, it will, upon the request of any Warrantholder, make publicly available such information as necessary to permit sales pursuant to Rule 144 under the Securities Act), and it will use reasonable best efforts to take such further action as any Warrantholder may reasonably request, in each case to the extent required from time to time to enable such holder to, if permitted by the terms of this Warrant and the Purchase Agreement, sell this Warrant without registration under the Securities Act within the limitation of the exemptions provided by (A) Rule 144 under the Securities Act, as such rule may be amended from time to time, or (B) any successor rule or regulation hereafter adopted by the SEC. Upon the written request of any Warrantholder, the Company will deliver to such Warrantholder a written statement that it has complied with such requirements.

12. Adjustments and Other Rights. For so long as the Original Warrantholder holds this Warrant or any portion thereof, if any event occurs that, in the good faith judgment of the Board of Directors of the Company, would require adjustment of the Exercise Price or number of Shares into which this Warrant is exercisable in order to fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of the Purchase Agreement and this Warrant, then the Board of Directors shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of the Board of Directors, to protect such purchase rights as aforesaid.

Whenever the Exercise Price or the number of Shares into which this Warrant is exercisable shall be adjusted as provided in this Section 12, the Company shall forthwith file at the principal office of the Company a statement showing in reasonable detail the facts requiring such adjustment and the Exercise Price that shall be in effect and the number of Shares into which this Warrant shall be exercisable after such adjustment, and the Company shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each Warrantholder at the address appearing in the Company's records.

13. No Impairment. The Company will not, by amendment of its Charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder.

14. Governing Law. This Warrant will be governed by and construed in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and



to be performed entirely within such State. Each of the Company and the Warrantholder agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia for any civil action, suit or proceeding arising out of or relating to this Warrant or the transactions contemplated hereby, and (b) that notice may be served upon the Company at the address in Section 17 below and upon the Warrantholder at the address for the Warrantholder set forth in the registry maintained by the Company pursuant to Section 8 hereof. To the extent permitted by applicable law, each of the Company and the Warrantholder hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to the Warrant or the transactions contemplated hereby or thereby.

15. Binding Effect. This Warrant shall be binding upon any successors or assigns of the Company.

16. Amendments. This Warrant may be amended and the observance of any term of this Warrant may be waived only with the written consent of the Company and the Warrantholder.

17. Notices. Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second business day following the date of dispatch if delivered by a recognized next day courier service. All notices hereunder shall be delivered as set forth in Item 9 of Schedule A hereto, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

18. Entire Agreement. This Warrant, the forms attached hereto and Schedule A hereto (the terms of which are incorporated by reference herein), and the Letter Agreement (including all documents incorporated therein), contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior and contemporaneous arrangements or undertakings with respect thereto.

*[Remainder of page intentionally left blank]*

**[Form of Notice of Exercise]**

Date: \_\_\_\_\_

TO: **[Company]**

RE: Election to Purchase Preferred Stock

The undersigned, pursuant to the provisions set forth in the attached Warrant, hereby agrees to subscribe for and purchase such number of shares of Preferred Stock covered by the Warrant such that after giving effect to an exercise pursuant to Section 3(B) of the Warrant, the undersigned will receive the net number of shares of Preferred Stock set forth below. The undersigned, in accordance with Section 3 of the Warrant, hereby agrees to pay the aggregate Exercise Price for such shares of Preferred Stock in the manner set forth in Section 3(B) of the Warrant.

Number of Shares of Preferred Stock:<sup>1</sup> \_\_\_\_\_

The undersigned agrees that it is exercising the attached Warrant in full and that, upon receipt by the undersigned of the number of shares of Preferred Stock set forth above, such Warrant shall be deemed to be cancelled and surrendered to the Company.

Holder: \_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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1. Number of shares to be received by the undersigned upon exercise of the attached Warrant pursuant to Section 3(B) thereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by a duly authorized officer.

Dated: \_\_\_\_\_

**COMPANY:** \_\_\_\_\_

By: \_\_\_\_\_

Name:

Title:

**Attest:**

By: \_\_\_\_\_

Name:

Title:

**[Signature Page to Warrant]**

## SCHEDULE A

### Item 1

Name:

Corporate or other organizational form:

Jurisdiction of organization:

### Item 2

Exercise Price:<sup>2</sup>

### Item 3

Issue Date:

### Item 4

Liquidation Amount:

### Item 5

Series of Perpetual Preferred Stock:

### Item 6

Date of Letter Agreement between the Company and the United States Department of the Treasury:

### Item 7

Number of shares of Preferred Stock:<sup>3</sup>

### Item 8

Company's address:

### Item 9

Notice information:

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<sup>2</sup> \$0.01 per share or such greater amount as the Charter may require as the par value of the Preferred Stock.

<sup>3</sup> The initial number of shares of Preferred Stock for which this Warrant is exercisable shall include the number of shares required to effect the cashless exercise pursuant to Section 3(B) of this Warrant (e.g., such number of shares of Preferred Stock having an aggregate Liquidation Amount equal in value to the aggregate Exercise Price) such that, following exercise of this Warrant and payment of the Exercise Price in accordance with such Section 3(B), the net number of shares of Preferred Stock delivered to the Warranholder (and rounded to the nearest whole share) would have an aggregate Liquidation Amount equal to 5% of the aggregate amount invested by the United States Department of the Treasury on the investment date.

**SCHEDULE A**

**ADDITIONAL TERMS AND CONDITIONS**

Company Information:

Name of the Company: SBT Bancorp, Inc.

Corporate or other organizational form: Corporation

Jurisdiction of Organization: Connecticut

Appropriate Federal Banking Agency: Federal Deposit Insurance Corporation

Notice Information: SBT Bancorp, Inc.  
760 Hopmeadow Street  
P.O. Box 248  
Simsbury, CT 06070-0248  
Attention: Martin J. Geitz, President and Chief Executive Officer  
Facsimile No.: (860) 651-2075

Copy to:

Day Pitney LLP  
242 Trumbull Street  
Hartford, CT 06103-1213  
Attn.: Robert M. Taylor, III, Esq.  
Facsimile No.: (860) 275-0343

Terms of the Purchase:

Series of Preferred Stock Purchased: Fixed Rate Cumulative Perpetual Preferred Stock,  
Series A

Per Share Liquidation Preference of Preferred Stock: \$1,000 per share

Number of Shares of Preferred Stock Purchased: 4,000 shares

Dividend Payment Dates on the Preferred Stock: 2/15, 5/15, 8/15, 11/15

Series of Warrant Preferred Stock: Fixed Rate Cumulative Perpetual Preferred Stock,  
Series B

Number of Warrant Shares: 200.002 shares

Number of Net Warrant Shares (after net settlement): 200 shares

Exercise Price of the Warrant: \$0.01 per share

Purchase Price: \$4,000,000

Closing:

Location of Closing: Squire, Sanders & Dempsey LLP  
221 E. Fourth Street, Suite 2900  
Cincinnati, OH 45202

Time of Closing: 9:00 a.m. Eastern Standard Time

Date of Closing: March 27, 2009

Wire Information for Closing:

[REDACTED]

Contact for Confirmation of Wire Information:

[REDACTED]

**SCHEDULE B**

**CAPITALIZATION**

Capitalization Date: February 28, 2009

Common Stock

Par value: no par value

Total Authorized: 2,000,000 shares

Outstanding: 864,976 shares

Subject to warrants, options, convertible securities, etc.: 40,689 shares

Reserved for benefit plans and other issuances: None

Remaining authorized but unissued: 1,135,024 shares

Shares issued after Capitalization Date  
(other than pursuant to warrants, options,  
convertible securities, etc. as set forth  
above): None

Preferred Stock

Par value: N/A

Total Authorized: None

Outstanding (by series): None

Reserved for issuance: None

Remaining authorized but unissued: None

Holder of 5% or more of any class of capital stock

Friedlander & Co., Inc.

Primary Address

322 East Michigan Street, Suite 250  
Milwaukee, WI 53202

**SCHEDULE C**

**LITIGATION**

List any exceptions to the representation and warranty in Section 2.2(1) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box:



**SCHEDULE D**

**COMPLIANCE WITH LAWS**

List any exceptions to the representation and warranty in the second sentence of Section 2.2(m) of the Securities Purchase Agreement — Standard Terms.

If none, please so indicate by checking the box: .

List any exceptions to the representation and warranty in the last sentence of Section 2.2(m) of the Securities Purchase Agreement — Standard Terms.

If none, please so indicate by checking the box: .

**SCHEDULE E**

**REGULATORY AGREEMENTS**

List any exceptions to the representation and warranty in Section 2.2(s) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box:

**SCHEDULE F**

**COMPANY FINANCIAL STATEMENTS**

The December 31, 2008 financial statements are not yet completed and will be provided to the Investor promptly when available. The remaining Company Financial Statements that were Previously Disclosed pursuant to Section 2.2(h) of the Securities Purchase Agreement -- Standard Terms are attached hereto.

**SBTB 10KSB 12/31/2005**

**Section 1: 10KSB (SBT BANCORP, INC. 10-KSB)**

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20429

FORM 10-KSB

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

For the fiscal year ended December 31, 2005

OR

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: 000-51832

SBT Bancorp, Inc.

(Exact name of small business issuer as specified in its charter)

Connecticut

20-4346972

(State or other jurisdiction of  
Incorporation or organization)

(I.R.S. Employer  
Identification No.)

760 Hopmeadow Street,  
P.O. Box 248,  
Simsbury, CT

06070

(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code: (860) 408-5493

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange On which registered
None	None

Securities registered under Section 12(g) of the Exchange Act:

Title of each class  
Common Stock, no par value

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. \_\_\_\_\_

Note - checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b02 of the Exchange Act). Yes No x  
--- ---

The issuer's revenues, which include interest income and other income, for its fiscal year ended December 31, 2005, were \$10,730,595.

As of February 14, 2006, 840,678 shares of Common Stock, no par value per share, were outstanding. The aggregate market value, held by non-affiliates, of shares of the Common Stock, based upon the average of the bid and ask prices for such stock on that date, was approximately \$28,583,052.

Transitional small business disclosures format (check one):

Yes x No  
--- ---

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the SBT Bancorp, Inc. definitive Proxy Statement for the 2006 Annual Meeting of Shareholders to be held May 9, 2006 (the "Proxy Statement") to be filed with the Securities and Exchange Commission are incorporated by reference into Part III of this Form 10-KSB, and portions of The Simsbury Bank & Trust Company, Inc. Annual Report to Shareholders for the fiscal year ended December 31, 2005 (the "Annual Report") are incorporated by reference into Part II of this Form 10-KSB.

This Annual Report on Form 10-KSB is being filed by the registrant, SBT Bancorp, Inc., on behalf of The Simsbury Bank & Trust Company, Inc. (the "Bank"), as successor to the Bank pursuant to an Agreement and Plan of Reorganization dated February 15, 2006. The reorganization was effective as of March 2, 2006. On March 7, 2006, SBT Bancorp, Inc. filed a Current Report on Form 8-K12(g)(3) succeeding to the registration of the Bank pursuant to Rule 12g-3(a) under the Exchange Act.

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## ITEM 1. DESCRIPTION OF BUSINESS

## General

The Simsbury Bank & Trust Company, Inc. (the "Bank") was incorporated on April 20, 1992 and commenced operations as a Connecticut chartered bank on March 31, 1995. The Bank's deposit accounts are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits thereof. The Bank is not a member of the Federal Reserve System. The Bank's main office and corporate offices are located in the town of Simsbury, Connecticut. The Bank has branch offices in Avon, Canton and Granby, Connecticut. Simsbury has a population over 23,000. The aggregate population for the Bank's market area is 75,000 people and is comprised of approximately 29,000 households. The towns of Avon and Granby have had some of the most significant growth in the Farmington Valley of Connecticut over the last ten years. The Bank's customer base consists primarily of individual consumers and small businesses in the Farmington Valley. The Bank has over 19,000 deposit accounts.

The Bank also has five ATMs; two are located at its main office including a drive-through ATM, and one at each branch office. The ATMs generate activity fees based upon utilization by other banks' customers.

The Bank offers a full range of commercial banking services, including making commercial loans, term real estate loans, construction loans, SBA loans and various types of consumer loans; accepting checking, savings, and time deposits; NOW, Super NOW and money market deposit accounts; and providing travelers' checks, safe deposit and other customary non-deposit banking services. The Bank does not have a trust department. The Bank offers investment products to customers through SBT Investment Services, Inc., a wholly-owned subsidiary of the Bank, and through its affiliation with the securities broker/dealer Infinex Financial Services.

As of December 31, 2005, approximately 72% of the Bank's loans were secured by residential property located in Connecticut.

The deposit growth experienced during the Bank's first ten years continued during 2005. Deposits increased by \$8.0 million (4.3%) in 2005, compared to \$11.1 million in growth during 2004. Total assets grew to almost \$210 million, ending the year at \$209.5 million, an increase of \$7.3 million. The Bank's loan portfolio also grew, increasing by \$4.6 million (3.2%) to end the year at \$147.5 million. The Bank's loan-to-deposit ratio, an important determinant of net interest income remained steady at 77% at year-end 2005, substantially the same as year-end 2004.

Net income of \$1,673,677 (\$2.00 per common share) for the year ending December 31, 2005 was a 6% decrease from the net income of \$1,778,250 (\$2.17 per common share) reported for the year ended December 31, 2004. This decrease was primarily due to the expenses incurred for the opening of the new branch in Canton.

Banking is a business that depends on rate differentials. In general, the difference between the interest rate paid by the Bank on its deposits and its other borrowings and the interest rate received by the Bank on loans extended to its customers and securities held in the Bank's portfolio comprise the major portion of the Bank's earnings. These rates are highly sensitive to many factors that are beyond the control of the Bank. Accordingly, the earnings and growth of the Bank are subject to the influence of domestic and foreign economic conditions, including inflation, recession and unemployment.

The commercial banking business is not only affected by general economic conditions but is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Federal Reserve Board. The Federal Reserve Board implements national monetary policies (with objectives such as curbing inflation and combating recessions) by

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its open-market operations in United States Government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

## Recent Developments

On March 2, 2006 the Bank completed a reorganization into a holding company structure. As a result of the reorganization, the Bank became a wholly-owned subsidiary of SBT Bancorp, Inc. (the "Company") and the former shareholders of

the Bank became shareholders of the Company. On March 7, 2006, the Company filed a Current Report on Form 8-K12(g)(3) succeeding to the registration of the Bank pursuant to Rule 12g-3(a) under the Securities Exchange Act of 1934. The common stock of the Company is currently quoted on the OTC Bulletin Board under the trading symbol "SBTS."

#### Market Area

The towns of Simsbury, Granby and Avon, which comprise the Bank's primary market, are located in Northwestern Connecticut, west of the Connecticut River near the northern corner of Hartford. All three towns are situated near Interstate Routes 91 and 84. Bradley International Airport is within ten miles of Simsbury, Granby and Avon and provides a convenient alternative to road systems for passengers or cargo.

The road network from each of the towns included in the Bank's secondary market of Barkhamsted, Canton, East Granby and New Hartford, leads through Simsbury, Granby or Avon. Residents of these communities, therefore, may travel near the Bank's offices and may find it convenient to bank there.

Based on the most current information available, the Bank's primary and secondary markets have a median household income of \$73,673. This level places the overall market approximately 36% above the median income of all Connecticut's households. Compared to the nation as a whole, the median income in the Bank's primary and secondary markets is approximately 75% greater than the median income for all U.S. households. By themselves, the towns of Simsbury and Avon had median household incomes of over \$82,428, placing them 96% over the median income for the U.S. and almost 53% over the median income of all households in Connecticut.

Educational attainment in the Bank's primary and secondary markets is similarly high. Fifty-seven percent of the residents aged twenty-five and over in the seven towns are college graduates. In Simsbury, Granby and Avon, this figure averages 63%.

#### Employees

At December 31, 2005, the Bank employed a total of 59 people, 52 full-time employees and 7 part-time employees. The Bank's employees are not represented by any union or other collective bargaining agreement and the Bank believes its employee relations are satisfactory.

#### Competition

The banking and financial services business in Connecticut generally, and in the Bank's market areas specifically, is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. The Bank competes for loans and deposits and customers for financial services with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other nonbank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader array of financial services than the Bank. In order to compete with the other financial services providers, the Bank

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principally relies upon local promotional activities, personal relationships established by officers, directors and employees with its customers, and specialized services tailored to meet its customers' needs. In those instances where the Bank is unable to accommodate a customer's needs, the Bank will seek to have those services provided by its correspondents.

The Bank's primary and secondary markets have a number of banking institutions which offer a variety of financial products. The types of institutions range from large nationwide banks to various institutions of smaller size. Other than the Bank, no bank is headquartered in the Bank's primary market area. Simsbury is served by seven depository institutions with a total of seven offices. Of these institutions, there are three commercial banks, two savings banks and two credit unions. Avon is served by ten depository institutions with thirteen offices. Of these institutions, there are three commercial banks, five savings banks and two credit unions. Granby is served by five depository institutions with the same number of offices. Two of these institutions are commercial banks and three are savings banks. Canton is served by four depository institutions with five offices. Two of these institutions are commercial banks and two are savings banks. The total seven-town area of the Bank's primary and secondary markets is served by thirteen institutions.

As of June 30, 2005, by deposit account market share, the top three banks in Simsbury are Bank of America (31%), Simsbury Bank & Trust Company (27%), and Webster Bank (20%). The top three banks in Avon are People's Bank (22%), Bank of America (21%), and Webster Bank (16%). In Granby, the top three banks are Bank of America (32%), Windsor Federal Savings And Loan Association (24%) and

Simsbury Bank & Trust Company (24%). In Canton, the top three banks are Collinsville Savings Society (41%), Webster Bank (28%) and Bank of America (25%). In the Bank's primary market (Simsbury, Granby and Avon), the top 3 banks are Bank of America with 26% of the market, The Simsbury Bank & Trust Company with 17% and Webster Bank with 14%. In the total seven-town area of the Bank's primary and secondary markets, the top three banks are Bank of America with 26% of the market, Webster Bank with 15% and The Simsbury Bank & Trust Company with 13%.

The present bank regulatory scheme is undergoing significant change, both as it affects the banking industry itself and as it affects competition between banks and non-banking financial institutions. There has been a significant regulatory change in the bank merger and acquisition area, in the products and services banks can offer, and in the non-banking activities in which bank holding companies may engage. Under the Gramm-Leach-Bliley Act enacted by Congress on November 12, 1999, banks and bank holding companies may now affiliate with insurance and securities companies. In part as a result of these changes, banks are now actively competing with other types of non-depository institutions, such as money market funds, brokerage firms, insurance companies and other financial service enterprises.

Moreover, certain legislation and regulatory proposals that could affect the Bank and the banking industry in general are pending or may be introduced before the United States Congress, the Connecticut General Assembly and various governmental agencies. These proposals include measures that may further alter the structure, regulation and competitive relationship of financial institutions and that may subject the Bank to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies frequently propose rules and regulations to implement and enforce already existing regulation. It cannot be predicted whether or in what form any legislation or regulations will be enacted or the extent to which the business of the Bank will be affected thereby.

#### Supervision and Regulation

Banks are extensively regulated under both federal and state law. Set forth below is a summary description of certain laws which relate to the regulation of the Bank. The description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

The Bank, as a Connecticut state-chartered bank, is subject to supervision, periodic examination and regulation by the Connecticut Commissioner of Banking (the "Commissioner") and the Federal Deposit Insurance Corporation (the "FDIC"). If, as a result of an examination of a bank, the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the bank's operations are unsatisfactory or that the bank or its management is violating or has violated any law or regulation, various remedies are available to the FDIC. Such remedies include the power to enjoin "unsafe or unsound" practices, to require

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affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the bank, to assess civil monetary penalties, to remove officers and directors, and ultimately, to terminate a bank's deposit insurance, which for a Connecticut state-chartered bank would result in a revocation of the bank's charter. The Commissioner has many of the same remedial powers.

The deposits of the Bank are insured by the FDIC in the manner and to the extent provided by law. For this protection, the Bank is subject to a semiannual statutory assessment. (See "Premiums for Deposit Insurance.") Although the Bank is not a member of the Federal Reserve System, it is nevertheless subject to certain regulations of the Board of Governors of the Federal Reserve System.

Various requirements and restrictions under the laws of the State of Connecticut and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank's operations, including reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices and capital requirements. Further, the Bank is required to maintain certain levels of capital.

#### Capital Standards

The FDIC has adopted risk-based capital guidelines to which FDIC-insured, state-chartered banks that are not members of the Federal Reserve System, such as the Bank, are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to the differences in risk profiles among banking organizations. Banks are required to maintain minimum levels of capital based upon their total assets and total "risk-weighted assets." For purposes of these requirements, capital is comprised of both Tier 1 and Tier 2 capital. Tier 1 capital consists primarily of common



stock and retained earnings. Tier 2 capital consists primarily of loan loss reserves, subordinated debt, and convertible securities. In determining total capital, the amount of Tier 2 capital may not exceed the amount of Tier 1 capital. A bank's total "risk based assets" are determined by assigning the bank's assets and off-balance sheet items (e.g., letters of credit) to one of four risk categories based upon their relative credit risks. The greater the risk associated with an asset, the greater the amount of such asset that will be subject to capital requirements. Banks must satisfy the following three minimum capital standards: (1) Tier 1 capital in an amount equal to between 4% and 5% of total assets (the "leverage ratio"); (2) Tier 1 capital in an amount equal to 4% of risk-weighted assets; and (3) total Tier 1 and Tier 2 capital in an amount equal to 8% of risk-weighted assets.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") defines specific capital categories based upon an institution's capital ratios. The capital categories, in declining order, are: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. Under FDICIA and the FDIC's prompt corrective action rules, the FDIC may take any one or more of the following actions against an undercapitalized bank: restrict dividends and management fees, restrict asset growth and prohibit new acquisitions, new branches or new lines of business without prior FDIC approval. If a bank is significantly undercapitalized, the FDIC may also require the bank to raise capital, restrict interest rates a bank may pay on deposits, require a reduction in assets, restrict any activities that might cause risk to the bank, require improved management, prohibit the acceptance of deposits from correspondent banks and restrict compensation to any senior executive officer. When a bank becomes critically undercapitalized, (i.e., the ratio of tangible equity to total assets is equal to or less than 2%), the FDIC must, within 90 days thereafter, appoint a receiver for the bank or take such action as the FDIC determines would better achieve the purposes of the law. Even where such other action is taken, the FDIC generally must appoint a receiver for a bank if the bank remains critically undercapitalized during the calendar quarter beginning 270 days after the date on which the bank became critically undercapitalized.

To be considered "adequately capitalized," an institution must generally have a leverage ratio of at least 4%, a Tier 1 capital to risk-weighted assets ratio of at least 4% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 8%. As of December 31, 2005 the most recent notification from the FDIC 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 below. There are no conditions that Management believes have changed the Bank's category.

The following table presents the amounts of regulatory capital and the capital ratios for the Bank compared to its minimum regulatory capital requirements as of December 31, 2005 and 2004.

	December 31, 2005		December 31, 2004	
	Ratio	Capital Minimum Requirement	Ratio	Capital Minimum Requirement
Leverage ratio	7.61%	4.00%	7.11%	4.00%
Tier 1 risk-based ratio	12.41%	4.00%	12.02%	4.00%
Total risk-based ratio	13.66%	8.00%	13.27%	8.00%

#### Safety and Soundness Standards

Federal law requires each federal banking agency to prescribe for depository institutions under its jurisdiction standards relating to, among other things: internal controls; information systems and audit systems; loan documentation; credit underwriting; interest rate risk exposure; asset growth; compensation; fees and benefits; and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness (the "Guidelines") to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The Guidelines address internal controls and information systems; internal audit system; credit underwriting; loan documentation; interest rate risk exposure; asset quality; earnings and compensation; fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard set by the Federal Deposit Insurance Act, as amended. The final regulations establish deadlines for

submission and review of such safety and soundness compliance plans.

The federal banking agencies also have adopted final regulations for real estate lending prescribing uniform guidelines for real estate lending. The regulations require insured depository institutions to adopt written policies establishing standards, consistent with such guidelines, for extensions of credit secured by real estate. The policies must address loan portfolio management, underwriting standards and loan to value limits that do not exceed the supervisory limits prescribed by the regulations.

Appraisals for "real estate-related financial transactions," generally transactions with a value of \$250,000 or more, must be conducted, depending on the value of the transaction by either state certified or state licensed appraisers. State certified appraisers are required for: all transactions with a transaction value of \$1,000,000 or more; nonresidential transactions valued at \$250,000 or more; and transactions of \$250,000 or more involving "complex" 1-4 family residential properties. An appraisal or real estate "evaluation" executed by a state licensed appraiser is required for all other federally related transactions. Federally related transactions include the sale, lease, purchase, investment in, or exchange of, real property or interests in real property, the financing or refinancing of real property, and the use of real property or interests in real property as security for a loan or investment, including mortgage-backed securities.

#### Premiums for Deposit Insurance

The FDIC has implemented a risk-based assessment system, under which an institution's deposit insurance premium assessment is based on the probability

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that the deposit insurance fund will incur a loss with respect to the institution, the likely amount of any such loss, and the revenue needs of the deposit insurance fund.

Under this risk-based assessment system, banks are categorized into one of three capital categories (well capitalized, adequately capitalized, and undercapitalized) and one of three categories based on supervisory evaluations by its primary federal regulator (in the Bank's case, the FDIC). The three supervisory categories are: financially sound with only a few minor weaknesses (Group A), demonstrates weaknesses that could result in significant deterioration (Group B), and poses a substantial probability of loss (Group C). The capital ratios used by the FDIC to define well-capitalized, adequately capitalized and undercapitalized are the same in the FDIC's prompt corrective action regulations. The Bank is currently considered a "Well Capitalized Group A" institution and, therefore, is not subject to any quarterly FDIC Bank Insurance Fund ("BIF") or Savings Association Insurance Fund ("SAIF") assessments. This could change in the future based on the capitalization of the BIF and SAIF. The Bank is, however, subject to quarterly assessments by The Financing Corporation ("FICO") to service the interest on its bond obligations. The rate for this assessment is determined quarterly and is paid based on the Bank's average deposits for a given quarter. The Bank paid \$24,348 in FICO assessments during 2005.

#### Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal") was enacted to ease restrictions on interstate banking. Effective September 25, 1994, Riegle-Neal allows the Federal Reserve Board to approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve Board may not approve the acquisition of a bank that has not been in existence for a minimum time period (not exceeding five years) specified by the statutory law of the host state. Riegle-Neal also prohibits the Federal Reserve Board from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. Riegle-Neal does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit contained in Riegle-Neal.

#### Community Reinvestment Act

Under the Community Reinvestment Act, as amended, ("CRA"), as implemented by FDIC regulations, the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate-income neighborhoods. The CRA does not prescribe specific lending requirements or programs for financial

institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a savings institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) amended the CRA to require public disclosure of an institution's CRA rating and require the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. The Bank's latest CRA rating, received from the FDIC, was "satisfactory."

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#### Executive Officers

The following table shows the name, age, positions held with the Bank and principal occupations during the past five years of the Bank's executive officers.

NAME	AGE	POSITIONS HELD / PRINCIPAL OCCUPATIONS	YEAR OF HIRE
Martin J. Geitz President and Chief Executive Officer	49	President and Chief Executive Officer of the Bank since October 2004; Vice President of Massachusetts Mutual Life Insurance Company, 2003 to 2004; Chief Executive Officer and Chief Financial Officer of Cigna Bank & Trust Company, 2000 to 2003; President of Fleet Development Ventures, LLC and Fleet Community Development Corp, 1997 to 2000.	2004
Charles D. Forgie Executive Vice President and Chief Lending Officer	63	Executive Vice President and Chief Lending Officer of the Bank since 1995.	1995
Anthony F. Bisceglia, Ph.D. Executive Vice President and Chief Financial Officer	58	Executive Vice President and CFO of the Bank since January 2005; Senior Vice President and Chief Financial Officer of the Bank from 1995 through January, 2005.	1995
Terry L. Boulton Senior Vice President	49	Senior Vice President and Chief Retail Banking Officer of the Bank since January 2005; Vice President of Bank of America, formerly Fleet Bank, from 1988 through January, 2005.	2005

#### ITEM 2. DESCRIPTION OF PROPERTY

The Bank's main office is located at 981 Hopmeadow Street, Simsbury, Connecticut. The Bank leases its main office pursuant to a lease with an initial term of ten years, expiring 2011, and which contains renewal options for a total of an additional ten years. The Bank also has the option to purchase the office during the fifth year of the lease. This lease also covers the lot at 989 Hopmeadow Street and the building at 987 Hopmeadow Street that is being used as additional administrative offices and is partially subleased to small local businesses.

The Bank's Granby branch office is located at 11 Hartford Avenue, Granby, Connecticut. The Bank leases this office pursuant to a lease with an initial term of fifteen years, expiring in 2013, and which contains renewal options for a total of an additional ten years.

The Bank's Avon branch office is located at 27 Dale Road, Avon, Connecticut. The Bank leases this office pursuant to a lease with an initial term of fifteen years, expiring in 2014, and which contains renewal options for a total of an additional ten years.

The Bank's Canton Branch office is located at 250 Albany Turnpike, Canton, Connecticut. The Bank leases this office pursuant to a lease with an initial term of ten years, expiring in 2015, and which contains renewal options for a total of an additional fifteen years.

The Bank's administrative offices are located at 760 Hopmeadow Street, Simsbury, Connecticut. The Bank leases this building pursuant to a lease with an initial term of 63 months commencing in February 2001, and which contains two renewal options of five years each.

The Bank made \$400,962 in total rental payments during 2005.

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The Bank's Investment Policy permits the Bank to invest in mortgage-backed securities. It is the policy of the Bank to invest in mortgage-backed securities that have no more risk than the underlying mortgages. The Investment Policy also permits the Bank to invest in Preferred Stock issued by Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC).

#### ITEM 3. LEGAL PROCEEDINGS

The Bank is not a party to any pending legal proceeding, nor is its property the subject of any pending legal proceeding, other than routine litigation that is incidental to its business, and the Bank is not aware of any pending or threatened litigation that could have a material adverse effect upon its business, operating results, or financial condition. Moreover, the Bank is not a party to any administrative or judicial proceeding, including but not limited to proceedings arising under Section 8 of the Federal Deposit Insurance Act.

To the best of our knowledge, no director, officer, affiliate or holder, or record or beneficially, of 5% or more of our securities is a party adverse to the Bank or has a material interest adverse to the Bank in any proceeding.

#### 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 fiscal year ended December 31, 2005.

### PART II

#### ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

The information required by this Item 5 is incorporated into this Form 10-KSB by reference to the Bank's Annual Report under the caption "SHAREHOLDER DATA."

#### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The information required by this Item 6 is incorporated into this Form 10-KSB by reference to the Bank's Annual Report under the caption "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

#### ITEM 7. FINANCIAL STATEMENTS

The information required by this Item 7 is incorporated into this Form 10-KSB by reference to the Bank's Annual Report under the captions "SELECTED FINANCIAL AND OTHER DATA" and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

#### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the fiscal years ended December 31, 2005 and 2004, the Bank's principal independent accountant was not dismissed and did not resign or decline to stand for reelection.

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#### ITEM 8A. CONTROLS AND PROCEDURES

The Bank has initiatives in place to ensure compliance with the Sarbanes-Oxley Act of 2002 (the "Act"). The Bank has an Internal Compliance Committee that is responsible for the monitoring of and compliance with all federal regulations. This committee reports to the Audit and Compliance Committee of the Board of Directors.

##### Evaluation of Disclosure Control Procedures

The Bank's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Bank's disclosure controls and procedures as of December 31, 2005 and have concluded that, as of that date, the Bank's disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis. This conclusion is based on the above-referenced officers' evaluation of such controls and procedures.

##### Changes in Internal Controls

There were no significant changes in the Bank's internal controls over financial reporting or in other factors that could significantly affect the

Bank's controls during the fiscal year ended December 31, 2005.

ITEM 8B. OTHER INFORMATION

Not Applicable.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors

The information required by this Item 9 is incorporated into this Form 10-KSB by reference to the Proxy Statement of SBT Bancorp, Inc. for the annual meeting of shareholders of the Company to be held on May 9, 2006 under the caption "ELECTION OF DIRECTORS."

Executive Officers

The information required by this Item 9 is incorporated into this Form 10-KSB by reference to the Company's Proxy Statement under the caption "INFORMATION ABOUT OUR DIRECTORS." Additional information regarding the Bank's executive officers is included in Item 1 of part I of this Form 10-KSB.

Compliance with Section 16(a)

The information required by this item 9 is incorporated into this Form 10-KSB by reference to the Company's Proxy Statement under the caption "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE."

Code of Ethics

The Bank has adopted a Code of Ethics and Conflicts of Interest Policy applicable to directors, officers and employees. The text of the Bank's Code of Ethics and Conflicts of Interest Policy was filed previously as an exhibit to the Bank's Form 10-KSB for the fiscal year ended December 31, 2003. We will provide to any shareholder, without charge, upon written request, a copy of our Code of Ethics and Conflicts of Interest Policy. All such requests should be directed to The Simsbury Bank & Trust Company, Attention: Jane F. von Holzhausen, Secretary, 981 Hopmeadow Street, P.O. Box 248, Simsbury, Connecticut, 06070.

ITEM 10. EXECUTIVE COMPENSATION

The information required by this Item 10 is incorporated into this Form 10-KSB by reference to the Company's Proxy Statement under the captions "EXECUTIVE COMPENSATION" and "EMPLOYMENT AGREEMENTS."

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the securities authorized for issuance under equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	63,204	\$24.34	25,303
Equity compensation plans not approved by security holders	0	0	0
<b>Total</b>	<b>63,204</b>	<b>\$24.34</b>	<b>25,303</b>

The remaining information required by this Item 11 is contained in the Company's Proxy Statement under the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" and is hereby incorporated by reference herein.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 12 is incorporated into this form 10-KSB by reference to the Company's Proxy Statement under the caption "CERTAIN TRANSACTIONS."

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ITEM 13. EXHIBITS

Exhibits.

The following exhibits required by Item 601 are filed herewith or are incorporated by reference to the filings previously made by the Bank as noted below (the reference in parentheses at the end of an Exhibit indicates the number of the Exhibit as it was filed in the document referenced below):

Exhibit No.	Description
3(i)	Certificate of Incorporation (incorporated by reference to Exhibit (b)(1)(a) of the Bank's Form F-1 dated April 26, 1996)
3(ii)	Bylaws (incorporated by reference to Exhibit (b)(1)(b) of the Bank's Form F-1 dated April 26, 1996 except for Section 3.2 as amended on January 19, 2000 and incorporated by reference to the Bank's Form 10-KSB dated March 30, 2000 and Section 3.4 as amended October 22, 2003)
4	Specimen Common Stock Certificate (incorporated by reference to Exhibit (b)(3) of the Bank's Form F-1 dated April 26, 1996)
10.1	Employment Agreement, dated as of September 1, 2004, by and between the Bank and Martin J. Geitz (incorporated by reference to Exhibit 10.13 of the Bank's 10-QSB dated November 12, 2004)
10.2	Employment Agreement, dated as of February 6, 2004, by and between the Bank and Charles D. Forgie and amended as of November 15, 2005 filed herewith
10.3	Employment Agreement, dated as of February 6, 2004, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.3 of the Bank's Form 10-KSB dated March 17, 2004)
10.4	Supplemental Executive Retirement Plan Agreement, dated as of April 23, 2001, by and between the Bank and Charles D. Forgie (incorporated by reference to Exhibit 10.5 of the Bank's 10-KSB dated March 17, 2004)
10.5	Supplemental Executive Retirement Plan Agreement, dated as of April 23, 2001, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.6 of the Bank's 10-KSB dated March 17, 2004)
10.6	Change in Control Agreement, dated as of July 30, 1999, by and between the Bank and Charles D. Forgie (incorporated by reference to Exhibit 10.7 of the Bank's 10-KSB dated March 17, 2004)
10.8	Change in Control Agreement, dated as of July 30, 1999, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.8 of the Bank's 10-KSB dated March 17, 2004)
13	2005 Annual Report (except for those portions expressly incorporated by reference, the 2005 Annual Report is furnished for informational purposes and is not to be deemed filed as part of this Form 10-KSB)
14	Code of Ethics (incorporated by reference to Exhibit 14 of the Bank's 10-KSB dated March 17, 2004)
21	Subsidiaries (incorporated by reference to Exhibit 21 of the Bank's 10-KSB dated March 19, 2003)
31.1	Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Executive Officer

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31.2	Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Financial Officer
32.1	Section 1350 Certification by Chief Executive Officer
32.2	Section 1350 Certification by Chief Financial Officer

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 appears in the Company's Proxy Statement under the caption "RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS" and is incorporated by reference herein.

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Selected Financial and Other Data

	At 12/31/05	At 12/31/04	At 12/31/03
<b>Balance Sheet Data:</b>			
Total assets	\$209,544,654	\$202,154,436	\$ 188,407,171
Loans, net	145,805,738	141,229,419	131,124,094
Investment securities	41,196,740	39,448,449	37,964,879
Federal funds sold and other interest earning deposits	6,833,970	10,010,972	8,871,466
Deposits	191,115,680	183,132,283	172,076,021
Stockholders' equity	15,375,598	14,255,257	12,772,123
	For the Year Ended 12/31/05	For the Year Ended 12/31/04	For the Year Ended 12/31/03
<b>Statement of Income Data:</b>			
Total interest and dividend income	\$ 9,759,483	\$ 8,670,263	\$ 8,667,076
Total interest expense	2,126,399	1,662,982	1,988,070
Net interest and dividend income	7,633,084	7,007,281	6,679,006
Provision for loan losses	30,000	25,000	180,000
Net interest and dividend income after provision for loan losses	7,603,084	6,982,281	6,499,006
Gains on loans sold, net	61,222	44,726	67,293
Other noninterest income	909,890	841,702	831,006
Noninterest expense	6,055,101	5,186,427	4,776,205
Income tax expense	845,418	904,032	898,466
Net income	1,673,677	1,778,250	1,722,634
Earnings per common share	\$ 2.00	\$ 2.17	\$ 2.16
Earnings per common share, assuming dilution	\$ 1.96	\$ 2.10	\$ 2.10
<b>Other Data:</b>			
Net interest spread	3.80%	3.66%	3.75%
Net interest margin	4.06%	3.85%	3.96%
Return on average assets	0.83%	0.92%	0.96%
Return on average stockholders' equity	11.19%	13.17%	14.26%
Average stockholders' equity to average assets	7.46%	6.99%	6.72%

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Management's Discussion and Analysis of Financial Conditions and Results of Operations

Forward Looking Statements

When used in this Annual Report or any press release, public announcement or filing, the words "intends," "expects," "plans," "estimates," "projects," "believes," "anticipates" and similar expressions are intended to identify forward-looking statements. The Bank (defined below) has made and may continue to make various forward-looking statements with respect to earnings, credit quality and other financial and business matters for periods subsequent to December 31, 2005. All statements, other than statements of historical facts, are forward-looking statements. The Bank cautions that these forward-looking statements are not guarantees of future performance and are subject to numerous assumptions, risks and uncertainties, and that statements relating to subsequent

periods are subject to greater uncertainty because of the increased likelihood of changes in underlying factors and assumptions. Actual results could differ materially from forward-looking statements. In addition to those factors previously disclosed by the Bank and those factors identified elsewhere herein, the following factors could cause actual results to differ materially from such forward-looking statements: competitive pressures on loan and deposit product pricing; other actions of competitors; changes in economic conditions; the extent and timing of actions of the Federal Reserve Board; customer deposit disintermediation; changes in customers' acceptance of the Bank's products and services; and the extent and timing of legislative and regulatory actions and reforms.

Please do not rely unduly on any forward-looking statement, as such statements speak only as of the date made and the Bank undertakes no obligation to revise or update such statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events or circumstances.

#### General

This discussion is designed to assist you in better understanding the Bank's financial condition, results of operations, liquidity and capital resources and any significant changes and trends related thereto. This discussion should be read in conjunction with the financial statements of the Bank.

The Simsbury Bank & Trust Company, Inc. (the "Bank") was incorporated on April 28, 1992 and commenced operations as a Connecticut chartered bank on March 31, 1995. The Bank's deposit accounts are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits thereof. The Bank is not a member of the Federal Reserve System. The Bank's main office and its corporate offices are located in the town of Simsbury, Connecticut. The Bank has branch offices in the towns of Granby, Avon and Canton, Connecticut. Simsbury has a population of more than 23,000. The aggregate population for the Bank's market area is 75,000, comprised of approximately 29,000 households. The Bank's customer base consists primarily of individual consumers and small businesses in the Farmington Valley of Connecticut. The Bank has in excess of 19,000 deposit accounts.

The Bank offers a full range of banking services including commercial loans, term real estate loans, construction loans, SBA loans and a variety of consumer loans; checking, savings, certificates of deposit and money market deposit accounts; and travelers' checks, safe deposit and other customary non-deposit banking services. As of December 31, 2005, approximately 72% of the Bank's loans were secured by residential property located in Connecticut. The Bank has two ATMs at its main office and one ATM at each of its branch locations. The ATMs generate activity fees based upon utilization by other banks' customers. The Bank does not have a trust department. The Bank offers investment products to customers through SBT Investment Services, Inc., a wholly-owned subsidiary of the Bank, and through its affiliation with the securities broker/dealer Infinex Financial Services.

The deposit growth experienced during the Bank's first ten years of operation continued during 2005. Deposits increased by \$8.0 million (4.4%) in 2005, compared to \$11.1 million growth during 2004. Total assets ended the year at \$209.5 million, an increase of \$7.3 million (3.6%) over \$202.2 million at year-end 2004. The Bank's loan portfolio also grew, increasing by \$4.6 million (3.2%) to end the year at \$147.5 million. The Bank's loan-to-deposit ratio, an important determinant of net interest income, remained steady at 77% at year-end 2005, substantially the same as year-end 2004.

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Net income of \$1,673,677 (\$2.00 per common share) for the year ended December 31, 2005 was a 6% decrease from the net income of \$1,778,250 (\$2.17 per common share) reported for the year ended December 31, 2004, and a 3% decrease from the net income of \$1,722,634 (\$2.16 per common share) reported for the year ended December 31, 2003.

Results of Operations for the Years Ended December 31, 2005, 2004 and 2003.

#### Net Interest Income and Net Interest Margin

The Bank's earnings depend largely upon the difference between the income received from its loan portfolio and investment securities and the interest paid on its liabilities, mainly interest paid on deposits. This difference is "net interest income." The net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by the change in the level and the mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. The Bank's net interest margin is also affected by changes in yields earned on assets and rates paid on liabilities, referred to



as rate changes. Interest rates charged on the Bank's loans are affected principally by the demand for such loans, the supply of money available for lending purposes and competitive factors. These factors are in turn affected by general economic conditions and other factors beyond the Bank's control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters, and the actions of the Federal Reserve.

Net interest and dividend income, which totaled \$7,633,084 in 2005, has increased in each year since the Bank began operations in March of 1995. The majority of this increase has been due to an increase in the volume of earning assets. Earning assets have grown from \$30 million on December 31, 1995 to over \$191 million at December 31, 2004 and to almost \$194 million at December 31, 2005, a growth rate of 1.6% over the past year and a 36% growth rate over the last four years. The Bank's net interest spread and net interest margin increased to 3.80% and 4.06% during 2005 as compared to 3.66% and 3.85% during 2004. This was primarily due to the rising interest rate environment that was prevalent during the year.

The following table presents the average amounts outstanding for the major categories of the Bank's interest-earning assets and interest-bearing liabilities and the average interest rates earned or paid thereon for the years ended December 31, 2005, 2004 and 2003.

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NET INTEREST INCOME  
(Dollars in thousands)

	For the Year Ended 12/31/05		
	Average Balance	(1) Interest	Yield
Federal funds sold and overnight deposits	\$ 5,267	\$ 169	3.21%
Investments (1)	40,636	1,628	4.01
Mortgage loans	80,376	4,364	5.43
Commercial loans	32,893	2,108	6.41
Consumer loans	30,938	1,579	5.10
Term federal funds sold	542	14	2.58
Total loans	144,749	8,065	5.57
Total interest-earning assets	\$190,652	\$9,862	5.17%
NOW deposits	\$ 26,721	\$ 27	0.10%
Savings deposits	73,994	597	0.81
Time deposits	\$1,684	1,427	2.76
Total interest-bearing deposits	152,399	2,051	1.35
Securities sold under agreements to repurchase	2,007	32	1.59
Federal Home Loan Bank advances	1,201	44	3.66
Total interest-bearing liabilities	\$155,607	\$2,127	1.37%
Net interest income		\$7,735	
Net interest spread			3.80%
Net interest margin			4.06%

	For the Year Ended 12/31/04		
	Average Balance	(1) Interest	Yield
Federal funds sold and overnight deposits	\$ 11,191	\$ 139	1.24%
Investments (1)	39,603	1,478	3.73
Mortgage loans	83,349	4,619	5.54

Commercial loans	24,091	1,368	5.68
Consumer loans	25,560	1,161	4.54
Term federal funds sold	719	5	1.11
	-----	-----	
Total loans	133,719	7,156	5.35
	-----	-----	
Total interest-earning assets	\$184,913	\$8,771	4.75%
	-----	-----	
NOW deposits	\$ 27,514	\$ 27	0.10%
Savings deposits	78,462	635	0.81
Time deposits	44,070	963	2.19
	-----	-----	
Total interest-bearing deposits	150,046	1,625	1.08
	-----	-----	
Securities sold under agreements to repurchase	2,889	38	1.32
Federal Home Loan Bank advances	5	-	-
	-----	-----	
Total interest-bearing liabilities	\$152,940	\$1,663	1.09%
	-----	-----	
Net interest income		\$7,110	
		-----	
Net interest spread			3.66%
			-----
Net interest margin			4.85%
			-----

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NET INTEREST INCOME  
(Dollars in thousands)

	For the Year Ended 12/31/03		
	Average Balance	(1) Interest	Yield
Federal funds sold and overnight deposits	\$ 16,638	\$ 165	0.99%
Investments (1)	30,483	1,286	4.22
Mortgage loans	82,644	5,042	6.10
Commercial loans	20,044	1,185	5.91
Consumer loans	20,682	1,083	5.24
Term federal funds sold	958	10	1.04
	-----	-----	
Total loans	124,328	7,320	5.89
	-----	-----	
Total interest-earning assets	\$171,449	\$8,771	5.12%
	-----	-----	
NOW deposits	\$ 24,979	\$ 46	0.18%
Savings deposits	72,146	742	1.03
Time deposits	43,981	1,146	2.61
	-----	-----	
Total interest-bearing deposits	141,106	1,934	1.37
	-----	-----	
Securities sold under agreements to repurchase	3,999	54	1.50
Federal Home Loan Bank advances	-	-	-
	-----	-----	
Total interest-bearing liabilities	\$144,705	\$1,988	1.37%
	-----	-----	
Net interest income		\$6,783	
		-----	
Net interest spread			3.95%
			-----
Net interest margin			3.96%
			-----

(1) On a fully taxable equivalent basis based on a tax rate of 35.95%. Interest income on investments includes a fully taxable equivalent adjustment of \$103,000 in 2005, \$103,000 in 2004 and \$103,000 in 2003.

Provision for Loan Losses

Provisions for loan losses are charged to earnings to bring the total allowance for loan losses to a level deemed appropriate by the Bank's management ("Management") based on such factors as historical experience, the volume and type of lending conducted by the Bank, the amount of non-performing loans, regulatory policies, generally accepted accounting principles, general economic conditions, and other factors related to the collectability of loans in the Bank's portfolio.

Each month the Bank reviews the allowance for loan losses and makes additional provisions to the allowance, as needed. For the year ended December 31, 2005, the allowance was increased by \$18,000, net of charge-offs and recoveries. The total allowance for loan losses at December 31, 2005 was \$1,720,000 or 1.16% of outstanding loans. This compares with a total allowance for loan losses of \$1,702,000 at year-end 2004, which represented 1.19% of outstanding loans. With the exclusion of loans to financial institutions (term federal funds sold), this ratio was 1.18% at year-end 2005 and 1.23% at year-end 2004. During 2005, the Bank charged off four loans for a total of \$12,500. The Bank recovered one loan for \$94 during 2005. During 2004, the Bank charged-off six loans for a total of \$14,000. The Bank recovered four loans for \$21,000 during 2004. Management believes the allowance for loan losses is adequate.

Noninterest Income and Noninterest Expense

The following table sets forth the various components of the Bank's noninterest income and noninterest expense for the years ended December 31, 2005, 2004 and 2003.

NONINTEREST INCOME						
	For Year Ended 12/31/05	% of Total	For Year Ended 12/31/04	% of Total	For Year Ended 12/31/03	% of Total
Service charges on deposit accounts	\$ 313,746	32.3%	\$ 331,374	37.4%	\$ 310,536	34.6%
Safe deposit fees	64,819	6.7	61,475	6.9	61,542	6.8
Business manager income	127,157	13.1	118,768	13.4	113,158	12.6
Gain on loans sold, net	61,222	6.3	44,726	5.0	67,293	7.5
Other income	404,168	41.6	330,585	37.3	345,770	38.5
<b>Total</b>	<b>\$971,112</b>	<b>100.0%</b>	<b>\$886,428</b>	<b>100.0%</b>	<b>\$898,299</b>	<b>100.0%</b>

NONINTEREST EXPENSE						
	For Year Ended 12/31/05	% of Total	For Year Ended 12/31/04	% of Total	For Year Ended 12/31/03	% of Total
Salaries and employee benefits	\$3,054,881	50.5%	\$2,716,535	52.4%	\$2,385,588	50.0%
Occupancy expense	253,452	12.4	682,675	13.1	653,284	13.7
Equipment expense	210,475	3.5	222,383	4.3	254,434	5.3
Forms and supplies	160,599	2.6	133,127	2.6	168,497	3.5
Advertising and promotions	350,157	5.6	215,689	4.2	178,967	3.8
Professional fees	328,820	5.4	164,931	3.2	152,410	3.2
Insurance	78,753	1.3	74,591	1.4	77,491	1.6
Loan expenses	85,141	1.4	109,795	2.1	129,547	2.7
Telephone and postage	138,458	2.3	118,757	2.3	164,278	3.4
Other expenses	894,335	14.9	748,814	14.4	608,609	12.8
<b>Total</b>	<b>\$6,055,101</b>	<b>100.0%</b>	<b>\$5,186,427</b>	<b>100.0%</b>	<b>\$4,776,205</b>	<b>100.0%</b>

Noninterest income for the twelve months ended December 31, 2005 was \$971,112, an increase of almost \$85,000 from the twelve months ended December 31, 2004. The 2005 increase was due primarily to the increases in gains on loans sold and other income offset by a decrease in service charges collected on deposit accounts. The Bank continued to sell residential mortgage loans with thirty year maturities during 2005 resulting in gains of \$61,222. The Bank sold loans resulting in gains of \$44,726 during 2004. The decrease in service charges on deposit accounts was due to decreases in transaction volumes. The largest decrease was in other service charges for such transactions as wire transfers and foreign item collections. The Bank collected approximately \$23,000 in these charges during 2005 compared to approximately \$37,500 collected during 2004. At December 31, 2005, the Bank had over 19,000 deposit accounts, 1,900 or 11% more than the approximately 17,100 accounts at year-end 2003 and 2,300 or 14% more

than the approximately 16,700 accounts at year-end 2003. The increase in other income during 2005 is primarily due to an increase in other fees received related to ATM and point of sales transactions and an increase in income from bank-owned life insurance. The Bank did not sell any investment securities during 2005 or 2004.

Noninterest expense for the year ended December 31, 2005 was \$6,055,101, an increase of \$868,674 or 17%, over 2004. Noninterest expense for the year ended

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December 31, 2004 was \$5,186,427. This compares to an increase of 9% from 2003 to 2004 in noninterest expense. The largest increases occurred in salaries and benefits, occupancy expense, professional fees and advertising. The increases in 2005 were primarily related to a fourth full service branch and the Bank's continued efforts to promote itself as the bank of choice in the Farmington Valley of Connecticut. Other factors in this increase are expenses related to compliance with new regulatory requirements and the formation of a bank holding company. The Bank's operating expense ratios remain very favorable versus its peers.

Salaries and employee benefits comprised 51% of total noninterest expense during 2005, as compared to 52% in 2004. Other major categories during 2005 included occupancy expense and equipment expense at approximately 12% and 4%, respectively, advertising and promotions at approximately 6%, and professional fees at approximately 5%. Other major categories in 2004 also included occupancy and equipment expenses at approximately 13% and 4%, respectively. The largest components of other expenses, totaling \$894,335 in 2005 and \$743,814 in 2004, consisted of correspondent banking charges and software costs.

Financial Condition at Years Ended December 31, 2005, 2004 and 2003

The following table sets forth the average balances of each principal category of the Bank's assets, liabilities and capital accounts for the years ended December 31, 2005, 2004 and 2003.

Distribution of Assets, Liabilities and Stockholders' Equity  
(Dollars in thousands)

	For the Year Ended 12/31/05		For the Year Ended 12/31/04		For the Year Ended 12/31/03	
	Average Balance	Percent of Total Assets	Average Balance	Percent of Total Assets	Average Balance	Percent of Total Assets
<b>Assets</b>						
Cash and due from banks	\$ 6,195	3.1%	\$ 5,516	2.9%	\$ 4,993	2.8%
Investment securities	40,636	20.2	39,603	20.5	30,483	17.0
Federal funds sold and overnight deposits	5,267	2.6	11,191	5.8	16,638	9.2
Loans, net	143,385	71.4	132,608	68.3	122,726	68.3
Premises and equipment	570	0.3	508	0.2	572	0.3
Accrued interest and other assets	4,872	2.4	4,479	2.3	4,249	2.4
<b>Total assets</b>	<b>\$200,925</b>	<b>100.0%</b>	<b>\$193,305</b>	<b>100.0%</b>	<b>\$179,661</b>	<b>100.0%</b>
<b>Liabilities and Stockholders' Equity</b>						
<b>Deposits</b>						
Demand and NOW Deposits	\$ 56,639	28.2%	\$ 53,762	27.8%	\$ 46,993	26.2%
Savings deposits	73,994	36.8	78,462	40.6	72,146	40.1
Time deposits	51,684	25.7	44,070	22.8	43,981	24.5
<b>Total deposits</b>	<b>182,317</b>	<b>90.7</b>	<b>176,294</b>	<b>91.2</b>	<b>163,120</b>	<b>90.8</b>
Accrued interest and other liabilities	3,648	1.8	3,507	1.8	4,459	2.5
<b>Total liabilities</b>	<b>185,965</b>	<b>92.5</b>	<b>179,801</b>	<b>93.0</b>	<b>167,579</b>	<b>93.3</b>
<b>Stockholders' equity:</b>						
Common stock	8,397	4.2	8,197	4.3	7,877	4.4
Retained earnings and other comprehensive income	6,563	3.3	5,307	2.7	4,205	2.3
<b>Total stockholders' equity</b>	<b>14,960</b>	<b>7.5</b>	<b>13,504</b>	<b>7.0</b>	<b>12,082</b>	<b>6.7</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$200,925</b>	<b>100.0%</b>	<b>\$193,305</b>	<b>100.0%</b>	<b>\$179,661</b>	<b>100.0%</b>

## Investment Portfolio

In order to maintain a reserve of readily marketable assets to meet the Bank's liquidity and loan requirements, the Bank purchases United States Treasury securities and other investments. Sales of "federal funds" (short term loans to other banks) are regularly utilized. Placement of funds in certificates of deposit with other financial institutions may be made as alternative investments pending utilization of funds for loans or other purposes.

Securities may be pledged to meet security requirements imposed as a condition for receipt of deposits of public funds and repurchase agreements. At December 31, 2005, the Bank had fourteen securities with a book value totaling \$5,704,711 pledged for such purposes.

As of December 31, 2005, the Bank's investment portfolio consisted of U.S. government and agency securities and preferred stocks, mortgage-backed securities, corporate bonds, municipal securities, and money market mutual funds. The Bank's policy is to stagger the maturities of its investments to meet overall liquidity requirements of the Bank. The Bank's current policy is to invest only in securities with average maturities of less than ten years.

The following table summarizes the amounts and distribution of the Bank's investment securities held as of December 31, 2005, 2004, and 2003.

INVESTMENT PORTFOLIO  
(Dollars in thousands)

December 31, 2005

	Amortized Cost	Fair Value	Yield
<b>AVAILABLE-FOR-SALE SECURITIES</b>			
U.S. Government and Agency securities			
Due within one year	\$ 4,500	\$ 4,431	2.65%
Due after one to five years	13,326	13,048	3.62
Due after five to ten years	-	-	
Total U.S. Government and Agency securities	17,826	17,479	3.38
State and Municipal securities			
Due within one year	1,000	998	2.80
Due after one to five years	1,937	1,950	4.14
Due after five to ten years	1,821	1,949	5.38
Due after ten years	232	250	5.60
Total State and Municipal securities	4,990	5,147	4.39
Corporate debt securities			
Due after one to five years	475	459	3.30
Total Corporate debt securities	475	459	3.30
Mortgage-backed securities			
WARM* within one year	3,977	3,944	4.96
WARM* after one to five years	11,846	11,522	4.46
WARM* after five to ten years	26	25	6.30
Total Mortgage-backed securities	15,849	15,491	4.59
Preferred stocks			
	2,000	1,655	2.84
Total Available-for sale securities	\$41,140	\$40,231	4.22%

\* - Weighted Average Remaining Maturity

December 31, 2004

	Amortized Cost	Fair Value	Yield
<b>AVAILABLE-FOR-SALE SECURITIES</b>			
U.S. Government and Agency securities			
Due within one year	\$ 2,300	\$ 2,308	4.00%
Due after one to five years	12,495	12,379	3.00
Total U.S. Government and Agency securities	14,795	14,687	3.15
State and Municipal securities			
Due after one to five years	2,278	2,369	4.28
Due after five to ten years	1,820	2,013	5.38
Due after ten years	232	253	5.60

Total State and Municipal securities	4,330	4,635	4.81
Corporate debt securities			
Due within one year	500	500	3.84
Due after one to five years	475	467	3.30
	-----	-----	
Total Corporate debt securities	975	967	3.58
Mortgage-backed securities			
WARM* within one year	1,605	1,642	5.99
WARM* after one to five years	15,063	14,989	4.50
WARM* after five to ten years	41	40	6.30
	-----	-----	
Total Mortgage-backed securities	16,709	16,671	4.66
Preferred stocks	2,000	1,523	1.53
	-----	-----	
Total Available-for-sale securities	\$38,809	\$38,483	3.91%
	*****	*****	

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INVESTMENT PORTFOLIO  
(Dollars in thousands)

December 31, 2003

	Amortized Cost	Fair Value	Yield
-----			
AVAILABLE-FOR-SALE SECURITIES			
-----			
U.S. Government and Agency securities			
Due within one year	\$ 1,405	\$ 1,447	7.05%
Due after one to five years	16,548	16,574	3.12
Due after five to ten years	507	508	6.00
	-----	-----	
Total U.S. Government and Agency securities	18,460	18,529	3.50
State and Municipal securities			
Due within one year	-	-	-
Due after one to five years	835	906	5.10
Due after five to ten years	2,840	3,115	4.79
Due after ten years	233	295	5.60
	-----	-----	
Total State and Municipal securities	3,908	4,226	4.90
Corporate debt securities			
Due within one year	498	505	5.83
Due after one to five years	500	503	3.85
	-----	-----	
Total Corporate debt securities	998	1,008	4.86
Mortgage-backed securities			
WARM* within one year	1,312	1,384	7.16
WARM* after one to five years	9,062	9,027	4.39
WARM* after five to ten years	1,044	1,009	6.30
	-----	-----	
Total Mortgage-backed securities	11,418	11,420	4.69
Preferred stocks	2,000	1,757	1.99
	-----	-----	
Total Available-for sale securities	\$36,784	\$37,000	3.97%
	*****	*****	

\* - Weighted-Average Remaining Maturity

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Loan Portfolio

General The following table presents the Bank's loan portfolio as of December 31, 2005, 2004 and 2003.

LOAN PORTFOLIO  
(Dollars in thousands)

December 31, 2005		December 31, 2004		December 31, 2003	
Balance	% Total Loans	Balance	% Total Loans	Balance	% Total Loans
-----					

Commercial, financial and agricultural *	\$ 11,386	7.9%	\$ 14,089	9.9%	\$ 12,506	9.4%
Real estate - construction and land development	9,037	6.1	6,954	4.9	3,466	2.6
Real estate residential	96,459	65.5	97,646	68.4	94,375	71.2
Real estate commercial	16,161	10.9	11,137	7.8	11,417	8.6
Municipal	987	0.7	1,015	0.7	906	0.7
Consumer	13,381	9.1	11,850	8.3	9,991	7.5
	-----	----	-----	----	-----	-----
Total loans	147,351	100.0%	142,751	100.0%	132,661	100.0%
	=====	=====	=====	=====	=====	=====
Allowance for loan losses	(1,720)		(1,702)		(1,670)	
Deferred costs, net	175		180		153	
	-----		-----		-----	
Net Loans	\$145,806		\$141,229		\$131,124	
	=====		=====		=====	

\* - Includes Term federal funds sold \$2,000,000 at 12/31/2005, \$4,000,000 at 12/31/2004 and \$4,000,000 at 12/31/2003.

The Bank's commercial loans are made for the purpose of providing working capital, financing the purchase of equipment or for other business purposes. Such loans include loans with maturities ranging from thirty days to one year and "term loans" which are loans with maturities normally ranging from one to twenty-five years. Short-term business loans are generally intended to finance current transactions and typically provide for periodic principal payments, with

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interest payable monthly. Term loans normally provide for fixed or floating interest rates, with monthly payments of both principal and interest.

The Bank's construction loans are primarily interim loans made to finance the construction of commercial and single family residential property. These loans are typically short-term. The Bank generally pre-qualifies construction loan borrowers for permanent "take out" financing as a condition to making the construction loan. The Bank occasionally will make loans for speculative housing construction or for acquisition and development of raw land.

The Bank's other real estate loans consist primarily of loans made based on the borrower's cash flow and which are secured by deeds of trust on commercial and residential property to provide another source of repayment in the event of default. It is the Bank's policy to restrict real estate loans without credit enhancement to no more than 80% of the lower of the appraised value or the purchase price of the property depending on the type of property and its utilization. The Bank offers both fixed and floating rate loans. Maturities on such loans typically range from five to twenty years. However, Small Business Administration ("SBA") and certain other real estate loans easily sold in the secondary market are made for longer maturities. The Bank has been designated an approved SBA lender. The Bank's SBA loans are categorized as commercial or real estate commercial depending on the underlying collateral. Also, the Bank has been approved as an originator of loans that can be sold to the Federal Home Loan Mortgage Corporation.

The Bank has entered into an agreement with Resource Mortgage Solutions, a division of NetBank ("RMS") to sell mortgage loans originated by the Bank to RMS. During the year ended December 31, 2005, the Bank sold twenty-five loans with total principal balances of \$6,495,650 to RMS resulting in total net gains of approximately \$61,200 for the Bank. During the year ended December 31, 2004, the Bank sold twenty-four loans with total principal balances of \$4,692,460 to RMS resulting in total net gains of approximately \$44,700 for the Bank.

Consumer loans are made for the purpose of financing automobiles, various types of consumer goods, and other personal purposes. Consumer Loans generally provide for the monthly payment of principal and interest. Most of the Bank's consumer loans are secured by the personal property being purchased.

With certain exceptions, the Bank is permitted under applicable law to make related extensions of credit to any one borrowing entity up to 15% of the Bank's capital and reserves. An additional 10% is allowable if the credit is fully secured by qualified collateral. The Bank sells participations in its loans when necessary to stay within lending limits. As of December 31, 2005, these lending limits for the Bank were \$2,464,270 and \$4,273,783, respectively.

Loan Concentrations The Bank does not have any significant concentrations in its loan portfolio by industry or group of industries. As of December 31, 2005, approximately 72% of the Bank's loans were secured by residential property located in Connecticut. As of December 31, 2004, 74% of the Bank's loans were secured by such property.

Loan Portfolio Maturities and Interest Rate Sensitivity The following table summarizes the maturities and interest rate sensitivity of the Bank's loan portfolio.

MATURITIES AND RATE SENSITIVITY OF LOANS  
As of December 31, 2005  
(in thousands)

	One Year Or Less	Over One but less than Five Years	Over Five Years	Total
Commercial, financial and agricultural	\$ 6,613	\$4,773	-	\$11,386
Real Estate - construction and land development	9,037	-	-	9,037
Real Estate - residential	21,818	16,368	\$ 58,273	96,459
Real Estate - commercial	15,414	458	229	16,101
Municipal	61	926	-	987
Consumer	5,155	8,226	-	13,381
<b>Total loans</b>	<b>\$ 58,098</b>	<b>\$ 30,751</b>	<b>\$ 58,502</b>	<b>\$147,351</b>
Loans with fixed interest rates	\$8,169	\$ 28,998	\$ 47,673	584,840
Loans with variable interest rates	49,929	1,753	10,829	62,511
<b>Total loans</b>	<b>\$ 58,098</b>	<b>\$ 30,751</b>	<b>\$ 58,502</b>	<b>\$147,351</b>

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The following table sets forth at December 31, 2005, 2004 and 2003 the Bank's loan commitments, standby letters of credit and unadvanced portions of loans.

LOAN COMMITMENTS AND STANDBY LETTERS OF CREDIT  
(In thousands)

	12/31/05	12/31/04	12/31/03
Commitments to originate loans	\$ 1,545	\$ 4,566	\$ 2,023
Standby letters of credit	358	-	-
Unadvanced portion of loans			
Commercial real estate	5,270	4,432	2,398
Commercial lines of credit	6,654	4,655	4,395
Residential real estate	-	266	899
Consumer	877	773	784
Home equity lines of credit	20,116	15,711	14,165
<b>Total</b>	<b>\$ 34,820</b>	<b>\$ 30,403</b>	<b>\$ 24,664</b>

Non-Performing Assets Interest on performing loans is accrued and taken into income daily. Loans over 90 days past due are deemed "non-performing" and are placed on a nonaccrual status, unless the loan is well collateralized and in the process of collection. Interest received on nonaccrual loans is credited to income only upon receipt and in certain circumstances may be applied to principal until the loan has been repaid in full, at which time the interest received is credited to income. The Bank had one nonaccrual loan with a balance of approximately \$32,500 as of December 31, 2005. The Bank had no nonaccrual loans as of December 31, 2004. The Bank had two nonaccrual loans with balances of approximately \$10,000 as of December 31, 2003. The Bank had no loans more than 90 days past due and still accruing interest as of December 31, 2005, 2004 or 2003.

When appropriate or necessary to protect the Bank's interests, real estate taken as collateral on a loan may be taken by the Bank through foreclosure or a deed in lieu of foreclosure. Real property acquired in this manner by the Bank will be known as "other real estate owned" ("OREO"), and will be carried on the books of the Bank as an asset, at the lesser of the Bank's recorded investment or the fair value less estimated costs to sell. As of December 31, 2005, 2004 and 2003, there was no OREO held by the Bank.

The risk of nonpayment of loans is an inherent feature of the banking business. That risk varies with the type and purpose of the loan, the collateral which is utilized to secure payment, and ultimately, the credit worthiness of the borrower. In order to minimize this credit risk, the Bank requires that most loans be approved by at least two officers, one of whom must be an executive officer. Commercial loans greater than \$100,000 as well as other loans in certain circumstances must be approved by the Board of Directors' Loan



Committee.

The Bank also maintains a program of annual review of certain new and renewed loans by an outside loan review consultant. Loans are graded from "pass" to "loss", depending on credit quality, with "pass" representing loans that are fully satisfactory as additions to the Bank's portfolio. These are loans which involve a degree of risk that is not unwarranted given the favorable aspects of the credit and which exhibit both primary and secondary sources of repayment. Classified loans identified in the review process are added to the Bank's Internal Watchlist and an additional allowance for loan losses is established for such loans if appropriate. Additionally, the Bank is examined regularly by the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking at which time a further review of the loan portfolio is conducted.

There were eighteen classified loans with a combined outstanding balance of \$2,711,270 as of December 31, 2005 and fifteen classified loans with a combined outstanding balance of \$2,086,700 as of December 31, 2004.

Allowance for Loan Losses

The Bank maintains an allowance for loan losses to provide for potential losses in the loan portfolio. Additions to the allowance are made by charges to operating expenses in the form of a provision for loan losses. All loans that are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. Management conducts a critical evaluation of the loan portfolio monthly. This evaluation includes an assessment of the following factors: the results of the Bank's internal loan review, any external loan review, any regulatory examination, loan loss experience, estimated potential loss exposure on each credit, concentrations of credit, value of collateral, any known impairment in the borrower's ability to repay, and present and prospective economic conditions.

The following table summarizes the Bank's loan loss experience, transactions in the allowance for loan losses and certain prominent ratios at or for the years ended December 31, 2005, 2004 and 2003.

ALLOWANCE FOR LOAN LOSSES  
(Dollars in thousands)

	At or For the Year Ended 12/31/05	At or For the Year Ended 12/31/04	At or For the Year Ended 12/31/03
<b>ALLOWANCE FOR LOAN LOSSES</b>			
Balance at beginning of period	\$ 1,702	\$ 1,670	\$ 1,486
Total charge-offs	(12)	(14)	(5)
Total recoveries	-	21	9
Net loans (charged-off) recovered	(12)	7	4
Provisions for loan losses	30	25	180
Balance at end of period	\$ 1,720	\$ 1,702	\$ 1,670
<b>BALANCES</b>			
Average total loans	\$144,749	\$133,719	\$124,328
Total loans at end of period	147,351	142,751	132,661
<b>RATIOS</b>			
Allowance for loan losses to average loans	1.19%	1.28%	1.34%
Allowance for loan losses to loans at end of period	1.17	1.19	1.26

The following table summarizes the allocation of the allowance for loan losses by loan type and the percent of loans in each category compared to total loans at December 31, 2005, 2004 and 2003.

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES  
(Dollars in thousands)

December 31, 2005		December 31, 2004		December 31, 2003	
Allocation	% of Loans by	Allocation	% of Loans by	Allocation	% of Loans by



## Liquidity and Asset-Liability Management

Liquidity management for banks requires that funds always be available to pay anticipated deposit withdrawals and maturing financial obligations promptly and fully in accordance with their terms. The balance of the funds required is generally provided by payments on loans, sale of loans, liquidation of assets and the acquisition of additional deposit liabilities. One method banks utilize for acquiring additional liabilities is through the acceptance of "brokered deposits" (defined to include not only deposits received through deposit brokers, but also deposits bearing interest in excess of 75 basis points over market rates), typically attracting large certificates of deposit at high interest rates. The Bank, however, has not accepted and does not anticipate accepting "brokered deposits" in the future.

To meet liquidity needs, the Bank maintains a portion of its funds in cash deposits in other banks, federal funds sold, and available-for-sale securities. As of December 31, 2005, the Bank's liquidity ratio was 29%, defined as the sum of \$6.767 million in federal funds sold, \$40.231 million in available-for-sale securities at fair value, and \$9.357 million in cash and due from banks and interest bearing deposits at the Federal Home Loan Bank, as a percentage of deposits. As of December 31, 2004, the Bank's liquidity ratio was 29%, defined as the sum of \$7.976 million in federal funds sold, \$28.483 million in available-for-sale securities at fair value, and \$7.132 million in cash and due from banks and interest bearing deposits at the Federal Home Loan Bank, as a percentage of deposits.

The careful planning of asset and liability maturities and the matching of interest rates to correspond with this maturity matching is an integral part of the active management of an institution's net yield. To the extent maturities of assets and liabilities do not match in a changing interest rate environment, net yields may be affected. Even with perfectly matched repricing of assets and liabilities, risks remain in the form of prepayment of assets, timing lags in adjusting certain assets and liabilities that have varying sensitivities to market interest rates and basis risk. In its overall attempt to match assets and liabilities, Management takes into account rates and maturities to be offered in connection with its time deposits and by offering variable rate loans. The Bank has generally been able to control its exposure to changing interest rates by maintaining shorter-term investments and offering floating interest rate loans and a majority of its time deposits at relatively short maturities.

The table below sets forth the interest rate sensitivity of the Bank's interest-sensitive assets and interest-sensitive liabilities as of December 31, 2005, 2004 and 2003, using the interest rate sensitivity gap ratio. For the purposes of the following table, an asset or liability is considered rate-sensitive within a specified period when it can be repriced or matures within its contractual terms.

INTEREST RATE SENSITIVITY  
(Dollars in thousands)

	December 31, 2005				
	Due Within Three Months	Due in Three to Twelve Months	Due After One Year to Five Years	Due After Five Years	Total
<b>Rate sensitive assets</b>					
Federal funds sold and overnight deposits	\$ 6,767	-	-	-	\$ 6,767
Investment securities	1,656	\$ 9,372	\$26,979	\$ 2,224	40,231
Total loans	52,274	6,208	30,367	58,802	147,351
<b>Total</b>	<b>\$60,697</b>	<b>\$ 15,580</b>	<b>\$57,346</b>	<b>\$60,726</b>	<b>\$194,349</b>
<b>Rate sensitive liabilities</b>					
NOW deposits	\$ 1,277	-	-	\$24,266	\$ 25,543
Savings deposits	40,632	-	-	26,243	66,935
Time deposits	15,539	\$ 31,803	\$15,221	-	62,563
Securities sold under agreements to repurchase	2,313	-	-	-	2,313
<b>Total</b>	<b>\$59,822</b>	<b>\$ 31,803</b>	<b>\$15,221</b>	<b>\$50,509</b>	<b>\$157,354</b>
<b>Interest rate sensitivity gap</b>	<b>\$ 876</b>	<b>\$(16,223)</b>	<b>\$42,125</b>	<b>\$10,217</b>	<b>\$ 36,995</b>
<b>Cumulative gap</b>	<b>\$ 876</b>	<b>\$(15,347)</b>	<b>\$26,778</b>	<b>\$36,995</b>	

Cumulative gap ratio to total assets

0%

(7)%

13%

18%

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INTEREST RATE SENSITIVITY  
(Dollars in thousands)

December 31, 2004

	Due Within Three Months	Due in Three to Twelve Months	Due After One Year to Five Years	Due After Five Years	Total
<b>Rate sensitive assets</b>					
Federal funds sold and overnight deposits	\$ 9,976	-	-	-	\$ 9,976
Investment securities	2,023	\$ 3,950	\$30,203	\$ 2,306	38,482
Total loans	43,324	6,761	32,603	60,063	142,751
<b>Total</b>	<b>\$ 55,323</b>	<b>\$ 10,711</b>	<b>\$62,806</b>	<b>\$62,369</b>	<b>\$191,209</b>
<b>Rate sensitive liabilities</b>					
NOW deposits	\$ 1,426	-	-	\$27,092	\$ 28,518
Savings deposits	50,447	-	-	28,341	78,788
Time deposits	12,913	\$ 18,100	\$14,327	-	45,340
Securities sold under agreements to repurchase	2,188	-	-	-	2,188
Federal Home Loan Bank advances	2,000	-	-	-	2,000
<b>Total</b>	<b>\$ 68,974</b>	<b>\$ 18,100</b>	<b>\$14,327</b>	<b>\$55,433</b>	<b>\$156,834</b>
<b>Interest rate sensitivity gap</b>	<b>\$(13,651)</b>	<b>\$ (7,389)</b>	<b>\$48,479</b>	<b>\$ 6,936</b>	<b>\$ 34,375</b>
<b>Cumulative gap</b>	<b>\$(13,651)</b>	<b>\$(21,040)</b>	<b>\$27,439</b>	<b>\$34,375</b>	
<b>Cumulative gap ratio to total assets</b>	<b>(7)%</b>	<b>(10)%</b>	<b>14%</b>	<b>17%</b>	

December 31, 2003

	Due Within Three Months	Due in Three to Twelve Months	Due After One Year to Five Years	Due After Five Years	Total
<b>Rate sensitive assets</b>					
Federal funds sold and overnight deposits	\$ 8,865	-	-	-	\$ 8,865
Investment securities	3,150	\$ 11,100	\$14,514	\$ 8,235	36,999
Total Loans	36,618	5,986	29,093	60,964	132,661
<b>Total</b>	<b>\$ 48,634</b>	<b>\$ 17,086</b>	<b>\$43,607</b>	<b>\$69,199</b>	<b>\$178,526</b>
<b>Rate sensitive liabilities</b>					
NOW deposits	\$ 1,180	-	-	\$26,211	\$ 27,591
Savings deposits	48,555	-	-	27,023	75,578
Time deposits	10,558	\$ 21,181	\$12,614	-	44,353
Securities sold under agreements to repurchase	2,994	-	-	-	2,994
Federal Home Loan Bank advances	-	-	-	-	-
<b>Total</b>	<b>\$ 63,487</b>	<b>\$ 21,181</b>	<b>\$12,614</b>	<b>\$53,234</b>	<b>\$150,516</b>
<b>Interest rate sensitivity gap</b>	<b>\$(14,853)</b>	<b>\$ (4,095)</b>	<b>\$30,993</b>	<b>\$15,965</b>	<b>\$ 28,010</b>
<b>Cumulative gap</b>	<b>\$(14,853)</b>	<b>\$(18,948)</b>	<b>\$12,045</b>	<b>\$28,010</b>	
<b>Cumulative gap ratio to total assets</b>	<b>(8)%</b>	<b>(11)%</b>	<b>6%</b>	<b>16%</b>	

Since interest rate changes do not affect all categories of assets and liabilities equally or simultaneously, a cumulative gap analysis alone cannot be used to evaluate the Bank's interest rate sensitivity position. To supplement traditional gap analysis, the Bank performs simulation modeling to estimate the

potential effects of changing interest rates. This process allows the Bank to explore complex relationships among repricing assets and liabilities over time in various interest rate environments.

The Bank's Executive Committee meets at least quarterly to monitor the Bank's investments, liquidity needs and oversee its asset-liability management. Between meetings of the Executive Committee, Management oversees the Bank's liquidity.

Capital Reserve

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") defines specific capital categories based upon an institution's capital ratios. The capital categories, in declining order, are: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. Under FDICIA and the FDIC's prompt corrective action rules, the FDIC may take any one or more of the following actions against an undercapitalized bank: restrict dividends and management fees, restrict asset growth and prohibit new acquisitions, new branches or new lines of business without prior FDIC approval. If a bank is significantly undercapitalized, the FDIC may also require the bank to raise capital, restrict interest rates a bank may pay on deposits, require a reduction in assets, restrict any activities that might cause risk to the bank, require improved management, prohibit the acceptance of deposits from correspondent banks and restrict compensation to any senior executive officer. When a bank becomes critically undercapitalized, (i.e., the ratio of tangible equity to total assets is equal to or less than 2%), the FDIC must, within 90 days thereafter, appoint a receiver for the bank or take such action as the FDIC determines would better achieve the purposes of the law. Even where such other action is taken, the FDIC generally must appoint a receiver for a bank if the bank remains critically undercapitalized during the calendar quarter beginning 270 days after the date on which the bank became critically undercapitalized.

To be considered "adequately capitalized," an institution must generally have a Leverage ratio of at least 4%, a Tier 1 capital to risk-weighted assets ratio of at least 4% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 8%. As of December 31, 2005, 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 below. There are no conditions that Management believes have changed the Bank's category.

At December 31, 2005, 2004 and 2003, the Bank's capital exceeded all minimum regulatory requirements and the Bank was considered to be "well capitalized" as defined in the regulations issued by the FDIC.

CAPITAL RATIOS

	Actual 12/31/05	Actual 12/31/04	Actual 12/31/03	Minimum Regulatory Requirements	Well- Capitalized
Total capital (to risk weighted assets)	13.66%	13.27%	13.28%	8.00%	10.00%
Tier 1 capital (to risk weighted assets)	12.41%	12.02%	12.03%	4.00%	6.00%
Tier 1 capital (to average assets)	7.61%	7.11%	6.72%	4.00%	5.00%

Inflation

The impact of inflation on a financial institution can differ significantly from that exerted on other companies. Banks, as financial intermediaries, have many assets and liabilities that may move in concert with inflation both as to interest rates and value. This is especially true for companies, such as the Bank, with a high percentage of interest rate sensitive assets and liabilities. A bank can reduce the impact of inflation if it can manage its interest rate sensitivity position. The Bank attempts to structure its mix of financial instruments and manage its interest rate sensitivity position in order to minimize the potential adverse effects of inflation or other market forces on its net interest income and therefore its earnings and capital.

Financial institutions are also affected by inflation's impact on non-interest expenses, such as salaries and occupancy expenses. During the

period 1992 through 2005 inflation has remained relatively stable, due primarily to continuous management of the money supplied by the Federal Reserve. Based on the Bank's interest rate sensitivity position at year-end 2005, the Bank benefits in the short term from rising interest rates and is adversely impacted by falling interest rates. As such, indirectly, the management of the money supply by the Federal Reserve to control the rate of inflation may have an impact on the earnings of the Bank. Also, the changes in interest rates may have a corresponding impact on the ability of borrowers to repay loans with the Bank.

Sarbanes-Oxley Act of 2002

The Bank has initiatives in place to ensure compliance with the Sarbanes-Oxley act of 2002. The Bank has an Internal Compliance Committee that is responsible for the monitoring of and compliance with all federal regulations. This committee reports to the Audit and Compliance Committee of the Board of Directors.

Evaluation of Disclosure Control Procedures

The Bank's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Bank's disclosure controls and procedures as of December 31, 2005 and have concluded that, as of that date, the Bank's disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis. This conclusion is based on the above-referenced officers' evaluation of such controls and procedures within 90 days of the date of this Form 10 KSB.

Changes in Internal Controls

There were no significant changes in the Bank's internal controls over financial reporting or in other factors that could significantly affect the Bank's internal controls during the fiscal year ended December 31, 2005.

Options Outstanding

The following table sets forth the securities authorized for issuance under equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options (a)	Weighted average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (c)
Equity compensation plans approved by security holders	63,204	\$24.34	25,303
Equity compensation plans not approved by security holders	0	0	0
<b>Total</b>	<b>63,204</b>	<b>\$24.34</b>	<b>25,303</b>

[GRAPHIC OMITTED]

The Board of Directors and Stockholders  
The Simsbury Bank & Trust Company, Inc.  
Simsbury, Connecticut

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of The Simsbury Bank & Trust Company, Inc. and Subsidiary as of December 31, 2005 and 2004 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank'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 Bank 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 Bank'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 The Simsbury Bank & Trust Company, Inc. and Subsidiary as of December 31, 2005 and 2004 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

[GRAPHIC OMITTED]  
SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts  
January 27, 2006, except for Note 18,  
as to which the date is March 2, 2006

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THE SIMSBURY BANK & TRUST COMPANY, INC. AND SUBSIDIARY  
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CONSOLIDATED BALANCE SHEETS  
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December 31, 2005 and 2004  
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ASSETS	2005	2004
-----	-----	-----
Cash and due from banks	\$ 9,349,045	\$ 5,117,340
Interest-bearing deposits with the Federal Home Loan Bank	8,234	2,014,476
Money market mutual funds	58,464	20,092
Federal funds sold	6,767,272	7,976,404
-----	-----	-----
Cash and cash equivalents	16,183,015	15,128,312
Interest-bearing time deposit with other bank		500,000
Investments in available-for-sale securities (at fair value)	40,231,140	38,482,849
Federal Home Loan Bank stock, at cost	965,600	965,600
Loans held-for-sale		740,000
Loans, net of the allowance for loan losses of \$1,719,533 in 2005 and \$1,701,915 in 2004	145,805,738	141,229,419
Premises and equipment	1,006,357	563,556
Accrued interest receivable	793,488	724,807
Bank owned life insurance	2,681,367	2,538,176
Other assets	1,877,949	1,281,715
-----	-----	-----
Total assets	\$209,544,654	\$202,154,436
-----	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 36,074,640	\$ 30,486,932
Interest-bearing	155,041,040	152,645,351
-----	-----	-----
Total deposits	191,115,680	183,132,283
Federal Home Loan Bank advance		2,000,000
Securities sold under agreements to repurchase	2,312,832	2,187,824
Other liabilities	740,544	579,072
-----	-----	-----
Total liabilities	194,169,056	187,899,179
-----	-----	-----
Stockholders' equity:		
Common stock, no par value; authorized 2,000,000 shares; issued and outstanding 838,528 shares in 2005 and 829,833 shares in 2004	8,456,690	8,320,286
Retained earnings	7,473,542	6,134,028
Accumulated other comprehensive loss	(554,634)	(199,057)
-----	-----	-----
Total stockholders' equity	15,375,598	14,255,257
-----	-----	-----

Total liabilities and stockholders' equity	\$209,544,684	\$202,154,436
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The accompanying notes are an integral part of these consolidated financial statements.

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THE SIMSBURY BANK & TRUST COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2005 and 2004

	2005	2004
Interest and dividend income:		
Interest and fees on loans	\$8,265,276	\$7,156,149
Interest on debt securities:		
Taxable	1,273,044	1,161,792
Tax-exempt	195,112	192,472
Dividends	56,765	30,660
Other interest	169,286	139,190
Total interest and dividend income	9,759,483	8,670,263
Interest expense:		
Interest on deposits	2,050,630	1,624,811
Interest on Federal Home Loan Bank advances	43,770	
Interest on securities sold under agreements to repurchase	31,999	48,171
Total interest expense	2,126,399	1,672,982
Net interest and dividend income	7,633,084	7,007,281
Provision for loan losses	30,000	25,000
Net interest and dividend income after provision for loan losses	7,603,084	6,982,281
Noninterest income:		
Service charges on deposit accounts	313,746	331,374
Other service charges and fees	427,339	313,520
Increase in cash surrender value of life insurance policies	127,754	120,022
Gain on loans sold, net	61,222	44,726
Other income	41,051	76,786
Total noninterest income	971,112	886,428
Noninterest expense:		
Salaries and employee benefits	3,054,881	2,716,535
Occupancy expense	753,452	682,675
Equipment expense	210,475	222,383
Professional fees	328,850	164,031
Advertising and promotions	350,157	215,589
Forms and supplies	160,899	133,127
Correspondent charges	195,458	157,582
Postage	104,070	85,506
Directors fees	130,000	125,366
Other expense	767,159	683,533
Total noninterest expense	6,055,101	5,186,427
Income before income tax expense	2,519,095	2,682,282
Income tax expense	545,418	904,032
Net income	\$1,973,677	\$1,778,250
Earnings per common share	\$ 2.00	\$ 2.17
Earnings per common share, assuming dilution	\$ 1.96	\$ 2.10

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



THE SIMSBURY BANK & TRUST COMPANY, INC. AND SUBSIDIARY  
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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
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Years Ended December 31, 2005 and 2004  
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	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2003	\$8,078,908	\$4,652,966	\$ 40,309	\$12,772,123
Comprehensive income:				
Net income		1,778,250		
Net change in unrealized holding gain on available-for-sale securities, net of tax effect			(239,366)	
Comprehensive income				1,538,884
17,164 shares issued on stock options exercised	241,378			241,378
Dividends declared (\$.36 per share)		(297,128)		(297,128)
Balance, December 31, 2004	8,320,286	6,134,028	(199,057)	14,255,257
Comprehensive income:				
Net income		1,673,677		
Net change in unrealized holding loss on available-for-sale securities, net of tax effect			(355,577)	
Comprehensive income				1,318,100
8,695 shares issued on stock options exercised	129,481			129,481
Tax benefit for stock options	6,923			6,923
Dividends declared (\$.40 per share)		(334,163)		(334,163)
Balance, December 31, 2005	\$8,456,690	\$7,473,542	\$(554,634)	\$15,375,598

Reclassification disclosure for the years ended December 31:

	2005	2004
Net unrealized holding losses on available-for-sale securities	\$(582,436)	\$(540,736)
Other comprehensive loss before income tax effect	(582,436)	(540,736)
Income tax benefit	226,859	301,370
Other comprehensive loss, net of tax	\$(355,577)	\$(239,366)

Accumulated other comprehensive loss as of December 31, 2005 and 2004 consists of net unrealized holding losses on available-for-sale securities, net of taxes.

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

THE SIMSBURY BANK & TRUST COMPANY, INC. AND SUBSIDIARY  
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CONSOLIDATED STATEMENTS OF CASH FLOWS  
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Years Ended December 31, 2005 and 2004  
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	2005	2004
Cash flows from operating activities:		
Net income	\$ 1,673,677	\$ 1,778,250
Adjustments to reconcile net income to net cash provided by operating activities:		

Amortization of securities, net	75,496	93,762
Change in deferred loan costs, net	5,572	(47,643)
Provision for loan losses	30,000	25,000
Decrease (increase) in loans held for sale	740,000	(405,240)
Depreciation and amortization	179,904	174,919
(Increase) decrease in other assets	(140,027)	47,893
Increase in prepaid expenses	(217,964)	(87,226)
Increase in interest receivable	(58,681)	(7,515)
Decrease in taxes receivable	20,353	17,314
Increase in cash surrender value of bank owned life insurance	(127,794)	(120,022)
Increase in other liabilities	25,845	2,694
Increase in accrued expenses	122,169	24,086
Increase (decrease) in interest payable	13,462	(12,515)
Deferred tax benefit	(30,908)	(20,282)
	-----	-----
Net cash provided by operating activities	2,297,060	1,463,475
	-----	-----
Cash flows from investing activities:		
Proceeds from maturities of interest-bearing time deposit with other bank	500,000	
Increase in interest bearing time deposit with other bank		(500,000)
Purchases of available-for sale securities	(10,210,385)	(19,133,244)
Proceeds from maturities of available-for-sale securities	7,808,242	17,015,176
Loan originations and principal collections, net	3,115,689	(1,195,826)
Loan purchases	(7,727,674)	(8,908,037)
Recoveries of previously charged off loans	94	21,181
Capital expenditures	(616,609)	(202,933)
Premiums paid on life insurance policy	(15,437)	(15,437)
	-----	-----
Net cash used in investing activities	(7,146,080)	(12,919,120)
	-----	-----
Cash flows from financing activities:		
Net (decrease) increase in demand deposits, NOW and savings accounts	(9,239,185)	10,069,070
Net increase in time deposits	17,222,582	987,192
Net change in short term advances from Federal Home Loan Bank	(2,000,000)	2,000,000
Net increase (decrease) in securities sold under agreements to repurchase	125,008	(806,396)
Proceeds from exercise of stock options	129,481	241,378
Dividends paid	(334,163)	(297,128)
	-----	-----
Net cash provided by financing activities	5,903,723	12,194,116
	-----	-----
Net increase in cash and cash equivalents	1,054,703	738,471
Cash and cash equivalents at beginning of year	15,128,312	14,389,841
	-----	-----
Cash and cash equivalents at end of year	\$16,183,015	\$15,128,312
	-----	-----
Supplemental disclosures:		
Interest paid	\$ 2,112,937	\$1,675,497
Income taxes paid	855,973	907,000

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

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THE SIMSBURY BANK & TRUST COMPANY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2005 and 2004

NOTE 1 - NATURE OF OPERATIONS

The Simsbury Bank & Trust Company, Inc. (Bank) is a state chartered bank which was incorporated on April 28, 1992 and is headquartered in Simsbury, Connecticut. The Bank commenced operations on March 31, 1995 engaging principally in the business of attracting deposits from the general public and investing those deposits in securities, residential and commercial real estate, consumer and small business loans.

NOTE 2 - ACCOUNTING POLICIES

The accounting and reporting policies of the Bank and its subsidiary conform to

accounting principles generally accepted in the United States of America and predominant practices within the banking industry. The consolidated financial statements of the Bank were prepared using the accrual basis of accounting. The significant accounting policies of the Bank 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 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, SBT Investment Services, Inc. SBT Investment Services, Inc. was established solely for the purpose of providing investment products, financial advice and services to its clients and the community. 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, Federal Home Loan Bank interest-bearing demand and overnight deposits, money market mutual funds and federal funds sold.

Cash and due from banks as of December 31, 2005 and 2004 includes \$1,812,000 and \$1,904,000, respectively, which is subject to withdrawals and usage restrictions to satisfy the reserve requirements of the Federal Reserve Bank.

#### SECURITIES:

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

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The Bank 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 Bank 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 measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, or in a separate component of capital. They are merely disclosed in the notes to the consolidated financial statements.
- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.
- Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

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 HELD-FOR-SALE:

Loans held-for-sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges to operations. Interest income on mortgages held-for-sale is accrued currently and

classified as interest on loans.

#### 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 amounts due to borrowers on unadvanced loans, 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.

Loan origination and commitment fees and certain direct origination costs are deferred, and the net amount amortized as an adjustment of the related loan's yield. The Bank is amortizing these amounts over the contractual life of the related loans.

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity line 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.

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

#### ALLOWANCE FOR LOAN LOSSES:

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, 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.

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

**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 20 years for furniture and equipment. Leasehold improvements are amortized over the lesser of the life of the lease or the estimated life of the improvements.

**FAIR VALUES OF FINANCIAL INSTRUMENTS:**

Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosures about Fair Value of Financial Instruments," requires that the Bank disclose estimated fair values for its financial instruments. Fair value methods and assumptions used by the Bank 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.

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Interest-bearing time deposit with bank: The fair value of the interest-bearing time deposit with bank is estimated using discounted cash flow analyses using interest rates currently being offered for deposits with similar terms to investors.

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 for loans held-for-sale are estimated based on outstanding investor commitments, or in the absence of such commitments, are based on current investor yield requirements.

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 by discounting the future cash flows, 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 demand deposits, regular savings, NOW accounts, and money market accounts are equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for 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.

Securities sold under agreements to repurchase: The carrying amounts of securities sold under agreements to repurchase approximate their fair values.

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.

ADVERTISING:

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

INCOME TAXES:

The Bank 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 Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

STOCK BASED COMPENSATION:

At December 31, 2005, the Bank has a stock-based employee compensation plan which is described more fully in Note 15. The Bank accounts for the plan under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Bank had applied the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share Based Payment" to stock based employee compensation.

	For the years ended December 31,	
	2005	2004
Net income, as reported	\$1,673,677	\$1,778,250
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	60,589	50,967
Pro forma net income	\$1,613,088	\$1,727,283
Earnings per share:		
Basic - as reported	\$2.00	\$2.17
Basic - pro forma	\$1.93	\$2.10
Diluted - as reported	\$1.96	\$2.10
Diluted - pro forma	\$1.89	\$2.04

EARNINGS PER SHARE:

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. 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.

RECENT ACCOUNTING PRONOUNCEMENTS:

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), in an effort to expand upon and strengthen existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. In December 2003, the FASB revised Interpretation No. 46, also referred to as Interpretation 46 (R) ("FIN 46(R)"). The objective of this interpretation is not to restrict the use of variable interest entities but to improve financial reporting by companies involved with variable interest entities. Until now, one company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. This interpretation changes that, by requiring a variable interest entity to be consolidated by a company only if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The Bank is required to apply FIN 46, as revised, to

all entities subject to it no later than the end of the first reporting period ending after December 15, 2004. However, prior to the required application of FIN 46, as revised, the Bank shall apply FIN 46 or FIN 46 (R) to those entities that are considered to be special-purpose entities as of the end of the first fiscal year or interim period ending after December 15, 2003. The adoption of this interpretation did not have a material effect on the Bank's consolidated financial statements.

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In December 2003, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 03-3 ("SOP 03-3") "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 requires loans acquired through a transfer, such as a business combination, where there are differences in expected cash flows and contractual cash flows due in part to credit quality be recognized at their fair value. The excess of contractual cash flows over expected cash flows is not to be recognized as an adjustment of yield, loss accrual, or valuation allowance. Valuation allowances cannot be created nor "carried over" in the initial accounting for loans acquired in a transfer on loans subject to SFAS 114, "Accounting by Creditors for Impairment of a Loan." This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004, with early adoption encouraged. The adoption of SOP 03-3 did not have a material impact on the Bank's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). This Statement revises FASB Statement No. 123, "Accounting for Stock Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the consolidated financial statements. It establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. This Statement is effective for the Bank as of the beginning of the first annual reporting period that begins after December 15, 2005. The Bank expects 2006 results to include approximately \$108,458 of additional pre-tax compensation expense as a result of the adoption of SFAS 123R. Future compensation expense will be impacted by various factors, including the number of awards granted and their related fair value at the date of grant.

NOTE 3 - INVESTMENTS IN AVAILABLE-FOR-SALE 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	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2005:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	\$17,826,063	\$	\$ 346,668	\$17,479,395
Obligations of states and municipalities	4,989,994	189,025	31,955	5,147,064
Corporate debt securities	475,000		16,097	458,903
Mortgage-backed securities	15,848,575	20,856	378,903	15,490,528
U.S. government agencies perpetual/callable preferred stocks	2,000,000		344,750	1,655,250
Marketable equity securities	58,464			58,464
Money market mutual funds included in cash and cash equivalents	41,198,096	209,881	1,118,373	40,289,604
	(58,464)			(58,464)
Total available-for-sale securities	\$41,139,632	\$ 209,881	\$1,118,373	\$40,231,140

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2004:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	\$14,794,733	\$ 18,925	\$ 126,852	\$14,686,806
Obligations of states and municipalities	4,329,767	308,981	3,317	4,635,431
Corporate debt securities	975,000	181	8,612	966,569
Mortgage-backed securities	16,709,405	79,279	117,641	16,671,043
U.S. government agencies perpetual/callable preferred stocks	2,000,000		477,000	1,523,000
Marketable equity securities	20,092			20,092
Money market mutual funds included in cash and cash equivalents	38,828,997	407,366	733,422	38,502,941
	(20,092)			(20,092)
<b>Total available-for-sale securities</b>	<b>\$38,808,905</b>	<b>\$407,366</b>	<b>\$ 733,422</b>	<b>\$38,482,849</b>

The scheduled maturities of debt securities were as follows as of December 31, 2005:

	Fair Value
Due within one year	\$ 5,428,285
Due after one year through five years	15,457,232
Due after five years through ten years	1,949,437
Due in more than ten years	250,408
Mortgage-backed securities	15,490,528
	\$38,575,890

There were no sales of available for-sale securities during 2005 and 2004.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders' equity as of December 31, 2005.

As of December 31, 2005 and 2004, the total carrying amounts of securities pledged for securities sold under agreements to repurchase and public deposits was \$5,704,711 and \$6,650,794, 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 not other than temporarily impaired, are as follows as of December 31, 2005:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities issued by the U.S.						
Treasury and other U.S. government corporations and agencies	\$ 7,708,787	\$121,480	\$ 8,770,608	\$225,188	\$16,479,395	\$ 346,668
Obligations of states and municipalities	1,404,594	11,257	500,136	20,698	1,904,730	31,955
Corporate debt securities			458,903	16,097	458,903	16,097
Mortgage-backed securities	7,145,427	124,668	7,729,095	254,235	14,874,522	378,903
U.S. government agencies perpetual/callable preferred stocks			1,655,250	344,750	1,655,250	344,750
<b>Total temporarily impaired securities</b>	<b>\$16,258,809</b>	<b>\$257,405</b>	<b>\$19,113,992</b>	<b>\$560,968</b>	<b>\$35,372,800</b>	<b>\$1,118,373</b>

Bank management considers investments with an unrealized loss at December 31, 2005 to be only temporarily impaired because the impairment is due to the current interest rate environment, not other credit factors. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.



## NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	2005	2004
Commercial, financial and agricultural	\$ 11,385,701	\$ 14,088,724
Real estate - construction and land development	9,037,438	6,954,394
Real estate - residential	96,458,618	97,645,846
Real estate - commercial	16,101,173	11,196,882
Municipal	987,153	1,014,703
Consumer	13,380,572	11,850,597
	-----	-----
Allowance for loan losses	147,350,655	142,751,146
Deferred costs, net	(1,719,533)	(1,701,915)
	-----	-----
Net loans	\$145,005,738	\$141,229,419
	=====	=====

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

	2005	2004
Balance at beginning of year	\$1,701,915	\$ 1,669,873
Recoveries of loans previously charged off	94	21,181
Charge offs	(12,476)	(14,139)
Provision for loan losses	30,000	25,000
	-----	-----
Balance at end of year	\$1,719,533	\$ 1,701,915
	=====	=====

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

	2005	2004
Total nonaccrual loans	\$ 32,443	\$ 0
	=====	=====
Accruing loans which are 90 days or more overdue	\$ 0	\$ 0
	=====	=====

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

	2005		2004	
	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses
Loans for which there is a related allowance for credit losses	\$ 32,443	\$ 3,244	\$ 0	\$ 0
Loans for which there is no related allowance for credit losses	0	0	0	0
	-----	-----	-----	-----
Totals	\$ 32,443	\$ 3,244	\$ 0	\$ 0
	-----	-----	-----	-----
Average recorded investment in impaired loans during the year ended December 31	\$ 6,489		\$ 0	
	=====		=====	
Related amount of interest income recognized				

during the time, in the year ended  
December 31, that the loans were impaired

Total recognized	\$ 0	\$ 0
	=====	=====
Amount recognized using a cash-basis method of accounting	\$ 0	\$ 0
	=====	=====

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NOTE 5 - PREMISES AND EQUIPMENT

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

	2005	2004
Leasehold improvements	\$ 666,102	\$ 377,676
Furniture and equipment	1,869,479	1,545,431
	2,535,581	1,923,107
Accumulated depreciation and amortization	(1,529,224)	(1,359,549)
	\$ 1,006,357	\$ 563,558
	=====	=====

NOTE 6 - DEPOSITS

The aggregate amount of time deposit accounts in denominations of \$100,000 or more as of December 31, 2005 and 2004 was \$21,483,496 and \$14,343,161, respectively.

For time deposits as of December 31, 2005, the scheduled maturities for years ended December 31 are:

2006	\$47,342,908
2007	10,226,370
2008	2,115,518
2009	1,539,116
2010	1,339,216
	-----
Total	\$62,563,128
	=====

NOTE 7 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase consist of funds borrowed from customers on a short-term basis secured by portions of the Bank's investment portfolio. The securities which were sold have been accounted for not as sales but as borrowings. The securities consisted of debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies. The securities were held in safekeeping by the Federal Home Loan Bank of Boston and Morgan Stanley, under the control of the Bank. The purchasers have agreed to sell to the Bank substantially identical securities at the maturity of the agreements. The agreements mature generally within three months from date of issue.

NOTE 8 - INCOME TAX EXPENSE

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

	2005	2004
Current:		
Federal	\$708,211	\$728,284
State	168,115	196,030
	876,326	924,314
	-----	-----
Deferred:		
Federal	(26,718)	(14,782)
State	(4,190)	(5,500)
	(30,908)	(20,282)
	-----	-----
Total income tax expense	\$845,418	\$904,032
	=====	=====

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:

	2005	2004
	% of	% of
	Income	Income
	-----	-----
Federal income tax at statutory rate	34.0%	34.0%
Increase (decrease) in tax resulting from:		
Tax-exempt income	(5.1)	(4.7)
Other	.2	.1
State tax, net of federal tax benefit	4.5	4.3
	-----	-----
Effective tax rates	33.6%	33.7%
	=====	=====

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

	2005	2004
	-----	-----
Deferred tax assets:		
Allowance for loan losses	\$ 528,352	\$516,667
Deferred compensation	179,658	153,039
Other	17,370	
Net unrealized holding losses on available-for-sale securities	353,858	126,999
	-----	-----
Gross deferred tax assets	1,079,238	796,705
	-----	-----
Deferred tax liabilities:		
Depreciation(208,503)	(181,568)	
Deferred loan costs/fees	(68,014)	(70,183)
	-----	-----
Gross deferred tax liabilities	(276,617)	(251,751)
	-----	-----
Net deferred tax asset	\$ 802,721	\$544,954
	=====	=====

As of December 31, 2005, the Bank had no operating loss carryovers for income tax purposes.

#### NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2005 the Bank was obligated under non-cancelable operating leases for bank premises and equipment expiring between April 2006 and June 2016. The total minimum rental due in future periods under these existing agreements is as follows as of December 31, 2005:

2006	\$ 434,038
2007	405,014
2008	402,014
2009	404,516
2010	405,257
Thereafter	1,337,056
	-----
Total	\$ 3,387,895
	=====

Total rental expense amounted to \$408,361 and \$386,016 for the years ended December 31, 2005 and 2004, respectively.

#### NOTE 10 - FINANCIAL INSTRUMENTS

The Bank is 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, unadvanced funds on loans and standby letters of credit. 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.

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

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2005 the maximum potential amount of the Bank's obligation was \$358,262 for financial and standby letters of credit. There were no letters of credit as of December 31, 2004. 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:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 16,183,015	\$ 16,183,015	\$ 15,128,312	\$ 15,128,312
Interest-bearing time deposit with other bank			500,000	500,000
Available-for-sale securities	40,231,140	40,231,140	38,482,849	38,482,849
Federal Home Loan Bank stock	965,600	965,600	965,600	965,600
Loans held-for-sale			740,000	746,687
Loans, net	145,805,738	143,769,000	141,229,419	142,340,000
Accrued interest receivable	793,488	793,488	724,807	724,807
<b>Financial liabilities:</b>				
Deposits	191,115,680	191,117,000	183,132,283	183,134,000
Federal Home Loan Bank advance			2,000,000	2,000,000
Securities sold under agreements to repurchase	2,312,832	2,312,832	2,187,824	2,187,824

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.

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

	2005	2004
Commitments to originate loans	\$ 1,544,500	\$ 4,565,630
Standby letters of credit	358,262	
<b>Unadvanced portions of loans:</b>		
Commercial real estate	5,270,221	4,432,023
Commercial lines of credit	6,654,353	4,655,239
Residential real estate		266,265
Consumer	876,891	772,988
Home equity	20,115,648	15,711,178

-----	-----
\$ 34,819,875	\$ 30,403,353
-----	-----

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

NOTE 11 - RELATED PARTY TRANSACTIONS  
-----

Certain directors and executive officers of the Bank and companies in which they have significant ownership interest were customers of the Bank during 2005. Total loans to such persons and their companies amounted to \$2,647,196 as of December 31, 2005. During the year ended December 31, 2005 principal payments totaled \$1,116,666 and advances amounted to \$1,867,926.

Deposits from related parties held by the Bank as of December 31, 2005 and 2004 amounted to \$1,761,463 and \$1,695,257, respectively.

During 2005 and 2004, the Bank paid \$65,089 and \$59,970, respectively, for rent and related expense of the Bank's Granby branch office to a company of which a bank director is a principal. The rent expense for the Granby branch included in Note 9 amounted to \$45,385 in 2005 and \$44,935 in 2004.

During 2005, the Bank paid \$228,148 in construction costs and related fees for the Bank's Canton branch office to a company of which a bank director is a principal. This amount is included in 2005 capital expenditures.

During 2005 and 2004, a director of the Bank was paid \$5,288 and \$0, respectively for legal services.

NOTE 12 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK  
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Most of the Bank's business activity is with customers located within the state. 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 the State of Connecticut.

NOTE 13 - REGULATORY MATTERS  
-----

The Bank is 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 Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's 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 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, 2005, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2005, 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. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table:

Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
Amount	Ratio	Amount	Ratio	Amount	Ratio
-----	-----	-----	-----	-----	-----

(Dollar amounts in thousands)

As of December 31, 2005:						
Total Capital (to Risk Weighted Assets)	\$17,153	13.66%	\$10,046	>8.0%	\$12,558	>10.0%
Tier 1 Capital (to Risk Weighted Assets)	15,579	12.41	8,023	>4.0	7,535	>6.0
Tier 1 Capital (to Average Assets)	15,579	7.61	8,188	>4.0	10,235	>5.0
As of December 31, 2004:						
Total Capital (to Risk Weighted Assets)	15,433	13.27	9,301	>8.0	11,626	>10.0
Tier 1 Capital (to Risk Weighted Assets)	13,977	12.02	4,650	>4.0	6,976	>6.0
Tier 1 Capital (to Average Assets)	13,977	7.11	7,865	>4.0	9,832	>5.0

NOTE 14 - EMPLOYEE BENEFITS

The Bank sponsors a 401(k) savings and retirement plan. Employees who were 21 years of age and employed on the plan's effective date were immediately eligible to participate in the plan. Other employees who have attained age 21 are eligible for membership on the first day of the month following completion of 90 days of service.

The provisions of the 401(k) plan allow eligible employees to contribute subject to IRS limitations. The Bank's matching contribution equaled 50 cents per dollar contributed by the participant up to 6% of the participant's annual salary. The Bank's expense under this plan was \$49,205 in 2005 and \$44,220 in 2004.

The Bank entered into employment agreements (the "Agreements") with the Executive Officers of the Bank. The Agreements provide for severance benefits upon termination following a change in control as defined in the agreements in amounts equal to cash compensation as defined in the agreements and fringe benefits that the Executive(s) would have received if the Executive(s) would have continued working for an additional five years.

NOTE 15 - STOCK OPTION PLAN

The Simsbury Bank & Trust Company, Inc. 1998 Stock Plan ("Plan") provides for the granting of options to purchase shares of common stock or the granting of shares of restricted stock up to an aggregate amount of 142,000 shares of common stock of the Bank. Options granted under the Plan may be either Incentive Stock Options ("ISOs") within the meaning of Section 422 of the Internal Revenue Code or non-qualified options which do not qualify as ISOs ("NQOs"). No restricted stock awards or stock options may be granted under the Plan after March 17, 2008.

The exercise price for shares covered by an ISO may not be less than 100% of the fair market value of common stock on the date of grant. The exercise price for shares covered by an NQO may not be less than 50% of the fair market value of common stock at the date of grant. All options must expire no later than ten years from the date of grant. The Plan also provides the Board with authority to make grants that will provide that options will become exercisable and restricted awards will become fully vested upon a change in control of the Bank.

In accordance with the Plan each non-employee director is granted a NQO to purchase 1,000 shares of common stock at the fair market value of the common stock on the grant date. These options will become exercisable in two equal installments beginning on the first anniversary of the date of grant.

The fair value of each option granted in 2005 and 2004 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 1.50% in 2005 and 1.00% in 2004, expected volatility of 14.6% in 2005 and 18.8% in 2004, risk-free interest rate of 4.49% in 2005 and 4.25% in 2004, and an expected life of 10 years in 2005 and 10 years in 2004.

A summary of the status of the Bank's stock option plan as of December 31 and changes during the years ending on that date is presented below:

	2005		2004	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Fixed Options				
Outstanding at beginning of year	50,899	\$19.77	55,369	\$14.33
Granted	21,000	31.50	13,131	35.11
Exercised	(8,695)	14.89	(17,164)	14.06
Forfeited			(437)	15.65
Outstanding at end of year	63,204	24.34	50,899	19.77

Options exercisable at year-end	=====	17.76	=====	
Weighted-average fair value of	34,764		35,582	15.09
options granted during the year	\$8.60		\$11.65	

The following table summarizes information about fixed stock options outstanding as of December 31, 2005:

Exercise Price	Number Outstanding	Options Outstanding and Exercisable		Exercise Price
		Weighted-Average Remaining Contractual Life	Number Exercisable	
\$13.625	21,016	2.4 years	21,016	\$13.625
15.65	2,622	6.2 years	2,622	15.65
16.25	5,435	5.9 years	5,435	16.25
33.25	2,625	8.5 years	875	33.25
34.90	1,314	8.3 years	438	34.90
35.00	5,250	8.8 years	1,750	35.00
36.55	1,942	8.3 years	2,628	36.55
31.50	21,000	10.0 years		
	-----		-----	
	63,264	6.7 years	34,764	
	-----		=====	

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NOTE 16 - EARNINGS PER SHARE (EPS)

Reconciliation of the numerators and the denominators of the basic and diluted per share computations for net income are as follows:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Year ended December 31, 2005			
Basic EPS			
Net income	\$1,673,677	835,079	\$2.00
Effect of dilutive securities, options		18,276	
	-----	-----	
Diluted EPS			
Net income	\$1,673,677	853,355	\$1.96
	=====	-----	
Year ended December 31, 2004			
Basic EPS			
Net income	\$1,778,250	821,013	\$2.17
Effect of dilutive securities, options		27,760	
	-----	-----	
Diluted EPS			
Net income	\$1,778,250	848,773	\$2.10
	=====	=====	

NOTE 17 - RECLASSIFICATION

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

NOTE 18 - HOLDING COMPANY REORGANIZATION

On March 2, 2006, the Bank reorganized into a holding company structure. As a result, the Bank became a wholly-owned subsidiary of SBT Bancorp, Inc. (the "Company") and each outstanding share of common stock of the Bank was converted into the right to receive one share of the common stock, no par value, of the Company. The Company will begin to file reports with the Securities and Exchange Commission and will be supervised by the Board of Governors of the Federal Reserve System.

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Shareholder Data

The Bank completed its organization and began operations on March 31, 1995. The Bank's common stock was issued at a price of \$10.00 per share. The stock of the Bank's parent company, SBT Bancorp, Inc., which was formed on March 3, 2006, is currently listed on the OTC Bulletin Board (Symbol: "SBTB"). At December 31, 2005, there were 838,528 shares of the Bank's common stock outstanding and approximately 1,100 shareholders of record. At December 31, 2004, there were 829,833 shares outstanding and approximately 1,223 shareholders of record. Since completion of the Bank's organization there has been a limited market for its shares. The following table sets forth the high and low bid information for the period indicated.

	Year Ended December 31, 2005		Year Ended December 31, 2004	
	High	Low	High	Low
First Quarter	\$34.50	\$32.90	\$38.00	\$36.50
Second Quarter	\$34.00	\$31.90	\$38.00	\$31.50
Third Quarter	\$33.00	\$30.55	\$34.50	\$30.70
Fourth Quarter	\$33.50	\$30.10	\$37.25	\$33.15

The above quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not reflect actual transactions.

Dividends

The Bank's shareholders are entitled to dividends when and if declared by the Board of Directors out of funds legally available therefore. Connecticut law prohibits the Bank from paying cash dividends except from its net profits, which are defined by state statutes. The Bank declared and paid cash dividends of \$334,163 during 2005. The Bank declared and paid cash dividends of \$297,128 during 2004.

The Bank did not repurchase any of its securities during the fourth quarter of 2005.

\$3

Corporate Information

The Simsbury Bank & Trust Company, Inc.  
 981 Hopmeadow Street  
 P.O. Box 248  
 Simsbury, Connecticut 06070-0248  
 (860) 658-BANK  
 Fax: (860) 651-5942  
 www.simsburybank.com

Notice of Shareholders' Meeting

The Annual Meeting of Shareholders of SBT Bancorp, Inc., the bank holding company for The Simsbury Bank & Trust Company, Inc., will be held at 5:00 p.m. on Tuesday, May 9, 2006 at 981 Hopmeadow Street, Simsbury, Connecticut.

Independent Auditors

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

Legal Counsel

Day, Berry & Howard, LLP  
 Counselors at Law  
 CityPlace I  
 Hartford, CT 06103-3499

Transfer Agent

American Stock Transfer & Trust Company  
 40 Wall Street  
 New York, NY 10005  
 Shareholder Relations: (800) 937-5449

Shareholder Contact

Susan D. Presutti  
 The Simsbury Bank &  
 Trust Company, Inc.  
 981 Hopmeadow Street  
 Simsbury, CT 06070  
 (860) 408-5493

Trading Symbol: SBTB

COPIES OF THE COMPANY'S ANNUAL REPORT ON FORM 10-KSB WILL BE FORWARDED WITHOUT CHARGE UPON WRITTEN REQUEST TO:



Jane F. von Holzhausen, Secretary  
The Simsbury Bank & Trust Company, Inc.  
981 Hopmeadow Street  
P.O. Box 248  
Simsbury, CT 06370-0248

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Directors, Officers and Employees

Board of Directors

\*Chairman of Committee

Lincoln S. Young  
Chairman of the Board  
Retired Chief Executive Officer  
Turbine Engine Services Corp.  
Corporate Governance Committee\*  
Executive Committee  
Investment Services Committee  
Loan Committee  
Personnel Committee  
Marketing and Public Relations  
Committee

Robert J. Bogino  
Vice Chairman  
Retired President and Co-Owner  
Bogino & DeMaria, Inc  
Audit and Compliance Committee  
Corporate Governance Committee  
Executive Committee  
Investment Services Committee  
Loan Committee\*

James T. Fleming  
Commissioner  
Department of Public Works  
State of Connecticut  
Audit and Compliance Committee  
Corporate Governance Committee  
Marketing and Public Relations Committee

Martin J. Geisz  
President and Chief Executive Officer  
The Simsbury Bank and Trust Company  
Executive Committee  
Investment Services Committee  
Loan Committee  
Marketing and Public Relations Committee

Edward J. Guarco  
Vice President  
State Line Oil  
Audit and Compliance Committee  
Personnel Committee

Gary R. Kevorkian  
Attorney at Law  
Loan Committee  
Personnel Committee

Barry R. Loucks  
Retired President and CEO  
The Simsbury Bank & Trust Company  
Executive Committee\*  
Loan Committee  
Marketing and Public Relations Committee

George H. Odum, Jr., DMD  
General Dentistry  
Audit and Compliance Committee\*  
Executive Committee

David W. Sessions  
President and Treasurer  
Castle Corporation  
Executive Committee  
Loan Committee  
Personnel Committee\*

Jane F. von Holzhausen

Secretary  
Retired Sales Manager  
Prudential Connecticut Realty  
Corporate Governance Committee  
Executive Committee  
Marketing and Public Relations Committee\*

Penny R. Woodford  
Real Estate Agent  
Coldwell Banker Residential Brokerage  
Audit and Compliance Committee  
Marketing and Public Relations Committee

#### OFFICERS

Martin J. Geitz  
President and Chief Executive Officer

Anthony F. Bisceglie, Ph.D.  
Executive Vice President, Treasurer and Chief Financial Officer

Charles D. Fergie  
Executive Vice President and  
Chief Lending Officer

Terry L. Boulton  
Senior Vice President and Chief Retail Banking Officer

Jane F. von Holzhausen  
Secretary

Vice Presidents  
Richard A. Bahre  
Robert A. Francolin;  
H. Holbrook Hyde, Jr. Janice L. Zdun

Assistant Vice Presidents  
Brian D. Belyea  
Cladden R. Keyes  
Jeffrey J. Levinsky  
Susan D. Presutti, Assistant Secretary  
Sophie S. Stevens  
Barbara J. Wallace

Assistant Treasurers  
Christine A. Gates  
Michelle T. Hagan  
Barbara J. Hanifin  
Karen G. Jopeal  
Kim A. McDonald  
Craig S. Porter  
Directors Emeriti

Richard C. Anthony  
Chairman  
Weekapaug Foundation for Conservation

Robert H. August  
Attorney at Law

Modesto F. Brunoli  
Retired President  
Fred Brunoli & Sons, Inc

Jackson F. Eno  
Vice President  
Morgan Stanley

Evan W. Woolliacott  
Retired Vice Chairman and Commissioner  
Connecticut D.P.U.C.

#### EMPLOYEES

Dianna S. Anderson  
Dana F. Boardman  
Eric A. Bowe  
Alexandra S. Bullard  
Margot M. Hryce  
Katherine P. Cain  
Nicola A. Lierz  
Samantha L. Dileo  
S. Thomas Edge  
Marilyn E. Ehrhardt  
Lori L. Ethier  
Deborah A. Focchezato  
Pamela S. Ford

Beate E. Forst  
 Shirley T. Gentry  
 Juliana R. Gingerich  
 Barbara A. Holcomb  
 Jo-Ann Horton  
 Ulrike R. Johnson  
 Regina M. Keith  
 Tina M. Kuracz  
 Elizabeth C. Lechart  
 Francine T. Love  
 Lauren S. McCoy  
 Catherine L. Miller  
 Lisa A. Morgan  
 Shawna L. Morin  
 Irene P. Najman  
 Alan G. Pollack  
 Patricia A. Paschier  
 Margaret E. Rose  
 Susan L. Sawyer  
 Irene S. Smith  
 Karen E. Storms  
 Maria Theodoratos  
 Susan Truss  
 Debra K. Warren  
 Hilary M. Wilson

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 24, 2006.

SBT BANCORP, INC.-

By: /s/ .....  
 Martin J. Geitz  
 President and Chief Executive Officer

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Capacity	Date
/s/ ..... Martin J. Geitz	President and Chief Executive Officer	March 24, 2006
/s/ ..... Anthony P. Bisceglia	Executive Vice President, Chief Financial Officer and Chief Accounting Officer	March 24, 2006
/s/ ..... Robert J. Bogino	Director	March 24, 2006
/s/ ..... James T. Fleming	Director	March 24, 2006
/s/ ..... Edward J. Guarco	Director	March 24, 2006
/s/ ..... Gary R. Kevorkian	Director	March 24, 2006
/s/ ..... Harry R. Maucks	Director	March 24, 2006
/s/ ..... George B. Odium, Jr., DMD	Director	March 24, 2006
/s/ ..... .....	Director	March 24, 2006

David W. Sessions

/s/ ..... Director March 24, 2006

Jane P. von Holzhausen

/s/ ..... Director March 24, 2006

Penny R. Woodford

/s/ ..... Director March 24, 2006

Lincoln S. Young

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The Registrant, SBT Bancorp, Inc., became a holding company for The Simsbury Bank & Trust Company, Inc. pursuant to a reorganization that became effective as of March 2, 2006. On March 7, 2006, SBT Bancorp, Inc. filed a Current Report on Form 8-K12(g)(13) succeeding to the registration of The Simsbury Bank & Trust Company, Inc. pursuant to Rule 12g-3(a) under the Securities Exchange Act of 1934.

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#### EXHIBIT INDEX

Exhibit No.	Description
3(i)	Certificate of Incorporation (incorporated by reference to Exhibit (b)(1)(a) of the Bank's Form F-1 dated April 26, 1996)
3(ii)	Bylaws (incorporated by reference to Exhibit (b)(1)(b) of the Bank's Form F-1 dated April 26, 1996 except for Section 3.2 as amended on January 19, 2000 and incorporated by reference to the Bank's Form 10-KSB dated March 30, 2000 and Section 3.4 as amended October 22, 2003)
4	Specimen Common Stock Certificate (incorporated by reference to Exhibit (b)(1) of the Bank's Form F-1 dated April 26, 1996)
10.1	Employment Agreement, dated as of September 1, 2004, by and between the Bank and Martin J. Geitz (incorporated by reference to Exhibit 10.13 of the Bank's 10-QSB dated November 12, 2004)
10.2	Employment Agreement, dated as of February 6, 2004, by and between the Bank and Charles D. Fergie and amended as of November 15, 2005 filed herewith
10.3	Employment Agreement, dated as of February 6, 2004, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.3 of the Bank's Form 10-KSB dated March 17, 2004)
10.4	Supplemental Executive Retirement Plan Agreement, dated as of April 23, 2001, by and between the Bank and Charles D. Fergie (incorporated by reference to Exhibit 10.5 of the Bank's 10-KSB dated March 17, 2004)
10.5	Supplemental Executive Retirement Plan Agreement, dated as of April 23, 2001, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.6 of the Bank's 10-KSB dated March 17, 2004)
10.6	Change in Control Agreement, dated as of July 30, 1999, by and between the Bank and Charles D. Fergie (incorporated by reference to Exhibit 10.7 of the Bank's 10-KSB dated March 17, 2004)
10.8	Change in Control Agreement, dated as of July 30, 1999, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.8 of the Bank's 10-KSB dated March 17, 2004)
13	2005 Annual Report (except for those portions expressly incorporated by reference, the 2006 Annual Report is furnished for informational purposes and is not to be deemed filed as part of this Form 10-KSB)
14	Code of Ethics (incorporated by reference to Exhibit 14 of the Bank's 10-KSB dated March 17, 2004)
21	Subsidiaries (incorporated by reference to Exhibit 21 of the Bank's 10-KSB dated March 19, 2003)

31.1	Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Executive Officer
31.2	Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Financial Officer
32.1	Section 1350 Certification by Chief Executive Officer
32.2	Section 1350 Certification by Chief Financial Officer

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## Section 2: EX-10.2 (EXHIBIT 10.2)

### EXHIBIT 10.2

#### AMENDED EMPLOYMENT AGREEMENT

THIS AGREEMENT is made and entered into, effective as of the 15th day of November, 2005 by and between The Simsbury Bank & Trust Company ("Bank") and Charles D. Sorgia ("Executive").

#### W I T N E S S E T H :

WHEREAS, Executive has been employed as Executive Vice President and Chief Lending Officer of the Bank under an existing Employment Agreement; and

WHEREAS, Bank and Executive desire to enter into this Amended Employment Agreement ("Agreement") on the terms herein set forth:

NOW, THEREFORE, in consideration of the promises and the mutual covenants herein contained, the parties hereto, intending to be legally bound, do hereby mutually covenant and agree as follows:

1. Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

(a) "Cause" shall mean:

(i) Executive's conviction of, or plea of *nolo contendere* to, a felony or crime involving moral turpitude;

(ii) Executive's commission of an act of personal dishonesty or breach of fiduciary duty, whether or not involving personal profit, in connection with Executive's employment by Bank or any other organization of public trust;

(iii) Executive's commission of an act which the Board of Directors of Bank by a vote of at least two-thirds (2/3) of all of the Directors shall have found to have involved willful misconduct or gross negligence on the part of Executive, in the conduct of his duties or public life or which causes material embarrassment to the Bank;

(iv) Habitual absenteeism, chronic alcoholism or any other form of addiction on the part of Executive which prevents him from performing the essential functions of his position with or without reasonable accommodation; or

(v) Entry of any final order of a regulatory authority having jurisdiction over Bank directing the removal of Executive from office.

(b) "Disability" shall mean the incapacity of Executive by illness or any other cause as determined under the long-term disability insurance Plan of Bank in effect at the time in question, or if no such plan is in effect, then such incapacity of Executive as prevents Executive from performing the essential

functions of his position with or without reasonable accommodation for a period in excess of two hundred forty days (whether or not consecutive), or one hundred eighty days consecutively, as the case may be, during any twelve month period.

(c) "Good Reason" shall mean the occurrence of any action which (i) removes or changes Executive's title or reduces Executive's job responsibilities

or base salary (except pursuant to a general reduction of not more than ten percent (10%) in executive base salaries effected throughout the Bank; or (ii) moves Executive's place of employment to a location that increases Executive's commute by more than thirty (30) miles over the length of Executive's commute from his place of principal residence at the time the move is requested.

(d) "Material Breach" by Executive shall mean a determination by vote of at least two-thirds (2/3) of all of the Directors of Bank, that Executive shall have failed to comply in any material respect with his obligations under this Agreement following written notice to Executive of the alleged deficiencies thereunder and a period of 30 days to cure such deficiencies (the existence of which shall be confirmed by the foregoing required vote). Any determination in accordance with the preceding sentence shall be conclusive and binding for all purposes of this Agreement.

2. Employment. Bank hereby agrees to employ Executive as Executive Vice President and Chief Lending Officer of Bank and Executive accepts said employment and agrees to serve for the Term of this Agreement in such capacity upon the terms and conditions hereinafter set forth. Subject to the provisions of Paragraph 6 below, "Term" shall mean the period commencing on the effective date of this Agreement and ending on August 31, 2006.

3. Duties of Employment.  
-----

(a) During the Term, Executive will serve as Executive Vice President and Chief Lending Officer of Bank, subject to the terms of this Employment Agreement and the direction and control of the President and the Board of Directors. During the Term, Executive will serve Bank faithfully, diligently and competently and will devote full-time to his employment and will hold, in addition to the offices of Executive Vice President and Chief Lending Officer of Bank, such other executive offices of Bank, or its subsidiaries and affiliates, to which he may be elected, appointed or assigned by the President or the Board of Directors of Bank from time to time and will discharge such executive duties in connection therewith. Nothing in this Agreement shall preclude Executive, with the prior approval of the President or the Board of Directors, from devoting reasonable periods of time required for (i) serving as a director or member of a committee of any organization involving no conflict of interest with Bank, or (ii) engaging in charitable, religious and community activities, provided, that such directorships, memberships or activities do not materially interfere with the performance of his duties hereunder.

4. Compensation. During the Term, Bank shall pay to Executive as compensation for the services to be rendered by him hereunder the following:

(a) A base salary at the rate of \$114,022 per year, or such larger sum as the Board of Directors of Bank may from time to time determine in connection with regular periodic performance reviews pursuant to Bank's policies and practices. Such compensation shall be payable in accordance with normal payroll practices of Bank.

(b) In addition, Executive may be entitled to a bonus, payable in cash or other form of compensation, at the end of each calendar year during such Term in an amount and form set by the Board of Directors of Bank. The Board of Directors may establish one or more individual or corporate goals for each such year, the achievement of which may be made a condition to the payment of the foregoing bonus to Executive. Such goals shall be communicated to Executive and shall be stated to be a condition to payment of said bonus.

5. Benefits. During the Term, Executive shall be entitled to the following benefits:

(a) Comprehensive health insurance and major medical coverage comparable to such coverage provided for executive employees of Bank generally in compliance with plans or practices in effect at Bank.

(b) Participation in any long-term disability insurance plan and pension plan maintained by Bank, in accordance with the terms thereof, as may be in effect from time to time.

(c) A vacation of at least four weeks per year, during which Executive's compensation shall be paid in full. Vacation time which is not taken by Executive in any year may be deferred and taken in the first quarter of the following vacation year.

(d) Reimbursement of all travel and other reasonable business expenses incident to the rendering of services by Executive hereunder subject to the submission of appropriate vouchers and receipts in accordance with Bank's policy from time to time in effect.

6. End of Term. The Term shall end upon the occurrence of any of the following events:

- (a) The expiration of the Term as provided for in Paragraph 2.
- (b) Termination of Executive's employment by Bank for "Cause."
- (c) The voluntary termination of Executive's employment by Executive other than for "Good Reason."
- (d) The Disability of Executive. If this Agreement is terminated by reason of the Disability of the Executive, Bank shall give written notice to that effect to Executive in the manner provided in Paragraph 14 herein.
- (e) The death of Executive.

7. Payment Upon Termination.

(a) If Executive's employment is terminated by Bank for "Cause," as defined in Paragraph 1(a), the obligations of Bank under this Agreement shall cease and Executive shall forfeit all right to receive any compensation or other benefits under this Agreement except only salary and reimbursable expenses accrued through the date of such termination.

(b) If Executive shall voluntarily terminate his employment during the Term other than for "Good Reason," as defined in Paragraph 1(c), the obligations of Bank under this Agreement shall cease and Executive shall forfeit all right to receive any compensation or other benefits under this Agreement except only salary and reimbursable expenses accrued through the date of such termination.

(c) If Executive's employment is terminated by reason of Disability or death, the obligations of Bank under this Agreement shall cease and Executive shall forfeit all right to receive any compensation or other benefits under this Agreement except only salary and reimbursable expenses accrued through the date of such retirement.

(d) If Executive's employment is terminated by Bank during the Term for any reason other than for "Cause," or "Disability," or if Executive shall voluntarily terminate his employment during the Term for "Good Reason," Executive shall be entitled to receive, and Bank shall be obligated to pay and provide Executive, the following amounts:

(i) The base salary of Executive, at the rate in effect immediately prior to Executive's termination, for a period of six months following termination, from which shall be subtracted the amount, if any, payable to Executive under any then effective severance pay plan of Bank, payable in accordance with normal payroll practices of Bank, or at Executive's option the commuted value (determined by discounting all payments at a rate equal to the bond equivalent yield of the latest three-month Treasury Bill auction) of such salary to be paid in cash in a lump sum in the month next following Executive's termination of employment and to be treated as a supplemental wage payment under applicable Treasury Regulations subject to federal tax withholding at the flat percentage rate applicable thereto;

(ii) A payment equal to one-half of the 2005 annual bonus received by Executive;

(iii) To the extent that any form of compensation previously granted to Executive, such as, by way of example only, stock option awards, shall not be fully vested or shall require additional service as an employee at the time of the termination of Executive's employment, Executive shall be credited with additional service for such purpose through the end of the six-month period following Executive's termination.

(iv) During the period of eighteen months following Executive's termination of employment (or such other period as shall be prescribed by the then applicable COBRA law) (the "continuation period"), Executive shall continue to receive such individual and/or family health benefits coverage as he was receiving at the time of termination of employment, with Bank and Executive paying the same portion of the cost of such coverage as existed at the time of Executive's termination, for so long during the continuation period as Executive elects to continue coverage and pays his portion of the costs of coverage.

(e) If Executive's employment is terminated by reason of retirement at the end of the Term, Executive shall be entitled to receive, and Bank shall be obligated to pay to and provide Executive, the following amounts:

(i) The base salary of Executive, at the rate in effect immediately prior to Executive's retirement through February 28, 2007, payable in accordance with normal payroll practices of Bank; and

(ii) During the period from Executive's retirement through March 1, 2008, Executive shall continue to receive such individual and/or family health benefits coverage as he was receiving at the time of retirement, with Bank and Executive paying the same portion of the cost of such coverage as existed at the time of Executive's retirement.

8. Confidential Information and Agreement Not to Compete.  
-----

(a) Executive understands that in the course of his employment by Bank, Executive will receive or have access to confidential information concerning the business or purposes of Bank, and which Bank desires to protect. Such confidential information shall be deemed to include, but not be limited to, Bank's customer lists, loan lists and information, and employee lists, including, if known, personnel information and data. Executive agrees that he will not at any time during the period ending one year after the later of (a) the end of the Term and (b) the end of the period in which Executive is entitled to receive any payments or benefits under this Agreement, reveal to anyone outside Bank or use for his own benefit any such information without specific written authorization by Bank. Executive further agrees not to use any such confidential information or trade secrets in competing with Bank at any time following termination of employment with Bank.

(b) Executive agrees that, if he receives any compensation from Bank under Paragraph 7, he will not, for a period of three years following the date of his termination, perform any services or accept any remuneration or compensation as an officer, director, employee, agent or consultant with any depository or other financial institution which maintains any office in the Farmington Valley of Connecticut.

(c) In the event that Executive's termination is the result of Executive's retirement and payments are made to Executive under Paragraph 7(e), Executive agrees to provide such reasonable assistance to the Bank as Bank may request during the period that Executive continues to receive payments under Paragraph 7(e)(i).

9. No Obligation to Mitigate. So long as Executive shall not be in breach of any provision of Paragraph 8, Executive shall have no duty to mitigate damages in the event of a termination and if he voluntarily obtains other employment (including self-employment), any compensation or profits received or accrued, directly or indirectly, from such other employment shall not reduce or otherwise affect the obligations of Bank to make payments hereunder.

10. Resignation. In the event that Executive's services hereunder are terminated under any of the provisions of this Agreement (except by death), Executive agrees that he will deliver his written resignation as an officer of Bank, or its subsidiaries and affiliates, to the Board of Directors, such resignation to become effective immediately or, at the option of the Board of Directors, on a later date as specified by the Board.

11. Insurance. Bank shall have the right at its own cost and expense to apply for and to secure in its own name, or otherwise, life, health or accident insurance or any or all of them covering Executive, and Executive agrees to submit to the usual and customary medical examination and otherwise to cooperate with Bank in connection with the procurement of any such insurance, and any claims thereunder.

12. Release. Upon Executive's termination, as a condition of receiving payments or benefits provided for in this Agreement, at the request of Bank, Executive shall execute and deliver for the benefit of Bank, and any subsidiary or affiliate of Bank, a general release in the form set forth in Attachment A, and such release shall become effective in accordance with its terms. The failure or refusal of Executive to sign such a release or the revocation of such a release shall cause the termination of any and all obligations of Bank to make payments or provide benefits hereunder, and the forfeiture of the right of Executive to receive any such payments and benefits. Executive acknowledges that Bank has advised him to consult with an attorney prior to signing this Agreement and that he has had an opportunity to do so.

13. Regulatory Limitation. Notwithstanding any other provision of this Agreement, Bank shall not be obligated to make, and Executive shall have no right to receive, any payment, benefit or amount under this Agreement which would violate any law, regulation or regulatory order applicable to Bank at the time such payment, benefit or amount is due, including, without limitation, Section 1828(k)(1) of Title 12 of the United States Code and any regulation or order thereunder of the Federal Deposit Insurance Corporation.

14. Notices. All notices under this Agreement shall be in writing and shall be deemed effective when delivered in person to Executive or to the President of the Bank, or if mailed, postage prepaid, registered or certified mail, addressed, in the case of Executive, to his last known address as carried on the personnel records of Bank, and, in the case of Bank, to the corporate headquarters, attention of the President of the Bank, or to such other address



as the party to be notified may specify by notice to the other party. Executive hereby agrees to give Bank not less than sixty days' advance notice of his intended resignation or other termination from Bank, whether or not at the end of the Term.

15. Successors and Assigns. The rights and obligations of Bank under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of Bank, including, without limitation, any corporation, individual or other person or entity which may acquire all or substantially all of the stock or the assets and business of Bank, or with or into which Bank may be consolidated or merged or any surviving corporation in any merger involving Bank. All references in this Agreement to Bank shall be deemed to include all such successors and assigns.

16. Arbitration. Any dispute which may arise between the parties hereto shall be submitted to binding arbitration in Hartford, Connecticut in accordance with the Rules of the American Arbitration Association; provided that any such dispute shall first be submitted to Bank's Board of Directors in an effort to resolve such dispute without resort to arbitration.

17. Severability. If any of the terms or conditions of this Agreement shall be declared void or unenforceable by any court or administrative body of competent jurisdiction, such term or condition shall be deemed severable from the remainder of this Agreement, and the other terms and conditions of this Agreement shall continue to be valid and enforceable.

18. Amendment. This Agreement may be modified or amended only by an instrument in writing executed by the parties hereto.

19. Construction. This Agreement shall supersede and replace all prior agreements and understandings between the parties hereto on the subject matter covered hereby, other than the existing Change-in-Control Agreement with Executive. This Agreement shall be governed and construed under the laws of the State of Connecticut. Paragraph headings are for convenience only and shall not be considered a part of the terms and provisions of the Agreement.

IN WITNESS WHEREOF, Bank has caused this Agreement to be executed by a duly authorized officer, and Executive has hereunto set his hand, this 15th day of November, 2005.

The Simsbury Bank & Trust Company

By: /s/ Martin J. Geitz

-----  
Martin J. Geitz  
President and CEO

Executive /s/ Charles D. Fergie

-----  
Charles D. Fergie

ATTACHMENT A

RELEASE

We advise you to consult an attorney before you sign this Release. You have until the date which is seven days after the Release is signed and returned to The Simsbury Bank & Trust Company (the "Bank") to change your mind and revoke your Release. Your Release shall not become effective or enforceable until after that date.

In consideration for the benefits provided under your Employment Agreement with the Bank, and more specifically enumerated in Exhibit 1 hereto, by your signature below you agree to accept such benefits and not to make any claims of any kind against the Bank, its past and present and future subsidiaries, divisions, subdivisions, affiliates and related companies or their successors and assigns or any and all past, present and future directors, officers, fiduciaries or employees of any of the foregoing (all parties referred to in the foregoing are hereinafter referred to as the "Releasees") before any agency, court or other forum, and you agree to release the Releasees from all claims, known or unknown, arising in any way from any actions taken by the Releasees up to the date of this Release, including, without limiting the foregoing, any claim for wrongful discharge or breach of contract or any claims arising under the Age Discrimination in Employment Act of 1967, Title VII of the Civil Rights

Act of 1964, the Americans with Disabilities Act of 1990, the Employee Retirement Income Security Act of 1974, or any other federal, state or local statute or regulation and any claim for attorneys' fees, expenses or costs of litigation, except that this Release is not intended, and shall not be construed, to (1) release the Bank from any vested obligations it may have under its employee pension benefit plans or (2) release the Bank (or any insurance carrier providing insurance coverage to the Bank or its officers and directors) for any indemnification or other payment to which you may be entitled under the Bank's Certificate of Incorporation or Bylaws (or under any such insurance) for activities or actions occurring during your employment with the Bank.

THE PRECEDING PARAGRAPH MEANS THAT BY SIGNING THIS RELEASE YOU WILL HAVE WAIVED ANY RIGHT YOU MAY HAVE TO BRING A LAWSUIT OR MAKE ANY LEGAL CLAIM AGAINST THE RELEASEES BASED ON ANY ACTIONS TAKEN BY THE RELEASEES UP TO THE DATE OF THIS RELEASE.

By signing this Release, you further agree as follows:

1. You have read this Release carefully and fully understand its terms;
2. You have had at least twenty-one days to consider the terms of the Release;
3. You have seven days from the date you sign this Release to revoke it by written notification to the Bank. After this seven day period, this Release is final and binding and may not be revoked;
4. You have been advised to seek legal counsel and have had an opportunity to do so;
5. You would not otherwise be entitled to the benefits provided under your Employment Agreement with the Bank had you not agreed to waive any right you have to bring a lawsuit or legal claim against the Releasees; and
6. Your agreement to the terms set forth above is voluntary.

Name: .....

Signature: .....

Date: .....

Received by: .....

Date: .....

- 1.
- 2.
- 3.
- 4.
- 5.
- etc.

NOTE: THIS EXHIBIT IS TO BE COMPLETED AT THE TIME OF TERMINATION TO REFLECT ALL BENEFITS AND PAYMENTS MADE UNDER THE AGREEMENT.

Acknowledged and Agreed:

The Simsbury Bank & Trust Company

Executive

By: .....

.....

Charles D. Fergie

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**Section 3: EX-31.1 (EXHIBIT 31.1)**

CERTIFICATION AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Martin J. Geitz, Chief Executive Officer of SBT Bancorp, Inc. (the "Company") certify that:

1. I have reviewed this annual report on Form 10-KSB of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the The Simsbury Bank & Trust Company, Inc. (the "Bank")+ as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company (and previously were responsible for establishing and maintaining such disclosure controls and procedures for the Bank), and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company or the Bank, as applicable, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the disclosure controls and procedures of the Company or the Bank, as applicable, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the fourth fiscal quarter of Bank in the year ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the internal control of the Bank or the Company, as applicable, over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the auditors of the Company or the Bank, as applicable, and the audit committee of the board of directors of the Company or the Bank, as applicable (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the ability of the Company or the Bank, as applicable, to record, process, summarize and report financial information; and

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+ The Bank is a wholly-owned subsidiary of the Company. In March 2006, the Company succeeded to the registration of Bank pursuant to Rule 12g-3(a) under the Exchange Act.

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the internal control of the Company or the Bank, as applicable, over financial reporting.

/s/ Martin J. Geitz  
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Martin J. Geitz  
Chief Executive Officer

Date: March 24, 2006

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**Section 4: EX-31.2 (EXHIBIT 31.2)**

CERTIFICATION AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony F. Bisceglia, Chief Financial Officer of SBT Bancorp, Inc. (the "Company") certify that:

1. I have reviewed this annual report on Form 10-KSB of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the The Simsbury Bank & Trust Company, Inc. (the "Bank") as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company (and previously were responsible for establishing and maintaining such disclosure controls and procedures for the Bank), and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company or the Bank, as applicable, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the disclosure controls and procedures of the Company or the Bank, as applicable, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the fourth fiscal quarter of Bank in the year ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the internal control of the Bank or the Company, as applicable, over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the auditors of the Company or the Bank, as applicable, and the audit committee of the board of directors of the Company or the Bank, as applicable (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the ability of the Company or the Bank, as applicable, to record, process, summarize and report financial information; and

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+ The Bank is a wholly-owned subsidiary of the Company. In March 2006, the Company succeeded to the registration of Bank pursuant to Rule 12g-3(a) under the Exchange Act.

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the internal control of the Company or the Bank, as applicable, over financial reporting.

/s/ Anthony F. Bisceglia, Ph.D.

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Anthony F. Bisceglia, Ph.D.  
Chief Financial Officer

Date: March 24, 2006

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**Section 5: EX-32.1 (EXHIBIT 32.1)**

CERTIFICATION AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of SBT Bancorp, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof, I, Martin J. Geitz, the Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

(i) The Report for the year ended December 31, 2005 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of The Simsbury Bank & Trust Company, Inc.(1)

/s/ Martin J. Geitz

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Martin J. Geitz  
Chief Executive Officer

Date: March 24, 2006

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(1) The Simsbury Bank & Trust Company, Inc. is a wholly-owned subsidiary of the Company. In March 2006, the Company succeeded to the registration of Bank pursuant to Rule 12g-3(a) under the Exchange Act.

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## Section 6: EX-32.2 (EXHIBIT 32.2)

CERTIFICATION AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of SBT Bancorp, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof, I, Anthony F. Bisceglia, the Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

(i) The Report for the year ended December 31, 2005 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of The Simsbury Bank & Trust Company, Inc.(2)

/s/ Anthony F. Bisceglia, Ph.D.

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Anthony F. Bisceglia, Ph.D.  
Chief Financial Officer

Date: March 24, 2006

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(2) The Simsbury Bank & Trust Company, Inc. is a wholly-owned subsidiary of the Company. In March 2006, the Company succeeded to the registration of Bank pursuant to Rule 12g-3(a) under the Exchange Act.

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**SBTB 10KSB 12/31/2006**

**Section 1: 10KSB (SBT BANCORP, INC. 10-KSB)**

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 31, 2006

OR

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

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

Commission file number: 000-51832

SBT Bancorp, Inc.

(Name of small business issuer in its charter)

Connecticut

20-4346972

(State or other jurisdiction of  
Incorporation or organization)

(I.R.S. Employer  
Identification No.)

763 Hopmeadow Street,  
P.O. Box 248,  
Simsbury, CT

06070

(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code: (860) 408-5493

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange On which registered
None	None

Securities registered under Section 12(g) of the Exchange Act:

Title of each class  
Common Stock, no par value

Check whether the issuer is not required to file reports pursuant to  
Section 13 or 15(d) of the Exchange Act.

1

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b02 of the Exchange Act). Yes [ ] No [X]

The issuer's revenues, which include interest income and other income, for its fiscal year ended December 31, 2006, were \$12,291,859.

As of February 15, 2007, the aggregate market value of the outstanding common equity if the registrant held by non-affiliates, based upon the average of the bid and ask prices for such stock on that date, was approximately \$22,659,698.

There were 848,241 shares of Common Stock, no par value outstanding on February 15, 2007.

Transitional small business disclosures format (check one): [ ] Yes [X] No

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the SBT Bancorp, Inc. definitive Proxy Statement for the 2007 Annual Meeting of Shareholders to be held May 8, 2007 (the "Proxy Statement") to be filed with the Securities and Exchange Commission are incorporated by reference into Part III of this Form 10-KSB, and portions of the SBT Bancorp, Inc. Annual Report to Shareholders for the fiscal year ended December 31, 2006 (the "Annual Report") are incorporated by reference into Part II of this Form 10-KSB.

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##### SBT BANCORP, INC.

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ITEM 1. DESCRIPTION OF BUSINESS

General

SBT Bancorp, Inc. (the "Company") is the holding company for The Simsbury Bank & Trust Company, Inc. (the "Bank"). The Company's only business is its investment in the Bank, which is a community oriented financial institution providing a variety of banking and investment services.

The Simsbury Bank & Trust Company, Inc. was incorporated on April 28, 1992 and commenced operations as a Connecticut chartered bank on March 31, 1995. The Bank's deposit accounts are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits thereof. The Bank is not a member of the Federal Reserve System. The Bank's main office and corporate offices are located in the town of Simsbury, Connecticut. The Bank has branch offices in Avon, Bloomfield, Canton and Granby, Connecticut. Simsbury has a population over 23,000. The aggregate population for the Bank's market area is 75,000 people and is comprised of approximately 29,000 households. The towns of Avon and Granby have had some of the most significant growth in the Farmington Valley of Connecticut over the last ten years. The Bank's customer base consists primarily of individual consumers and small businesses in the Farmington Valley. The Bank has over 20,200 deposit accounts.

The Bank also has seven ATMs; two are located at its main office including a drive-through ATM, two are located at its Bloomfield office and one at each of the other branch offices. The ATMs generate activity fees based upon utilization by other banks' customers.

The Bank offers a full range of commercial banking services, including making commercial loans, term real estate loans, construction loans, SBA loans and various types of consumer loans; accepting checking, savings, and time deposits; NOW, Super NOW and money market deposit accounts; and providing travelers' checks, safe deposit and other customary non-deposit banking services. The Bank does not have a trust department. The Bank offers investment products to customers through SBT Investment Services, Inc., a wholly-owned subsidiary of the Bank, and through its affiliation with the securities broker/dealer Infinex Financial Services.

As of December 31, 2006, approximately 75% of the Bank's loans were secured by residential property located in Connecticut.

The deposit growth experienced during the Bank's first eleven years continued during 2006. Deposits increased by \$7.3 million (3.8%) in 2006, compared to \$8.0 million in growth during 2005. Total assets grew to \$217 million, an increase of \$7.5 million (3.6%) over the \$209.5 million at year-end 2005. The Bank's loan portfolio also grew, increasing by \$9.7 million (6.6%) to end the year at \$157.2 million. The Bank's loan-to-deposit ratio, an important determinant of net interest income increased to 79% at year-end 2006, compared to 77% at year-end 2005.

Net income of \$716,933 (\$0.85 per common share) for the year ending December 31, 2006 was a 57% decrease from the net income of \$1,673,677 (\$2.00 per common share) reported for the year ended December 31, 2005. This decrease was primarily due to the expenses incurred for the opening of the new branches in Canton and Bloomfield and expenses related to the formation of the holding company and to regulatory requirements of the Sarbanes-Oxley Act.

Banking is a business that depends on rate differentials. In general, the difference between the interest rate paid by the Bank on its deposits and its other borrowings and the interest rate received by the Bank on loans extended to its customers and securities held in the Bank's portfolio comprise the major portion of the Bank's earnings. These rates are highly sensitive to many factors that are beyond the control of the Bank. Accordingly, the earnings and growth of the Bank are subject to the influence of domestic and foreign economic conditions, including inflation, recession and unemployment.

The commercial banking business is not only affected by general economic conditions but is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Federal Reserve Board. The Federal Reserve Board implements national monetary policies (with objectives such as curbing inflation and combating recessions) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

#### Market Area

The towns of Simsbury, Granby and Avon, which comprise the Bank's primary market, are located in Northwestern Connecticut, west of the Connecticut River near the northern corner of Hartford. All three towns are situated near Interstate Routes 91 and 84. Bradley International Airport is within ten miles of Simsbury, Granby and Avon and provides a convenient alternative to road systems for passengers or cargo.

The road network from each of the towns included in the Bank's secondary market of Barkhamsted, Bloomfield, Canton, East Granby and New Hartford, leads through Simsbury, Granby or Avon. Residents of these communities, therefore, may travel near the Bank's offices and may find it convenient to bank there.

Based on the most current information available, the Bank's primary and secondary markets have a median household income of \$73,673. This level places the overall market approximately 36% above the median income of all Connecticut's households. Compared to the nation as a whole, the median income in the Bank's primary and secondary markets is approximately 75% greater than the median income for all U.S. households. By themselves, the towns of Simsbury and Avon had median household incomes of over \$82,428, placing them 96% over the median income for the U.S. and almost 53% over the median income of all households in Connecticut.

Educational attainment in the Bank's primary and secondary markets is similarly high. Fifty-seven percent of the residents aged twenty-five and over in the eight towns are college graduates. In Simsbury, Granby and Avon, this figure averages 63%.

#### Employees

At December 31, 2006, the Bank employed a total of 66 people, 59 full-time employees and 7 part-time employees. The Bank's employees are not represented by any union or other collective bargaining agreement and the Bank believes its employee relations are satisfactory.

#### Competition

The banking and financial services business in Connecticut generally, and in the Bank's market areas specifically, is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. The Bank competes for loans and deposits and customers for financial services with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other nonbank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader array of financial services than the Bank. In order to compete with the other financial services providers, the Bank principally relies upon local promotional activities, personal relationships established by officers, directors and employees with its customers, and specialized services tailored to meet its customers' needs. In those instances where the Bank is unable to accommodate a customer's needs, the Bank will seek to have those services provided by its correspondents.

The Bank's primary and secondary markets have a number of banking institutions which offer a variety of financial products. The types of institutions range from large nationwide banks to various institutions of smaller size. Other than the Bank, no bank is headquartered in the Bank's primary market area. Simsbury is served by seven depository institutions with a total of seven offices. Of these institutions, there are three commercial banks, two savings banks and two credit unions. Avon is served by ten depository institutions with thirteen offices. Of these institutions, there are three

commercial banks, five savings banks and two credit unions. Granby is served by five depository institutions with the same number of offices. Two of these institutions are commercial banks and three are savings banks. Canton is served by six depository institutions with seven offices. Four of these institutions are commercial banks and two are savings banks. The total eight-town area of the Bank's primary and secondary markets is served by fourteen institutions.

As of June 30, 2006, by deposit account market share, the top three banks in Simsbury are Simsbury Bank & Trust Company (30%), Bank of America (29%), and Webster Bank (19%). The top three banks in Avon are People's Bank (19%), Bank of America (15%), and Webster Bank (13%). In Granby, the top three banks are Bank of America (28%), Windsor Federal Savings And Loan Association (25%) and Simsbury Bank & Trust Company (23%). In Canton, the top three banks are Collinsville Savings Society (45%), Webster Bank (25%) and Bank of America (21%). In Bloomfield, the top three banks are Wachovia Bank (32%), Webster Bank (27%) and Bank of America (24%). In the Bank's primary market (Simsbury, Granby, Avon and Canton), the top 3 banks are Bank of America with 23% of the market, Webster Bank with 16% and The Simsbury Bank and Trust Company with 15%. In the total eight-town area of the Bank's primary and secondary markets, the top three banks are Bank of America with 24% of the market, Webster Bank with 17% and The Simsbury Bank & Trust Company with 11%.

The present bank regulatory scheme is undergoing significant change, both as it affects the banking industry itself and as it affects competition between banks and non-banking financial institutions. There has been a significant regulatory change in the bank merger and acquisition area, in the products and services banks can offer, and in the non-banking activities in which bank holding companies may engage. Under the Gramm-Leach-Bliley Act enacted by Congress on November 12, 1999, banks and bank holding companies may now affiliate with insurance and securities companies. In part as a result of these changes, banks are now actively competing with other types of non-depository institutions, such as money market funds, brokerage firms, insurance companies and other financial service enterprises.

Moreover, certain legislation and regulatory proposals that could affect the Bank and the banking industry in general are pending or may be introduced before the United States Congress, the Connecticut General Assembly and various governmental agencies. These proposals include measures that may further alter the structure, regulation and competitive relationship of financial institutions and that may subject the Bank to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies frequently propose rules and regulations to implement and enforce already existing regulation. It cannot be predicted whether or in what form any legislation or regulations will be enacted or the extent to which the business of the Bank will be affected thereby.

#### Supervision and Regulation

Banks and bank holding companies are extensively regulated under both federal and state law. Set forth below is a summary description of certain laws which relate to the regulation of the Bank and the Company. The description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

The Bank, as a Connecticut state-chartered bank, is subject to supervision, periodic examination and regulation by the Connecticut Commissioner of Banking (the "Commissioner") and the Federal Deposit Insurance Corporation (the "FDIC"). If, as a result of an examination of a bank, the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the bank's operations are unsatisfactory or that the bank or its management is violating or has violated any law or regulation, various remedies are available to the FDIC. Such remedies include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the bank, to assess civil monetary penalties, to remove officers and directors, and ultimately, to terminate a bank's deposit insurance, which for a Connecticut state-chartered bank would result in a revocation of the bank's charter. The Commissioner has many of the same remedial powers.

The deposits of the Bank are insured by the FDIC in the manner and to the extent provided by law. For this protection, the Bank is subject to a semiannual statutory assessment. (See "Premiums for Deposit Insurance.") Although the Bank is not a member of the Federal Reserve System, it is nevertheless subject to certain regulations of the Board of Governors of the Federal Reserve System.

Various requirements and restrictions under the laws of the State of Connecticut and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank's operations, including reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices and capital requirements. Further, the Bank is required to maintain certain levels of capital.

#### Capital Standards

The FDIC has adopted risk-based capital guidelines to which FDIC-insured, state-chartered banks that are not members of the Federal Reserve System, such as the Bank, are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to the differences in risk profiles among banking organizations. Banks are required to maintain minimum levels of capital based upon their total assets and total "risk-weighted assets." For purposes of these requirements, capital is comprised of both Tier 1 and Tier 2 capital. Tier 1 capital consists primarily of common stock and retained earnings. Tier 2 capital consists primarily of loan loss reserves, subordinated debt, and convertible securities. In determining total capital, the amount of Tier 2 capital may not exceed the amount of Tier 1 capital. A bank's total "risk-based assets" are determined by assigning the bank's assets and off-balance sheet items (e.g., letters of credit) to one of four risk categories based upon their relative credit risks. The greater the risk associated with an asset, the greater the amount of such asset that will be subject to capital requirements. Banks must satisfy the following three minimum capital standards: (1) Tier 1 capital in an amount equal to between 4% and 5% of total assets (the "leverage ratio"); (2) Tier 1 capital in an amount equal to 4% of risk-weighted assets; and (3) total Tier 1 and Tier 2 capital in an amount equal to 8% of risk-weighted assets.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") defines specific capital categories based upon an institution's capital ratios. The capital categories, in declining order, are: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. Under FDICIA and the FDIC's prompt corrective action rules, the FDIC may take any one or more of the following actions against an undercapitalized bank: restrict dividends and management fees, restrict asset growth and prohibit new acquisitions, new branches or new lines of business without prior FDIC approval. If a bank is significantly undercapitalized, the FDIC may also require the bank to raise capital, restrict interest rates a bank may pay on deposits, require a reduction in assets, restrict any activities that might cause risk to the bank, require improved management, prohibit the acceptance of deposits from correspondent banks and restrict compensation to any senior executive officer. When a bank becomes critically undercapitalized, (i.e., the ratio of tangible equity to total assets is equal to or less than 2%), the FDIC must, within 90 days thereafter, appoint a receiver for the bank or take such action as the FDIC determines would better achieve the purposes of the law. Even where such other action is taken, the FDIC generally must appoint a receiver for a bank if the bank remains critically undercapitalized during the calendar quarter beginning 270 days after the date on which the bank became critically undercapitalized.

To be considered "adequately capitalized," an institution must generally have a leverage ratio of at least 4%, a Tier 1 capital to risk-weighted assets ratio of at least 4% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 8%. As of December 31, 2006 the most recent notification from the FDIC 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 below. There are no conditions that Management believes have changed the Bank's category.

The following table presents the amounts of regulatory capital and the capital ratios for the Bank compared to its minimum regulatory capital requirements as of December 31, 2006 and 2005.

	December 31, 2006		December 31, 2005	
	Ratio	Capital Minimum Requirement	Ratio	Capital Minimum Requirement
Leverage ratio.....	7.31%	4.00%	7.61%	4.00%
Tier 1 risk-based ratio.....	11.50%	4.00%	12.41%	4.00%
Total risk-based ratio.....	12.75%	8.00%	13.66%	8.00%

## Safety and Soundness Standards

Federal law requires each federal banking agency to prescribe for depository institutions under its jurisdiction standards relating to, among other things: internal controls; information systems and audit systems; loan documentation; credit underwriting; interest rate risk exposure; asset growth; compensation; fees and benefits; and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness (the "Guidelines") to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The Guidelines address internal controls and information systems; internal audit system; credit underwriting; loan documentation; interest rate risk exposure; asset quality; earnings and compensation; fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard set by the Federal Deposit Insurance Act, as amended. The final regulations establish deadlines for submission and review of such safety and soundness compliance plans.

The federal banking agencies also have adopted final regulations for real estate lending prescribing uniform guidelines for real estate lending. The regulations require insured depository institutions to adopt written policies establishing standards, consistent with such guidelines, for extensions of credit secured by real estate. The policies must address loan portfolio management, underwriting standards and loan to value limits that do not exceed the supervisory limits prescribed by the regulations.

Appraisals for "real estate-related financial transactions," generally transactions with a value of \$250,000 or more, must be conducted, depending on the value of the transaction by either state certified or state licensed appraisers. State certified appraisers are required for: all transactions with a transaction value of \$1,000,000 or more; nonresidential transactions valued at \$250,000 or more; and transactions of \$250,000 or more involving "complex" 1-4 family residential properties. An appraisal or real estate "evaluation" executed by a state licensed appraiser is required for all other federally related transactions. Federally related transactions include the sale, lease, purchase, investment in, or exchange of, real property or interests in real property, the financing or refinancing of real property, and the use of real property or interests in real property as security for a loan or investment, including mortgage-backed securities.

## Premiums for Deposit Insurance

The FDIC has implemented a risk-based assessment system, under which an institution's deposit insurance premium assessment is based on the probability that the deposit insurance fund will incur a loss with respect to the institution, the likely amount of any such loss, and the revenue needs of the deposit insurance fund.

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Under this risk-based assessment system, banks are categorized into one of three capital categories (well capitalized, adequately capitalized, and undercapitalized) and one of three categories based on supervisory evaluations by its primary federal regulator (in the Bank's case, the FDIC). The three supervisory categories are: financially sound with only a few minor weaknesses (Group A), demonstrates weaknesses that could result in significant deterioration (Group B), and poses a substantial probability of loss (Group C). The capital ratios used by the FDIC to define well-capitalized, adequately capitalized and undercapitalized are the same in the FDIC's prompt corrective action regulations. The Bank is currently considered a "Well Capitalized Group A" institution and, therefore, is not subject to any quarterly FDIC Bank Insurance Fund ("BIF") or Savings Association Insurance Fund ("SAIF") assessments. This could change in the future based on the capitalization of the BIF and SAIF. The Bank is, however, subject to quarterly assessments by The Financing Corporation ("FICO") to service the interest on its bond obligations. The rate for this assessment is determined quarterly and is paid based on the Bank's average deposits for a given quarter. The Bank paid \$23,553 in FICO assessments during 2006.

## Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal") was enacted to ease restrictions on interstate banking. Effective September 25, 1995, Riegle-Neal allows the Federal Reserve Board to

approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve Board may not approve the acquisition of a bank that has not been in existence for a minimum time period (not exceeding five years) specified by the statutory law of the host state. Riegle-Neal also prohibits the Federal Reserve Board from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. Riegle-Neal does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit contained in Riegle-Neal.

#### Community Reinvestment Act

Under the Community Reinvestment Act, as amended, ("CRA"), as implemented by FDIC regulations, the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate-income neighborhoods. The CRA does not prescribe specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a savings institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) amended the CRA to require public disclosure of an institution's CRA rating and require the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. The Bank's latest CRA rating, received from the FDIC, was "satisfactory."

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#### ITEM 2. DESCRIPTION OF PROPERTY

The Company does not lease or own any properties.

The Bank's main office is located at 981 Hopmeadow Street, Simsbury, Connecticut. The Bank leases its main office pursuant to a lease with an initial term of ten years, expiring 2011, and which contains renewal options for a total of an additional ten years. The Bank also has the option to purchase the office during the fifth year of the lease. This lease also covers the lot at 989 Hopmeadow Street and the building at 987 Hopmeadow Street that is being used as additional administrative offices and is partially subleased to small local businesses.

The Bank's Granby branch office is located at 11 Hartford Avenue, Granby, Connecticut. The Bank leases this office pursuant to a lease with an initial term of fifteen years, expiring in 2013, and which contains renewal options for a total of an additional ten years.

The Bank's Avon branch office is located at 27 Dale Road, Avon, Connecticut. The Bank leases this office pursuant to a lease with an initial term of fifteen years, expiring in 2014, and which contains renewal options for a total of an additional ten years.

The Bank's Canton Branch office is located at 250 Albany Turnpike, Canton, Connecticut. The Bank leases this office pursuant to a lease with an initial term of ten years, expiring in 2015, and which contains renewal options for a total of an additional fifteen years.

The Bank's Bloomfield office is located at 864 Cottage Grove Road, Bloomfield, Connecticut. The Bank leases this office pursuant to a lease with an initial term of ten years, expiring in 2016, and which contains renewal options for a total of an additional ten years.

The Bank's administrative offices are located at 760 Hopmeadow Street, Simsbury, Connecticut. The Bank leases this building pursuant to a lease with an initial term of 63 months commencing in February 2001, and which contains two renewal options of five years each. The first of those options, as amended, was exercised in April 2006.

The Bank made \$568,266 in total rental payments during 2006.

The Bank's Investment Policy permits the Bank to invest in mortgage-backed securities. It is the policy of the Bank to invest in mortgage-backed securities that have no more risk than the underlying mortgages. The Investment Policy also permits the Bank to invest in Preferred Stock issued by Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC).

#### ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any pending legal proceeding, nor is its property the subject of any pending legal proceeding, other than routine litigation that is incidental to its business, and the Company is not aware of any pending or threatened litigation that could have a material adverse effect upon its business, operating results, or financial condition. Moreover, the Company is not a party to any administrative or judicial proceeding, including but not limited to proceedings arising under Section 9 of the Federal Deposit Insurance Act.

To the best of our knowledge, no director, officer, affiliate or holder, of record or beneficially, of 5% or more of our securities is a party adverse to the Company or has a material interest adverse to the Company in any proceeding.

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#### 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 fiscal year ended December 31, 2006.

### PART II

#### ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

The information required by this Item 5 is incorporated into this Form 10-KSB by reference to the Company's Annual Report under the caption "SHAREHOLDER DATA."

#### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The information required by this Item 6 is incorporated into this Form 10-KSB by reference to the Company's Annual Report under the caption "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

#### ITEM 7. FINANCIAL STATEMENTS

The information required by this Item 7 is incorporated into this Form 10-KSB by reference to the Company's Annual Report under the captions "SELECTED FINANCIAL AND OTHER DATA" and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

#### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

#### ITEM 8A. CONTROLS AND PROCEDURES

The Company has initiatives in place to ensure compliance with the Sarbanes-Oxley Act of 2002 (the "Act"). The Company has an Internal Compliance Committee that is responsible for the monitoring of and compliance with all federal regulations. This committee reports to the Audit and Compliance Committee of the Board of Directors.

#### Evaluation of Disclosure Control Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2006 and have concluded that, as of that date, the Company's disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis. This conclusion is based on the above-referenced officers' evaluation of such controls and procedures.

#### Changes in Internal Controls

There were no significant changes in the Company's internal controls over

financial reporting or in other factors that could significantly affect the Company's controls during the fiscal year ended December 31, 2006.

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ITEM 8B. OTHER INFORMATION

Not Applicable.

PART III

ITEM 9. DIRECTORS EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE

Directors

The information required by this Item 9 is incorporated into this Form 10-KSB by reference to the Proxy Statement of SBT Bancorp, Inc. for the annual meeting of shareholders of the Company to be held on May 8, 2007 under the caption "ELECTION OF DIRECTORS" and "INFORMATION ABOUT OUR DIRECTORS."

Executive Officers

The following table shows the name, age, positions held with the Company and principal occupations during the past five years of the Company's executive officers.

NAME	AGE	POSITIONS HELD / PRINCIPAL OCCUPATIONS	YEAR OF HIRE
Martin J. Geitz President and Chief Executive Officer	51	President and Chief Executive Officer of the Company since March 2006; President and Chief Executive Officer of the Bank since October 2004; Vice President of Massachusetts Mutual Life Insurance Company, 2003 to 2004; Chief Executive Officer and Chief Financial Officer of Cigna Bank & Trust Company, 2000 to 2003; President of Fleet Development Ventures, LLC and Fleet Community Development Corp, 1997 to 2000.	2004
Anthony F. Bisceglia, Ph.D. Executive Vice President and Chief Financial Officer	59	Treasurer and Chief Financial Officer of the Company since March 2006; Executive Vice President and CFO of the Bank since January 2005; Senior Vice President and Chief Financial Officer of the Bank from 1995 through January, 2005.	1995
Terry L. Boulton Senior Vice President and Chief Retail Banking Officer	51	Senior Vice President and Chief Retail Banking Officer of the Bank since January 2005; Vice President of Bank of America, formerly Fleet Bank, from 1988 through January, 2005.	2005
Paul R. Little Senior Vice President and Chief Lending Officer	46	Senior Vice President and Chief Lending Officer of the Bank since May, 2006; Vice President, Commercial Real Estate Lending, Liberty Bank, 2004 through May, 2006; Vice President, Commercial Real Estate Loans, Savings Bank of Manchester/New Alliance Bank, 1990 through 2004	2006

Compliance with Section 16(a)

The information required by this item 9 is incorporated into this Form 10-KSB by reference to the Company's Proxy Statement under the caption "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE."

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Code of Ethics

The Company has adopted a Code of Ethics and Conflicts of Interest Policy applicable to directors, officers and employees. The Company will provide to any shareholder, without charge, upon written request, a copy of our Code of Ethics and Conflicts of Interest Policy. All such requests should be directed to SBT Bancorp, Inc., Attention: Jane F. von Holzhausen, Secretary, 760 Hopmeadow Street, P.O. Box 248, Simsbury, Connecticut, 06070.

ITEM 10. EXECUTIVE COMPENSATION



The information required by this Item 10 is incorporated into this Form 10-KSB by reference to the Company's Proxy Statement under the captions "EXECUTIVE COMPENSATION" and "EMPLOYMENT AGREEMENTS."

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the securities authorized for issuance under equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	68,927	\$25.22	16,117
Equity compensation plans not approved by security holders	0	0	0
<b>Total</b>	<b>68,927</b>	<b>\$25.22</b>	<b>16,117</b>

The remaining information required by this Item 11 is contained in the Company's Proxy Statement under the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" and is hereby incorporated by reference herein.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 12 is incorporated into this form 10-KSB by reference to the Company's Proxy Statement under the captions "CERTAIN TRANSACTIONS" and "INDEPENDENCE OF DIRECTORS AND NOMINEES."

ITEM 13. EXHIBITS

Exhibits.

The following exhibits required by Item 601 are filed herewith or are incorporated by reference to the filings previously made by the Bank and the Company as noted below (the reference in parentheses at the end of an Exhibit indicates the number of the Exhibit as it was filed in the document referenced below):

Exhibit No.	Description
3(i)	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Form 8K12G3 filed with the Securities and Exchange Commission on March 7, 2006)
3(ii)	Bylaws (incorporated by reference to Exhibit 3.2 of the Company's Form 8K12G3 filed with the Securities and Exchange Commission on March 7, 2006)
4	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4 of the Company's 10-QSB dated May 12, 2006)
10.1	Employment Agreement, dated as of September 1, 2004, by and between the Bank and Martin J. Geitz (incorporated by reference to Exhibit 10.13 of the Bank's 10-QSB dated November 12, 2004)
10.2	Employment Agreement, dated as of February 6, 2004, by and between the Bank and Charles D. Forgie and amended as of November 15, 2005 (incorporated by reference to the Company's 10-KSB dated March 24, 2006)
10.3	Employment Agreement, dated as of February 6, 2004, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.3 of the Bank's Form 10-KSB dated March 17, 2004)

- 10.4 Supplemental Executive Retirement Plan Agreement, dated as of April 23, 2001, by and between the Bank and Charles D. Forgie (incorporated by reference to Exhibit 10.5 of the Bank's 10-KSB dated March 17, 2004)
- 10.5 Supplemental Executive Retirement Plan Agreement, dated as of April 23, 2001, by and between the Bank and Anthony P. Bisceglia (incorporated by reference to Exhibit 10.6 of the Bank's 10-KSB dated March 17, 2004)
- 10.6 Change in Control Agreement, dated as of July 30, 1999, by and between the Bank and Charles D. Forgie (incorporated by reference to Exhibit 10.7 of the Bank's 10-KSB dated March 17, 2004)
- 10.8 Change in Control Agreement, dated as of July 30, 1999, by and between the Bank and Anthony P. Bisceglia (incorporated by reference to Exhibit 10.8 of the Bank's 10-KSB dated March 17, 2004)
- 10.9 Change in Control Agreement dated as of December 23, 2005 by and between the Bank and Terry L. Boulton (filed herewith)
- 10.10 Letter Agreement dated as of April 25, 2006 by and between the Company and Paul R. Little (incorporated by reference to Exhibit 10.1 of the Company's 8-K filed with the Securities and Exchange Commission on May 22, 2006)
- 13 2006 Annual Report (except for those portions expressly incorporated by reference, the 2006 Annual Report is furnished for informational purposes and is not to be deemed filed as part of this Form 10-KSB)

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- 21 Subsidiaries (filed herewith)
- 31.1 Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Executive Officer
- 31.2 Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Financial Officer
- 32.1 Section 1350 Certification by Chief Executive Officer
- 32.2 Section 1350 Certification by Chief Financial Officer

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 appears in the Company's Proxy Statement under the caption "RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS" and is incorporated by reference herein.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 21, 2007.

SBT BANCORP, INC.

By: /s/ \_\_\_\_\_  
 Martin J. Geitz  
 President and Chief Executive Officer

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Capacity	Date
---	-----	----
/s/ _____ Martin J. Geitz	President and Chief Executive Officer	March 21, 2007

/s/	Executive Vice President,	March 21, 2007
-----	Chief Financial Officer and	
Anthony P. Bisceglia	Chief Accounting Officer	
/s/	Director	March 21, 2007
-----		
Robert J. Bogino		
/s/	Director	March 21, 2007
-----		
James T. Fleming		
/s/	Director	March 21, 2007
-----		
Edward J. Guarco		
/s/	Director	March 21, 2007
-----		
Gary R. Kevorkian		
/s/	Director	March 21, 2007
-----		
Barry R. Loucks		
/s/	Director	March 21, 2007
-----		
George B. Odum, Jr., DMD		
/s/	Director	March 21, 2007
-----		
David W. Sessions		
-----	Director	March 21, 2007
Jane F. von Holzhausen		
/s/	Director	March 21, 2007
-----		
Penny R. Woodford		
/s/	Director	March 21, 2007
-----		
Lincoln S. Young		

Selected Financial and Other Data

	At 12/31/06	At 12/31/05	At 12/31/04
	-----	-----	-----
Balance Sheet Data:			
Total assets	\$217,046,550	\$209,544,654	\$202,154,436
Loans, net	155,512,835	145,805,738	141,229,419
Investment securities	38,485,046	41,196,740	39,448,449
Federal funds sold and other interest earning deposits	4,944,524	6,833,970	10,010,972
Deposits	198,402,158	191,115,680	183,132,283
Stockholders' equity	16,119,064	15,375,598	14,255,257
	For the Year Ended 12/31/06	For the Year Ended 12/31/05	For the Year Ended 12/31/04
	-----	-----	-----
Statement of Income Data:			
Total interest and dividend income	\$11,135,620	\$9,759,483	\$8,670,263
Total interest expense	3,596,887	2,126,399	1,662,982
Net interest and dividend income	7,538,733	7,633,084	7,007,281
Provision for loan losses	0	30,000	25,000
Net interest and dividend income after- provision for loan losses	7,538,733	7,603,084	6,982,281
Gains on loans sold, net	3,977	61,222	44,726
Other noninterest income	1,152,262	983,637	841,702

Noninterest expense	7,679,952	6,129,848	5,186,427
Income tax expense	298,087	845,418	904,032
Net income	716,933	1,673,677	1,778,250
Earnings per common share	\$0.85	\$2.00	\$2.17
Earnings per common share, assuming dilution	\$0.84	\$1.96	\$2.10
Other Data:			
Net interest spread	3.44%	3.80%	3.66%
Net interest margin	3.84%	4.06%	3.85%
Return on average assets			
Return on average stockholders' equity	0.34%	0.83%	0.92%
Average stockholders' equity to average assets	4.52%	11.19%	13.17%
	7.49%	7.45%	6.99%

Management's Discussion and Analysis of  
Financial Conditions and Results of Operations

Forward Looking Statements

When used in this Annual Report or any press release, public announcement or filing, the words "intends," "expects," "plans," "estimates," "projects," "believes," "anticipates" and similar expressions are intended to identify forward-looking statements. The Company (defined below) has made and may continue to make various forward-looking statements with respect to earnings, credit quality and other financial and business matters for periods subsequent to December 31, 2006. All statements, other than statements of historical facts, are forward-looking statements. The Bank (defined below) cautions that these forward-looking statements are not guarantees of future performance and are subject to numerous assumptions, risks and uncertainties, and that statements relating to subsequent periods are subject to greater uncertainty because of the increased likelihood of changes in underlying factors and assumptions. Actual results could differ materially from forward-looking statements. In addition to those factors previously disclosed by the Bank and those factors identified elsewhere herein, the following factors could cause actual results to differ materially from such forward-looking statements: competitive pressures on loan and deposit product pricing; other actions of competitors; changes in economic conditions; the extent and timing of actions of the Federal Reserve Board; customer deposit disintermediation; changes in customers' acceptance of the Bank's products and services; and the extent and timing of legislative and regulatory actions and reforms.

Please do not rely unduly on any forward-looking statement, as such statements speak only as of the date made and the Bank undertakes no obligation to revise or update such statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events or circumstances.

General

This discussion is designed to assist you in better understanding the Company's financial condition, results of operations, liquidity and capital resources and any significant changes and trends related thereto. This discussion should be read in conjunction with the Company's financial statements.

SBT Bancorp, Inc. (the "Company") is the holding company for The Simsbury Bank & Trust Company, Inc. (the "Bank"). The Company's only business is its investment in the Bank, which is a community oriented financial institution providing a variety of banking and investment services.

The Bank was incorporated on April 28, 1992 and commenced operations as a Connecticut chartered bank on March 31, 1995. The Bank's deposit accounts are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits thereof. The Bank is not a member of the Federal Reserve System. The Bank's main office and its corporate offices are located in the town of Simsbury, Connecticut. The Bank has branch offices in the towns of Granby, Avon, Canton and Bloomfield, Connecticut. Simsbury has a population of more than 23,000. The aggregate population for the Bank's market area is 75,000, comprised of approximately 29,000 households. The Bank's customer base consists primarily of individual consumers and small businesses in the Farmington Valley of Connecticut. The Bank has in excess of 20,200 deposit accounts.

The Bank offers a full range of banking services including commercial loans, term real estate loans, construction loans, SBA loans and a variety of consumer loans; checking, savings, certificates of deposit and money market deposit accounts; and travelers' checks, safe deposit and other customary non-deposit banking services. As of December 31, 2006, approximately 75% of the Bank's loans were secured by residential property located in Connecticut. The Bank has two ATMs at its main office and one ATM at each of its branch locations. The ATMs generate activity fees based upon utilization by other banks' customers. The Bank does not have a trust department. The Bank offers investment products to customers through SBT Investment Services, Inc., a wholly-owned subsidiary of the Bank, and through its affiliation with the securities broker/dealer Infinex Financial Services.

The deposit growth experienced during the Bank's first eleven years of operation continued during 2006. Deposits increased by \$7.3 million (3.8%) in 2006, compared to \$8.0 million growth during 2005. Total assets ended the year at \$217.0 million, an increase of \$7.5 million (3.6%) over \$209.5 million at year-end 2005. The Bank's loan portfolio also grew, increasing by \$9.7 million (6.6%) to end the year at \$157.2 million. The Bank's loan-to-deposit ratio, an important determinant of net interest income, increased to 79% at year-end 2006, compared to 77% at year-end 2005.

Net income of \$716,933 (\$0.85 per common share) for the year ended December 31, 2006 was a 57% decrease from the net income of \$1,673,677 (\$2.00 per common share) reported for the year ended December 31, 2005, and a 60% decrease from the net income of \$1,778,250 (\$2.17 per common share) reported for the year ended December 31, 2004.

Results of Operations for the Years Ended December 31, 2006, 2005 and 2004.

#### Net Interest Income and Net Interest Margin

The Bank's earnings depend largely upon the difference between the income received from its loan portfolio and investment securities and the interest paid on its liabilities, mainly interest paid on deposits. This difference is "net interest income." The net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by the change in the level and the mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. The Bank's net interest margin is also affected by changes in yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on the Bank's loans are affected principally by the demand for such loans, the supply of money available for lending purposes and competitive factors. These factors are in turn affected by general economic conditions and other factors beyond the Bank's control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters, and the actions of the Federal Reserve.

Net interest and dividend income, which totaled \$7,538,733 in 2006, decreased for the first time in 2006 since the Bank began operations in March of 1995. The main reason for this decrease was the interest rate environment that was prevalent during most of 2006. Earning assets have grown from \$30 million on December 31, 1995 to over \$194 million at December 31, 2005 and to almost \$200 million at December 31, 2006, a growth rate of 3.1% over the past year and a 24% growth rate over the last four years. The Bank's net interest spread and net interest margin decreased to 3.44% and 3.84% during 2006 as compared to 3.80% and 4.06% during 2005. This was primarily due to the unusual interest rate environment that was prevalent during the year. This environment was characterized by interest rates that were higher in the short term than they were in the long term. This made it necessary for the Bank to pay more for shorter term time deposits than it would have in a more normal interest rate climate.

The following table presents the average amounts outstanding for the major categories of the Bank's interest-earning assets and interest-bearing liabilities and the average interest rates earned or paid thereon for the years ended December 31, 2006, 2005 and 2004.

#### NET INTEREST INCOME (Dollars in thousands)

For the Year Ended 12/31/06		
Average	(1)	
Balance	Interest	Yield

Federal funds sold and overnight deposits	\$ 4,348	\$ 216	4.97%
Investments (1)	43,776	1,983	4.53
Mortgage loans	77,038	4,174	5.42
Commercial loans	36,727	2,594	7.06
Consumer loans	37,920	2,296	6.05
Term federal funds sold	137	6	4.38
	-----	-----	
Total loans	151,822	9,070	5.97
	-----	-----	
Total interest earning assets	\$199,946	\$11,269	5.64%
	=====	=====	
NOW deposits	\$ 25,951	\$ 26	0.10%
Savings deposits	61,444	558	0.91
Time deposits	72,271	2,878	3.98
	-----	-----	
Total interest-bearing deposits	159,666	3,462	2.17
	-----	-----	
Securities sold under agreements to repurchase	1,903	41	2.15
Federal Home Loan Bank advances	1,763	94	5.33
	-----	-----	
Total interest-bearing liabilities	\$163,332	\$ 3,597	2.20%
	=====	=====	
Net interest income		\$ 7,672	
		=====	
Net interest spread			3.44%
			-----
Net interest margin			3.84%
			=====

For the Year Ended 12/31/05

	Average	(1)	
	Balance	Interest	Yield
	-----	-----	-----
Federal funds sold and overnight deposits	\$ 5,267	\$ 169	3.21%
Investments (1)	40,636	3,628	4.01
Mortgage loans	80,376	4,364	5.43
Commercial loans	32,893	2,108	6.41
Consumer loans	30,938	1,579	5.10
Term federal funds sold	542	14	2.58
	-----	-----	-----
Total loans	144,749	8,065	5.57
	-----	-----	-----
Total interest-earning assets	\$190,652	\$ 9,862	5.17%
	=====	=====	
NOW deposits	\$ 26,721	\$ 27	0.10%
Savings deposits	73,994	597	0.81
Time deposits	51,684	1,427	2.76
	-----	-----	-----
Total interest-bearing deposits	152,399	2,051	1.35
	-----	-----	-----
Securities sold under agreements to repurchase	2,007	32	1.59
Federal Home Loan Bank advances	1,201	44	3.66
	-----	-----	-----
Total interest bearing liabilities	\$155,607	\$ 2,127	1.37%
	=====	=====	
Net interest income		\$ 7,735	
		=====	
Net interest spread			3.80%
			=====
Net interest margin			4.06%
			=====

NET INTEREST INCOME  
(Dollars in thousands)

For the Year Ended 12/31/04

	Average Balance	(1) Interest	Yield
Federal funds sold and overnight deposits	\$ 11,191	\$ 139	1.24%
Investments (1)	39,603	1,478	3.73
Mortgage loans	83,349	4,619	5.54
Commercial loans	24,091	1,368	5.68
Consumer loans	25,560	1,161	4.54
Term federal funds sold	719	8	1.11
Total loans	133,719	7,156	5.35
Total interest-earning assets	\$184,513	\$ 8,773	4.75%
===== NOW deposits	\$ 27,514	\$ 27	0.10%
Savings deposits	78,462	635	0.81
Time deposits	44,070	963	2.19
Total interest-bearing deposits	150,046	1,625	1.08
Securities sold under agreements to repurchase	2,889	38	1.32
Federal Home Loan Bank advances	5	-	-
Total interest-bearing liabilities	\$152,940	\$ 1,663	1.09%
===== Net interest income		\$ 7,110	
===== Net interest spread			3.66%
===== Net interest margin			3.85%
===== ===== =====			

(1) \_\_\_\_\_ On a fully taxable equivalent basis based on a tax rate of 38.95%. Interest income on investments includes a fully taxable equivalent adjustment of \$133,000 in 2006, \$103,000 in 2005 and \$103,000 in 2004.

The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume.

	Year Ended December 31, 2006 Compared to Year Ended December 31, 2005			Year Ended December 31, 2005 Compared to Year Ended December 31, 2004		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net

(In thousands)

Interest and dividend income:

Federal funds sold and overnight deposits	\$ 69	\$(22)	\$ 47	\$ 45	\$(15)	\$ 30
Investments	223	132	355	111	39	150
Loans	599	406	1,005	303	606	909
Total interest-earning assets	891	516	1,407	459	630	1,089
-----	-----	-----	-----	-----	-----	-----

Interest expense:

NOW deposits	0	(1)	(1)	0	0	0
--------------	---	-----	-----	---	---	---

Savings deposits	111	(150)	(39)	(2)	(36)	(38)
Time deposits	763	688	1,451	280	184	464
Total interest-bearing deposits	874	537	1,411	278	148	426
Securities sold under agreements to repurchase	11	(2)	9	14	(20)	(6)
FHLB advances	25	25	50	44	0	44
Total interest-bearing liabilities	910	560	1,470	336	128	464
Net change in interest income	\$(19)	\$(44)	\$(63)	\$123	\$ 502	\$ 625

#### Provision for Loan Losses

Provisions for loan losses are charged to earnings to bring the total allowance for loan losses to a level deemed appropriate by the Bank's management ("Management") based on such factors as historical experience, the volume and type of lending conducted by the Bank, the amount of non-performing loans, regulatory policies, generally accepted accounting principles, general economic conditions, and other factors related to the collectability of loans in the Bank's portfolio.

Each month the Bank reviews the allowance for loan losses and makes additional provisions to the allowance, as needed. For the year ended December 31, 2006, the allowance was decreased by \$21,204, net of charge-offs and recoveries. The total allowance for loan losses at December 31, 2006 was \$1,698,329 or 1.08% of outstanding loans. This compares with a total allowance for loan losses of \$1,719,533 at year-end 2005, which represented 1.16% of outstanding loans. With the exclusion of loans to financial institutions (term federal funds sold), this ratio was 1.08% at year-end 2006 and 1.18% at year-end 2005. During 2006, the Bank charged-off five loans for a total of \$21,308. The Bank recovered one loan for \$104 during 2006. During 2005, the Bank charged-off four loans for a total of \$12,476. The Bank recovered one loan for \$94 during 2005. Management believes the allowance for loan losses is adequate.

#### Noninterest Income and Noninterest Expense

The following table sets forth the various components of the Bank's noninterest income and noninterest expense for the years ended December 31, 2006, 2005 and 2004.

#### NONINTEREST INCOME

	For Year Ended 12/31/06	% of Total	For Year Ended 12/31/05	% of Total	For Year Ended 12/31/04	% of Total
Service charges on deposit accounts	\$ 336,664	29.1%	\$ 313,746	30.0%	\$ 331,374	37.4%
Safe deposit fees	74,039	6.4	64,819	6.2	61,475	6.9
Business manager income	129,232	11.2	127,157	12.2	118,768	13.4
Gain on loans sold, net	3,977	0.3	61,222	5.9	44,726	5.0
Other income	612,327	53.0	477,915	45.7	330,085	37.3
Total	\$ 1,156,239	100.0%	\$1,044,859	100.0%	\$886,428	100.0%

#### NONINTEREST EXPENSE

	For Year Ended 12/31/06	% of Total	For Year Ended 12/31/05	% of Total	For Year Ended 12/31/04	% of Total
Salaries and employee benefits	\$4,036,284	52.6%	\$3,114,881	50.8%	\$2,716,535	52.4%
Occupancy expense	1,028,280	13.4	753,452	12.3	682,675	13.1
Equipment expense	324,683	4.2	211,354	3.4	222,383	4.3



Forms and supplies	209,355	2.7	163,881	2.7	133,127	2.6
Advertising and promotions	346,677	4.5	350,690	5.7	215,689	4.2
Professional fees	364,181	4.7	328,850	5.4	164,031	3.2
Insurance	75,023	1.0	78,757	1.3	74,591	1.4
Loan expenses	120,846	1.6	85,142	1.4	109,795	2.1
Telephone and postage	147,885	1.9	138,457	2.3	118,787	2.3
Other expenses	1,026,738	13.4	903,384	14.7	748,814	14.4
	-----	-----	-----	-----	-----	-----
Total	\$7,679,952	100.0%	\$6,128,848	100.0%	\$5,186,427	100.0%
	=====	=====	=====	=====	=====	=====

Noninterest income for the twelve months ended December 31, 2006 was \$1,156,239, an increase of over \$111,000 from the twelve months ended December 31, 2005. The 2006 increase was due primarily to the increases in service charges on deposit accounts, safe deposit fees, and other income offset by a decrease in gains on loans sold. The Bank continued to sell residential mortgage loans with thirty year maturities during 2006 resulting in gains of \$3,977. The Bank sold loans resulting in gains of \$61,222 during 2005. The increase in service charges on deposit accounts was primarily due to an increase in overdraft fees collected. The Bank collected approximately \$214,000 in these charges during 2006 compared to approximately \$205,000 collected during 2005. At December 31, 2006, the Bank had over 20,200 deposit accounts, 1,200 or 6% more than the approximately 19,000 accounts at year-end 2005 and 3,100 or 18% more than the approximately 17,100 accounts at year-end 2004. The increase in other income during 2006 is primarily due to an increase in other fees received related to ATM and point of sales transactions, an increase in income from bank-owned life insurance and an increase in investment services fees and commissions. The Bank did not sell any investment securities during 2006 or 2005.

Noninterest expense for the year ended December 31, 2006 was \$7,679,952, an increase of \$1,551,104 or 25%, over 2005. Noninterest expense for the year ended December 31, 2005 was \$6,128,848. This compares to an increase of 18% from 2004 to 2005 in noninterest expense. The largest increases occurred in salaries and benefits, occupancy expense, equipment expense and professional fees. The increases in 2006 were primarily related to the addition of our fourth and fifth full-service branches and the Bank's continued efforts to promote itself as the bank of choice in the Farmington Valley of Connecticut. Other factors in this increase are expenses related to compliance with new regulatory requirements and the formation of a bank holding company.

Salaries and employee benefits comprised 53% of total noninterest expense during 2006, as compared to 51% in 2005. Other major categories during 2006 included occupancy expense and equipment expense at approximately 13% and 4%, respectively, advertising and promotions at approximately 5%, and professional fees at approximately 5%. Other major categories in 2005 also included occupancy and equipment expenses at approximately 12% and 3%, respectively. The largest components of other expenses, totaling \$1,026,738 in 2006 and \$903,384 in 2005, consisted of correspondent banking charges and software costs.

#### Financial Condition at Years Ended December 31, 2006, 2005 and 2004

The following table sets forth the average balances of each principal category of the Bank's assets, liabilities and capital accounts for the years ended December 31, 2006, 2005 and 2004.

#### Distribution of Assets, Liabilities and Stockholders' Equity (Dollars in thousands)

	For the Year Ended 12/31/06		For the Year Ended 12/31/05		For the Year Ended 12/31/04	
	Average Balance	Percent of Total Assets	Average Balance	Percent of Total Assets	Average Balance	Percent of Total Assets
Assets						
Cash and due from banks	\$ 6,511	3.1%	\$ 6,195	3.1%	\$ 5,516	2.9%
Investment securities	43,776	20.7	40,636	20.2	39,603	20.5
Federal funds sold and						

overnight deposits	4,348	2.1	5,267	2.6	11,191	5.8
Loans, net	150,102	71.0	143,385	71.4	132,008	68.3
Premises and equipment	1,309	0.6	570	0.3	588	0.2
Accrued interest and other assets	5,462	2.5	4,872	2.4	4,479	2.3
Total assets	\$211,508	100.0%	\$200,925	100.0%	\$193,385	100.0%
<b>Liabilities and Stockholders' Equity</b>						
<b>Deposits</b>						
Demand and NOW deposits	\$ 57,982	27.4%	\$ 56,639	28.2%	\$ 53,762	27.8%
Savings deposits	61,444	29.1	73,994	36.8	78,462	40.6
Time deposits	72,271	34.1	51,684	25.7	44,070	22.8
Total deposits	191,697	90.6	182,317	90.7	176,294	91.2
Accrued interest and other liabilities	3,964	1.9	3,648	1.8	3,507	1.8
Total liabilities	195,661	92.5	185,965	92.5	179,801	93.0
<b>Stockholders' equity:</b>						
Common stock	8,555	4.1	8,397	4.2	8,197	4.3
Retained earnings and other comprehensive income	7,292	3.4	6,563	3.3	5,307	2.7
Total stockholders' equity	15,847	7.5	14,960	7.5	13,504	7.0
Total liabilities and stockholders' equity	\$211,508	100.0%	\$200,925	100.0%	\$193,385	100.0%

#### Investment Portfolio

In order to maintain a reserve of readily marketable assets to meet the Bank's liquidity and loan requirements, the Bank purchases United States Treasury securities and other investments. Sales of "federal funds" (short-term loans to other banks) are regularly utilized. Placement of funds in certificates of deposit with other financial institutions may be made as alternative investments pending utilization of funds for loans or other purposes.

Securities may be pledged to meet security requirements imposed as a condition for receipt of deposits of public funds and repurchase agreements. At December 31, 2006, the Bank had fourteen securities with a carrying value totaling \$5,421,325 pledged for such purposes.

As of December 31, 2006, the Bank's investment portfolio consisted of U.S. government and agency securities and preferred stocks, mortgage-backed securities, corporate bonds, municipal securities, and money market mutual funds. The Bank's policy is to stagger the maturities of its investments to meet overall liquidity requirements of the Bank. The Bank's current policy is to invest only in securities with average maturities of less than ten years.

The following table summarizes the amounts and distribution of the Bank's investment securities held as of December 31, 2006, 2005, and 2004.

#### INVESTMENT PORTFOLIO (Dollars in thousands)

	December 31, 2006		
	Amortized Cost	Fair Value	Yield
<b>AVAILABLE FOR SALE SECURITIES</b>			
<b>U.S. Government and Agency securities</b>			
Due within one year	\$ 7,076	\$ 7,016	3.45%
Due after one to five years	10,750	10,646	4.41
Total U.S. Government and Agency securities	17,826	17,662	4.03
<b>State and Municipal securities</b>			
Due after one to five years	2,261	2,261	4.31
Due after five to ten years	1,724	1,833	5.43

Total State and Municipal securities	3,985	4,094	4.79
Corporate debt securities			
Due after one to five years	475	465	3.30
	-----	-----	
Total Corporate debt securities	475	465	3.30
Mortgage-backed securities			
WARM* within one year	7,851	7,698	4.63
WARM* after one to five years	6,261	6,142	4.67
	-----	-----	
Total Mortgage-backed securities	14,112	13,840	4.65
Preferred stocks	2,000	1,756	4.18
	-----	-----	
Total Available-for sale securities	\$ 38,398	\$ 37,817	4.29%
	=====	=====	

\* - Weighted-Average Remaining Maturity

	December 31, 2005		
	Amortized	Fair	
	Cost	Value	Yield
	-----	-----	-----
AVAILABLE FOR-SALE SECURITIES			
-----			
U.S. Government and Agency securities			
Due within one year	\$ 4,500	\$ 4,431	2.65%
Due after one to five years	13,326	13,048	3.62
	-----	-----	
Total U.S. Government and Agency securities	17,826	17,479	3.38
State and Municipal securities			
Due within one year	1,000	998	2.80
Due after one to five years	1,937	1,950	4.14
Due after five to ten years	1,821	1,949	5.38
Due after ten years	232	250	5.60
	---	-----	
Total State and Municipal securities	4,990	5,147	4.39
Corporate debt securities			
Due after one to five years	475	459	3.30
	---	-----	
Total Corporate debt securities	475	459	3.30
Mortgage-backed securities			
WARM* within one year	3,977	3,944	4.96
WARM* after one to five years	11,846	11,522	4.46
WARM* after five to ten years	26	25	6.30
	---	-----	
Total Mortgage-backed securities	15,849	15,491	4.59
Preferred stocks	2,000	1,655	2.84
	-----	-----	
Total Available-for-sale securities	\$ 41,140	\$ 40,231	4.22%
	=====	=====	

\* - Weighted-Average Remaining Maturity

INVESTMENT PORTFOLIO  
(Dollars in thousands)

	December 31, 2004		
	Amortized	Fair	
	Cost	Value	Yield
	-----	-----	-----
AVAILABLE-FOR-SALE SECURITIES			
U.S. Government and Agency securities			
Due within one year	\$ 2,30	\$ 2,308	4.00%
Due after one to five years	12,495	12,379	3.00
	-----	-----	
Total U.S. Government and Agency securities	14,795	14,687	3.15
State and Municipal securities			
Due after one to five years	2,278	2,369	4.28
Due after five to ten years	1,820	2,013	5.38

Due after ten years	232	253	5.60
Total State and Municipal securities	4,330	4,635	4.81
Corporate debt securities			
Due within one year	500	500	3.85
Due after one to five years	475	467	3.30
Total Corporate debt securities	975	967	3.58
Mortgage-backed securities			
WARM* within one year	1,605	1,642	5.99
WARM* after one to five years	15,063	14,989	4.50
WARM* after five to ten years	41	40	6.30
- Total Mortgage-backed securities	16,709	16,671	4.65
Preferred stocks	2,000	1,523	1.53
Total Available-for-sale securities	\$ 38,809	\$38,483	3.91%

\* - Weighted-Average Remaining Maturity

#### Loan Portfolio

General The following table presents the Bank's loan portfolio as of December 31, 2006, 2005 and 2004.

#### LOAN PORTFOLIO (Dollars in thousands)

	December 31, 2006		December 31, 2005		December 31, 2004	
	Balance	% Total Loans	Balance	% Total Loans	Balance	% Total Loans
Commercial, financial and agricultural *	\$ 10,947	7.0%	\$ 11,386	7.7%	\$ 14,089	9.9%
Real estate - construction and land development	11,113	7.1	9,037	6.1	6,954	4.9
Real estate - residential	106,375	67.7	96,459	65.5	97,646	68.4
Real estate - commercial	15,974	10.2	16,101	10.9	11,197	7.8
Municipal	987	0.6	987	0.7	1,015	0.7
Consumer	11,582	7.4	13,381	9.1	11,850	8.3
Total loans	156,978	100.0%	147,351	100.0%	142,751	100.0%
Allowance for loan losses	(1,698)	=====	(1,720)	=====		=====
Deferred costs, net	233		175		180	
Net Loans	\$155,513		\$145,806		\$141,229	
	=====		=====		=====	

\* - Includes Term federal funds sold of \$0 at 12/31/2006, \$2,000,000 at 12/31/2005 and \$4,000,000 at 12/31/2004.

The Bank's commercial loans are made for the purpose of providing working capital, financing the purchase of equipment or for other business purposes. Such loans include loans with maturities ranging from thirty days to one year and "term loans" which are loans with maturities normally ranging from one to twenty-five years. Short-term business loans are generally intended to finance current transactions and typically provide for periodic principal payments, with interest payable monthly. Term loans normally provide for fixed or floating interest rates, with monthly payments of both principal and interest.

The Bank's construction loans are primarily interim loans made to finance the construction of commercial and single family residential property. These loans are typically short-term. The Bank generally pre-qualifies construction loan borrowers for permanent "take-out" financing as a condition to making the construction loan. The Bank occasionally will make loans for speculative housing construction or for acquisition and development of raw land.

The Bank's other real estate loans consist primarily of loans made based on the borrower's cash flow and which are secured by deeds of trust on commercial and residential property to provide another source of repayment in the event of default. It is the Bank's policy to restrict real estate loans without credit enhancement to no more than 80% of the lower of the appraised value or the purchase price of the property depending on the type of property and its utilization. The Bank offers both fixed and floating rate loans.

Maturities on such loans typically range from five to twenty years. However, Small Business Administration ("SBA") and certain other real estate loans easily sold in the secondary market are made for longer maturities. The Bank has been designated an approved SBA lender. The Bank's SBA loans are categorized as commercial or real estate - commercial depending on the underlying collateral. Also, the Bank has been approved as an originator of loans that can be sold to the Federal Home Loan Mortgage Corporation.

The Bank has entered into an agreement with Resource Mortgage Solutions, a division of NetBank ("RMS") to sell mortgage loans originated by the Bank to RMS. During the year ended December 31, 2006, the Bank sold four loans with total principal balances of \$598,000 to RMS resulting in total net gains of \$3,977 for the Bank. During the year ended December 31, 2005, the Bank sold twenty-five loans with total principal balances of \$6,495,650 to RMS resulting in total net gains of \$61,222 for the Bank.

Consumer loans are made for the purpose of financing automobiles, various types of consumer goods, and other personal purposes. Consumer loans generally provide for the monthly payment of principal and interest. Most of the Bank's consumer loans are secured by the personal property being purchased.

With certain exceptions, the Bank is permitted under applicable law to make related extensions of credit to any one borrowing entity up to 15% of the Bank's capital and reserves. An additional 10% is allowable if the credit is fully secured by qualified collateral. The Bank sells participations in its loans when necessary to stay within lending limits. As of December 31, 2006, these lending limits for the Bank were \$2,293,286 and \$4,322,143, respectively.

Loan Concentrations The Bank does not have any significant concentrations in its loan portfolio by industry or group of industries. As of December 31, 2006, approximately 75% of the Bank's loans were secured by residential property located in Connecticut. As of December 31, 2005, 72% of the Bank's loans were secured by such property.

Loan Portfolio Maturities and Interest Rate Sensitivity The following table summarizes the maturities and interest rate sensitivity of the Bank's loan portfolio.

MATURITIES AND RATE SENSITIVITY OF LOANS  
As of December 31, 2006  
(In thousands)

	One Year Or Less	Over One but less than Five Years	Over Five Years	Total
Commercial, financial and agricultural	\$ 6,358	\$ 4,589	-	\$ 10,947
Real Estate - construction and land development	21,113	-	-	11,113
Real Estate - residential	24,061	18,051	\$ 64,263	106,375
Real Estate - commercial	15,292	454	228	15,974
Municipal	61	926	-	987
Consumer	4,462	7,120	-	11,582
Total loans	\$ 61,347	\$ 31,140	\$ 64,491	\$156,978
Loans with fixed interest rates	\$ 11,021	\$ 29,258	\$ 49,606	\$89,885
Loans with variable interest rates	50,326	1,882	14,885	67,093
Total loans	\$ 61,347	\$ 31,140	\$ 64,491	\$156,978

The following table sets forth at December 31, 2006, 2005 and 2004 the Bank's loan commitments, standby letters of credit and unadvanced portions of loans.

LOAN COMMITMENTS AND STANDBY LETTERS OF CREDIT  
(In thousands)

12/31/06      12/31/05      12/31/04

Commitments to originate loans	\$ 3,521	\$ 1,545	\$ 4,565
Standby letters of credit	428	358	-
Unadvanced portion of loans			
Construction	6,698	5,270	4,432
Commercial lines of credit	6,380	6,654	4,655
Residential real estate	-	-	266
Consumer	780	877	773
Home equity lines of credit	22,899	20,116	15,711
	-----	-----	-----
Total	\$ 40,705	\$ 34,820	\$ 30,403
	=====	=====	=====

Non-Performing Assets Interest on performing loans is accrued and taken into income daily. Loans over 90 days past due are deemed "non-performing" and are placed on a nonaccrual status, unless the loan is well collateralized and in the process of collection. Interest received on nonaccrual loans is credited to income only upon receipt and in certain circumstances may be applied to principal until the loan has been repaid in full, at which time the interest received is credited to income. The Bank had one nonaccrual loan with a balance of approximately \$78,000 as of December 31, 2006. The Bank had one nonaccrual loan with a balance of approximately \$32,500 as of December 31, 2005. The Bank had no nonaccrual loans as of December 31, 2004. The Bank had no loans more than 90 days past due and still accruing interest as of December 31, 2006, 2005 or 2004.

When appropriate or necessary to protect the Bank's interests, real estate taken as collateral on a loan may be taken by the Bank through foreclosure or a deed in lieu of foreclosure. Real property acquired in this manner by the Bank will be known as "other real estate owned" ("OREO"), and will be carried on the books of the Bank as an asset, at the lesser of the Bank's recorded investment or the fair value less estimated costs to sell. As of December 31, 2006, 2005 and 2004, there was no OREO held by the Bank.

The risk of nonpayment of loans is an inherent feature of the banking business. That risk varies with the type and purpose of the loan, the collateral which is utilized to secure payment, and ultimately, the credit worthiness of the borrower. In order to minimize this credit risk, the Bank requires that most loans be approved by at least two officers, one of whom must be an executive officer. Commercial loans greater than \$100,000 as well as other loans in certain circumstances must be approved by the Loan Committee of the Company's Board of Directors.

The Bank also maintains a program of annual review of certain new and renewed loans by an outside loan review consultant. Loans are graded from "pass" to "loss", depending on credit quality, with "pass" representing loans that are fully satisfactory as additions to the Bank's portfolio. These are loans which involve a degree of risk that is not unwarranted given the favorable aspects of the credit and which exhibit both primary and secondary sources of repayment. Classified loans identified in the review process are added to the Bank's Internal Watchlist and an additional allowance for loan losses is established for such loans if appropriate. Additionally, the Bank is examined regularly by the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking at which time a further review of the loan portfolio is conducted.

There were fourteen classified loans with a combined outstanding balance of \$2,168,600 as of December 31, 2006 and eighteen classified loans with a combined outstanding balance of \$2,711,270 as of December 31, 2005.

#### Allowance for Loan Losses

The Bank maintains an allowance for loan losses to provide for potential losses in the loan portfolio. Additions to the allowance are made by charges to operating expenses in the form of a provision for loan losses. All loans that are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. Management conducts a critical evaluation of the loan portfolio monthly. This evaluation includes an assessment of the following factors: the results of the Bank's internal loan review, any external loan review, any regulatory examination, loan loss experience, estimated potential loss exposure on each credit, concentrations of credit, value of collateral, any known impairment in the borrower's ability to repay, and present and prospective economic conditions.

The following table summarizes the Bank's loan loss experience,

transactions in the allowance for loan losses and certain prominent ratios at or for the years ended December 31, 2006, 2005 and 2004.

ALLOWANCE FOR LOAN LOSSES  
(Dollars in thousands)

	At or For the Year Ended 12/31/06	At or For the Year Ended 12/31/05	At or For the Year Ended 12/31/04
ALLOWANCE FOR LOAN LOSSES			
Balance at beginning of period	\$ 1,720	\$ 1,702	\$ 1,670
Total charge-offs	(22)	(12)	(14)
Total recoveries	-	-	21
Net loans (charged-off) recovered	(22)	(12)	7
Provision for loan losses	-	30	25
Balance at end of period	\$ 1,698	\$1,720	\$1,702
BALANCES			
Average total loans	\$151,822	\$144,749	\$133,719
Total loans at end of period	156,978	147,351	142,751
RATIOS			
Allowance for loan losses to average loans	1.12%	1.19%	1.28%
Allowance for loan losses to loans at end of period	1.08	1.17	1.19

The following table summarizes the allocation of the allowance for loan losses by loan type and the percent of loans in each category compared to total loans at December 31, 2006, 2005 and 2004.

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES  
(Dollars in thousands)

	December 31, 2006		December 31, 2005		December 31, 2004	
	Allocation of Allowance	% of Loans by Category	Allocation of Allowance	% of Loans by Category	Allocation of Allowance	% of Loans by Category
Real estate - residential	\$ 464	67.7%	\$ 418	65.5%	\$ 513	68.4%
Real estate - commercial	465	10.2	455	10.9	264	7.8
Real estate - construction and land development	212	7.1	208	6.1	116	4.9
Commercial, financial and agricultural	331	7.0	370	7.7	525	9.9
Municipal	9	0.6	9	0.7	26	0.7
Consumer	217	7.4	260	9.1	258	8.3
Total	\$1,698	100.0%	\$1,720	100.0%	\$1,702	100.0%

Deposits

Deposits are the Bank's primary source of funds. At December 31, 2006, the Bank had a deposit mix of 34% checking, 28% savings and 38% certificates. Twenty percent of the total deposits of \$198.4 million were noninterest bearing at December 31, 2006. At December 31, 2005, the Bank had a deposit mix of 32% checking, 35% savings and 33% certificates. Nineteen percent of the total deposits of \$191.1 million were noninterest bearing at December 31, 2005. At December 31, 2006, \$7,142,000 of the Bank's deposits were from public sources. At December 31, 2005, \$6,461,000 of the Bank's deposits were from public sources. The Bank's net interest income is enhanced by its percentage of noninterest bearing deposits.

The Bank's deposits are obtained from a cross-section of the communities it serves. No material portion of the Bank's deposits has been obtained from or is dependent upon any one person or industry. The Bank's business is not seasonal in nature. The Bank accepts deposits in excess of \$100,000 from customers. Those deposits are priced to remain competitive. As of December 31, 2006 and 2005, the Bank had no brokered funds on deposit.

The Bank is not dependent upon funds from sources outside the United States and has not made loans to any foreign entities.

The following table summarizes the distribution of average deposits and the average annualized rates paid for the years ended December 31, 2006, 2005 and 2004.

AVERAGE DEPOSITS  
(Dollars in thousands)

	For the Year Ended December 31, 2006		For the Year Ended December 31, 2005		For the Year Ended December 31, 2004	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Demand deposits	\$32,031	0.00%	\$29,918	0.00%	\$26,248	0.00%
NOW deposits	25,951	0.10	26,721	0.10	27,514	0.10
Savings deposits	61,444	0.91	73,994	0.81	78,462	0.81
Time deposits	72,271	3.98	51,684	2.76	44,070	2.19
Total average deposits	\$191,697	1.81%	\$182,317	1.12%	\$176,294	0.92%

The following table indicates the maturity schedule for the Bank's time deposits of \$100,000 or more as of December 31, 2006, 2005 and 2004.

SCHEDULED MATURITY OF TIME DEPOSITS OF \$100,000 OR MORE  
(Dollars in thousands)

	December 31, 2006		December 31, 2005		December 31, 2004	
	Balance	% of Total	Balance	% of Total	Balance	% of Total
Three months or less	\$15,322	60.5%	\$ 7,521	35.0%	\$ 5,656	39.4%
Over three through six months	6,036	23.9	5,498	25.6	4,864	33.9
Over six through twelve months	1,998	7.9	5,236	24.4	1,024	7.2
Over twelve months	1,948	7.7	3,228	15.0	2,799	19.5
Total Time Deposits	\$25,304	100.0%	\$21,483	100.0%	\$14,343	100.0%

Liquidity and Asset-Liability Management

Liquidity management for banks requires that funds always be available to pay anticipated deposit withdrawals and maturing financial obligations promptly and fully in accordance with their terms. The balance of the funds required is generally provided by payments on loans, sale of loans, liquidation of assets and the acquisition of additional deposit liabilities. One method banks utilize for acquiring additional liabilities is through the acceptance of "brokered deposits" (defined to include not only deposits received through deposit brokers, but also deposits bearing interest in excess of 75 basis points over market rates), typically attracting large certificates of deposit at high interest rates. The Bank, however, has not accepted and does not anticipate accepting "brokered deposits" in the future.

To meet liquidity needs, the Bank maintains a portion of its funds in cash deposits in other banks, federal funds sold, and available-for-sale securities. As of December 31, 2006, the Bank's liquidity ratio was 27%, defined as the sum of \$4.875 million in federal funds sold, \$37.817 million in available-for-sale securities at fair value, and \$10.879 million in cash and due from banks and interest-bearing deposits at the Federal Home Loan Bank, as a percentage of deposits. As of December 31, 2005, the Bank's liquidity ratio was 29%, defined as the sum of \$6.767 million in federal funds sold, \$40.231 million



in available-for-sale securities at fair value, and \$9.357 million in cash and due from banks and interest bearing deposits at the Federal Home Loan Bank, as a percentage of deposits.

The careful planning of asset and liability maturities and the matching of interest rates to correspond with this maturity matching is an integral part of the active management of an institution's net yield. To the extent maturities of assets and liabilities do not match in a changing interest rate environment, net yields may be affected. Even with perfectly matched repricing of assets and liabilities, risks remain in the form of prepayment of assets, timing lags in adjusting certain assets and liabilities that have varying sensitivities to market interest rates and basis risk. In its overall attempt to match assets and liabilities, Management takes into account rates and maturities to be offered in connection with its time deposits and by offering variable rate loans. The Bank has generally been able to control its exposure to changing interest rates by maintaining shorter-term investments and offering floating interest rate loans and a majority of its time deposits at relatively short maturities.

The table below sets forth the interest rate sensitivity of the Bank's interest-sensitive assets and interest-sensitive liabilities as of December 31, 2006, 2005 and 2004, using the interest rate sensitivity gap ratio. For the purposes of the following table, an asset or liability is considered rate-sensitive within a specified period when it can be repriced or matures within its contractual terms.

INTEREST RATE SENSITIVITY  
(Dollars in thousands)

December 31, 2006

	Due Within Three Months	Due in Three to Twelve Months	Due After One Year to Five Years	Due After Five Years	Total
Rate sensitive assets					
Federal funds sold and overnight deposits	\$ 4,875	-	--	--	\$ 4,875
Available-for-sale securities	3,001	\$ 13,469	\$ 19,514	\$ 1,833	37,817
Total loans	54,835	6,512	31,140	64,491	156,978
Total	\$ 62,711	\$ 19,981	\$ 50,654	\$ 66,324	\$199,670
Rate sensitive liabilities					
NOW deposits	\$ 1,458	-	--	\$ 27,701	\$ 29,159
Savings deposits	32,641	--	--	23,235	55,876
Time deposits	40,294	\$ 26,336	\$ 7,945	-	74,575
Securities sold under agreements to repurchase	1,628	--	--	--	1,628
Total	\$ 76,021	\$ 26,336	\$ 7,945	\$ 50,936	\$161,238
Interest rate sensitivity gap	\$ (13,310)	\$ (6,355)	\$ 42,709	\$ 15,388	\$ 38,432
Cumulative gap	\$ (13,310)	\$ (19,665)	\$ 23,044	\$ 38,432	
Cumulative gap ratio to total assets	(6)%	(9)%	11%	16%	

INTEREST RATE SENSITIVITY  
(Dollars in thousands)

December 31, 2005

Due Within	Due in	Due After One	Due After
------------	--------	---------------	-----------

	Three Months	Three to Twelve Months	Year to Five Years	Five Years	Total
Rate sensitive assets					
Federal funds sold and overnight deposits	\$ 6,767	--	--	--	\$ 6,767
Available for-sale securities	1,656	\$ 9,372	\$ 26,979	\$ 2,224	40,231
Total loans	52,274	6,208	30,367	58,502	147,351
<b>Total</b>	<b>\$ 60,697</b>	<b>\$ 15,580</b>	<b>\$ 57,346</b>	<b>\$ 60,726</b>	<b>\$194,349</b>
Rate sensitive liabilities					
NOW deposits	\$ 1,277	--	--	\$ 24,266	\$ 25,543
Savings deposits	40,692	--	--	26,243	66,935
Time deposits	15,539	\$ 31,803	\$ 15,221	62,563	
Securities sold under agreements to repurchase	2,313	--	--	--	2,313
<b>Total</b>	<b>\$ 59,821</b>	<b>\$ 31,803</b>	<b>\$ 15,221</b>	<b>\$ 50,509</b>	<b>\$157,354</b>
Interest rate sensitivity gap	\$ 876	\$(16,223)	\$ 42,125	\$ 10,217	\$ 36,995
Cumulative gap	\$ 876	\$(15,347)	\$ 26,778	\$ 36,995	
Cumulative gap ratio to total assets	0%	(7)%	13%	18%	

December 31, 2004

	Due Within Three Months	Due in Three to Twelve Months	Due After One Year to Five Years	Due After Five Years	Total
Rate sensitive assets					
Federal funds sold and overnight deposits	\$ 9,976	--	--	--	\$ 9,976
Available-for-sale securities	2,023	\$ 3,950	\$ 30,203	\$ 2,306	38,482
Total Loans	43,324	6,761	32,603	60,063	142,751
<b>Total</b>	<b>\$ 55,323</b>	<b>\$ 10,711</b>	<b>\$ 62,806</b>	<b>\$ 62,369</b>	<b>\$191,209</b>
Rate sensitive liabilities					
NOW deposits	\$ 1,426	--	--	\$ 27,092	\$ 28,518
Savings deposits	50,447	--	--	28,341	78,788
Time deposits	12,913	\$ 18,100	\$ 14,327	45,340	
Securities sold under agreements to repurchase	2,188	--	--	--	2,188
Federal Home Loan Bank advances	2,000	--	--	--	2,000
<b>Total</b>	<b>\$ 68,974</b>	<b>\$ 18,100</b>	<b>\$ 14,327</b>	<b>\$ 55,433</b>	<b>\$156,834</b>
Interest rate sensitivity gap	\$(13,651)	\$(7,389)	\$ 48,479	\$ 6,936	\$ 34,375
Cumulative gap	\$(13,651)	\$(21,040)	\$ 27,439	\$ 34,375	
Cumulative gap ratio to total assets	(7)%	(10)%	14%	17%	

Since interest rate changes do not affect all categories of assets and liabilities equally or simultaneously, a cumulative gap analysis alone cannot be used to evaluate the Bank's interest rate sensitivity position. To supplement traditional gap analysis, the Bank performs simulation modeling to estimate the potential effects of changing interest rates. This process allows the Bank to explore complex relationships among repricing assets and liabilities over time in various interest rate environments.

The Company's Executive Committee meets at least quarterly to monitor the Bank's investments, liquidity needs and oversee its asset-liability management. Between meetings of the Executive Committee, Management oversees the Bank's liquidity.

Capital Reserve

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") defines specific capital categories based upon an institution's capital ratios. The capital categories, in declining order, are: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. Under FDICIA and the FDIC's prompt corrective action rules, the FDIC may take any one or more of the following actions against an undercapitalized bank: restrict dividends and management fees, restrict asset growth and prohibit new acquisitions, new branches or new lines of business without prior FDIC approval. If a bank is significantly undercapitalized, the FDIC may also require the bank to raise capital, restrict interest rates a bank may pay on deposits, require a reduction in assets, restrict any activities that might cause risk to the bank, require improved management, prohibit the acceptance of deposits from correspondent banks and restrict compensation to any senior executive officer. When a bank becomes critically undercapitalized, (i.e., the ratio of tangible equity to total assets is equal to or less than 2%), the FDIC must, within 90 days thereafter, appoint a receiver for the bank or take such action as the FDIC determines would better achieve the purposes of the law. Even where such other action is taken, the FDIC generally must appoint a receiver for a bank if the bank remains critically undercapitalized during the calendar quarter beginning 270 days after the date on which the bank became critically undercapitalized.

To be considered "adequately capitalized," an institution must generally have a leverage ratio of at least 4%, a Tier 1 capital to risk-weighted assets ratio of at least 4% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 8%. 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 below. There are no conditions that Management believes have changed the Bank's category.

At December 31, 2006, 2005 and 2004, the Bank's capital exceeded all minimum regulatory requirements and the Bank was considered to be "well capitalized" as defined in the regulations issued by the FDIC.

CAPITAL RATIOS

	Actual 12/31/06	Actual 12/31/05	Actual 12/31/04	Minimum Regulatory Requirements	Well- Capitalized
Bank:					
Total capital (to risk weighted assets)	12.75%	13.66%	13.27%	8.00%	10.00%
Tier 1 capital (to risk weighted assets)	11.50%	12.41%	12.02%	4.00%	6.00%
Tier 1 capital (to average assets)	7.31%	7.61%	7.11%	4.00%	5.00%

Inflation

The impact of inflation on a financial institution can differ significantly from that exerted on other companies. Banks, as financial intermediaries, have many assets and liabilities that may move in concert with inflation both as to interest rates and value. This is especially true for companies, such as the Bank, with a high percentage of interest rate sensitive assets and liabilities. A bank can reduce the impact of inflation if it can manage its interest rate sensitivity position. The Bank attempts to structure its mix of financial instruments and manage its interest rate sensitivity position in order to minimize the potential adverse effects of inflation or other market forces on its net interest income and therefore its earnings and capital.

Financial institutions are also affected by inflation's impact on non-interest expenses, such as salaries and occupancy expenses. During the period 1992 through 2006 inflation has remained relatively stable, due primarily to continuous management of the money supplied by the Federal Reserve. Based on the Bank's interest rate sensitivity position at year-end 2006, the Bank benefits in the short term from rising interest rates and is adversely impacted by falling interest rates. As such, indirectly, the management of the money supply by the Federal Reserve to control the rate of inflation may have an impact on the earnings of the Bank. Also, the changes in interest rates may have a corresponding impact on the ability of borrowers to repay loans with the Bank.

The Company has initiatives in place to ensure compliance with the Sarbanes-Oxley act of 2002. The Company has an Internal Compliance Committee that is responsible for the monitoring of and compliance with all federal regulations. This committee reports to the Audit and Compliance Committee of the Board of Directors.

Evaluation of Disclosure Control Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2006 and have concluded that, as of that date, the Company's disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis. This conclusion is based on the above-referenced officers' evaluation of such controls and procedures within 90 days of the date of this Form 10-KSB.

Changes in Internal Controls

There were no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect the Company's internal controls during the fiscal year ended December 31, 2006.

Options Outstanding

The following table sets forth the securities authorized for issuance under equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	68,927	\$25.22	16,117
Equity compensation plans not approved by security holders	0	0	0
<b>Total</b>	<b>68,927</b>	<b>\$25.22</b>	<b>16,117</b>

[GRAPHIC OMITTED]  
SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts  
February 6, 2007

The Board of Directors and Stockholders  
SBT Bancorp, Inc.  
Simsbury, Connecticut

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of SBT Bancorp, Inc. and Subsidiary as of December 31, 2006 and 2005 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 SBT Bancorp, Inc. and Subsidiary as of December 31, 2006 and 2005 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ SHATSWELL, MacLEOD & COMPANY, P.C.

SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts  
February 6, 2007

SBT BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
December 31, 2006 and 2005

ASSETS	2006	2005
Cash and due from banks	\$ 10,861,262	\$ 9,349,045
Interest-bearing deposits with the Federal Home Loan Bank	17,807	8,234
Money market mutual funds	51,717	58,464
Federal funds sold	4,875,000	6,767,272
Cash and cash equivalents	15,805,786	16,183,015
Investments in available-for-sale securities (at fair value)	37,817,246	40,231,140
Federal Home Loan Bank stock, at cost	667,800	965,600
Loans held-for-sale	268,000	
Loans	157,211,164	147,525,271
Less allowance for loan losses	1,698,329	1,719,533
Loans, net	155,512,835	145,805,738
Premises and equipment	1,551,960	1,006,357
Accrued interest receivable	894,999	793,488
Bank owned life insurance	2,827,460	2,681,367
Other assets	1,700,464	1,877,949
Total assets	\$ 217,046,550	\$ 209,544,654
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	\$ 38,791,256	\$ 36,074,640
Savings and NOW deposits	85,035,535	92,477,912
Time deposits	74,575,367	62,563,128
Total deposits	198,402,158	191,115,680
Securities sold under agreements to repurchase	1,627,896	2,312,832
Other liabilities	897,432	740,544
Total liabilities	200,927,486	194,169,056
Stockholders' equity:		
Common stock, no par value; authorized 2,000,000 shares; issued and outstanding 841,991 shares in 2006 and 838,528 shares in 2005	8,636,380	8,456,690
Retained earnings	7,837,022	7,473,542
Accumulated other comprehensive loss	(354,338)	(554,634)

Total stockholders' equity	16,119,064	15,375,598
Total liabilities and stockholders' equity	\$ 217,046,550	\$ 209,544,654

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

SBT BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
Years Ended December 31, 2006 and 2005

	2006	2005
Interest and dividend income:		
Interest and fees on loans	\$ 9,068,964	\$ 8,065,276
Interest on debt securities:		
Taxable	1,558,164	1,273,044
Tax-exempt	208,591	195,112
Dividends	83,544	56,765
Other interest	216,357	169,286
Total interest and dividend income	11,135,620	9,759,483
Interest expense:		
Interest on deposits	3,462,049	2,050,630
Interest on Federal Home Loan Bank advances	93,619	43,770
Interest on securities sold under agreements to repurchase	41,219	31,999
Total interest expense	3,596,887	2,126,399
Net interest and dividend income	7,538,733	7,633,084
Provision for loan losses		30,000
Net interest and dividend income after provision for loan losses	7,538,733	7,603,084
Noninterest income:		
Service charges on deposit accounts	336,664	313,746
Investment services fees and commissions	165,496	83,705
Other service charges and fees	486,458	427,339
Increase in cash surrender value of life insurance policies	130,656	127,754
Gain on loans sold, net	3,977	61,222
Other income	32,988	31,093
Total noninterest income	1,156,239	1,044,859
Noninterest expense:		
Salaries and employee benefits	4,036,284	3,114,881
Occupancy expense	1,028,280	753,452
Equipment expense	324,683	211,354
Professional fees	364,181	328,850
Advertising and promotions	346,677	350,690
Forms and supplies	209,355	163,881
Correspondent charges	196,001	195,458
Postage	102,850	104,070
Directors' fees	129,335	130,000
Other expense	942,306	776,212
Total noninterest expense	7,679,952	6,128,848
Income before income tax expense	1,015,020	2,519,095
Income tax expense	298,087	845,418
Net income	\$ 716,933	\$ 1,673,677
Earnings per common share	\$ .85	\$ 2.00
Earnings per common share, assuming dilution	\$ .84	\$ 1.96

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

SBT BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
Years Ended December 31, 2006 and 2005

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	-----	-----	-----	-----
Balance, December 31, 2004	\$8,320,286	\$6,134,028	\$(199,057)	\$14,255,257
Comprehensive income:				
Net income		1,673,677		
Net change in unrealized holding loss on available-for-sale securities, net of tax effect			(355,577)	
Comprehensive income				1,318,100
8,695 shares issued on stock options exercised	129,481			129,481
Tax benefit for stock options	6,923			6,923
Dividends declared (\$.40 per share)		(334,163)		(334,163)
	-----	-----	-----	-----
Balance, December 31, 2005	8,456,690	7,473,542	(554,634)	15,375,598
Comprehensive income:				
Net income		716,933		
Net change in unrealized holding loss on available-for-sale securities, net of tax effect			200,296	
Comprehensive income				917,229
3,463 shares issued on stock options exercised	55,880			55,880
Stock based compensation	123,810			123,810
Dividends declared (\$.42 per share)		(353,453)		(353,453)
	-----	-----	-----	-----
Balance, December 31, 2006	\$8,636,380	\$7,837,022	\$(354,338)	\$16,119,064

Reclassification disclosure for the years ended December 31:

	2006	2005
	----	----
Net unrealized holding gains (losses) on available-for-sale securities	\$328,087	\$(582,436)
Other comprehensive income (loss) before income tax effect	328,087	(582,436)
Income tax (expense) benefit	(127,791)	226,859
Other comprehensive income (loss), net of tax	\$200,296	\$(355,577)
	=====	=====

Accumulated other comprehensive loss as of December 31, 2006 and 2005 consists of net unrealized holding losses on available-for-sale securities, net of taxes.

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

SBT BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2006 and 2005

	2006	2005
	-----	-----
Cash flows from operating activities:		
Net income	\$ 716,933	\$ 1,673,677
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	21,059	71,416
Change in deferred loan costs, net	(58,262)	5,572
Provision for loan losses	30,000	
(Increase) decrease in loans held for-sale	(268,000)	740,000
Depreciation and amortization	314,817	179,904
Decrease (increase) in other assets	117,937	(357,991)
Increase in interest receivable	(101,511)	(68,681)
(Increase) decrease in taxes receivable	(70,880)	20,353
Increase in cash surrender value of bank owned life insurance	(130,656)	(127,754)
	123,810	
Increase in other liabilities		
Increase in other liabilities	144,587	148,010
Increase in interest payable	12,301	13,462
Deferred tax expense (benefit)	12,966	(30,908)
	-----	-----
Net cash provided by operating activities	835,101	2,297,060
	-----	-----
Cash flows from investing activities:		
Proceeds from maturities of interest-bearing time deposit with other bank	500,000	
Purchases of available-for-sale securities	(6,915,828)	(10,210,385)
Proceeds from maturities of available-for-sale securities	9,636,750	7,808,242
Redemption of Federal Home Loan Bank stock	297,800	
Loan originations and principal collections, net	(5,085,846)	3,115,689
Loan purchases	(4,563,093)	(7,727,674)
Recoveries of previously charged off loans	104	94
Capital expenditures	(870,749)	(616,609)
Premiums paid on life insurance policy	(15,437)	(15,437)
	-----	-----
Net cash used in investing activities	(7,516,299)	(7,146,080)
	-----	-----
Cash flows from financing activities:		
Net decrease in demand deposits, NOW and savings accounts	(4,725,761)	(9,239,185)
Net increase in time deposits	12,012,239	17,222,582
Net change in short term advances from Federal Home Loan Bank	(2,000,000)	
Net (decrease) increase in securities sold under agreements to repurchase	(684,936)	125,008
Proceeds from exercise of stock options	55,800	129,481
Dividends paid	(353,453)	(334,163)
	-----	-----
Net cash provided by financing activities	6,303,969	5,903,723
	-----	-----
Net (decrease) increase in cash and cash equivalents	(377,229)	1,054,703
Cash and cash equivalents at beginning of year	16,183,015	15,128,312
	-----	-----
Cash and cash equivalents at end of year	\$ 15,805,786	\$ 16,183,015
	=====	=====
	2006	2005
	-----	-----
Supplemental disclosures:		
Interest paid	\$ 3,584,586	\$ 2,112,937
Income taxes paid	356,001	855,973

SBT BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

NOTE 1 - NATURE OF OPERATIONS

On March 2, 2006, The Simsbury Bank & Trust Company, Inc. (the "Bank") reorganized into a holding company structure. As a result, the Bank became a wholly-owned subsidiary of SBT Bancorp, Inc. (the "Company") and each outstanding share of common stock of the Bank was converted into the right to receive one share of the common stock, no par value, of the Company. The Company files reports with the Securities and Exchange Commission and is supervised by



the Board of Governors of the Federal Reserve System.

The Bank is a state chartered bank which was incorporated on April 28, 1992 and is headquartered in Simsbury, Connecticut. The Bank commenced operations on March 31, 1995 engaging principally in the business of attracting deposits from the general public and investing those deposits in securities, residential and commercial real estate, consumer and small business loans.

NOTE 2 - ACCOUNTING POLICIES

The accounting and reporting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America and predominant practices within the banking industry. The consolidated financial statements of the Company were prepared using the accrual basis of accounting. The significant accounting policies of the Company 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 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary the Bank and the Bank's wholly-owned subsidiary, SBT Investment Services, Inc. SBT Investment Services, Inc. was established solely for the purpose of providing investment products, financial advice and services to its clients and the community. 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, Federal Home Loan Bank interest-bearing demand and overnight deposits, money market mutual funds and federal funds sold.

Cash and due from banks as of December 31, 2006 and 2005 includes \$2,446,000 and \$1,812,000, respectively, which is subject to withdrawals and usage restrictions to satisfy the reserve requirements of the Federal Reserve Bank.

SECURITIES:

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts computed 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 measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, or in a separate component of capital. They are merely disclosed in the notes to the consolidated financial statements.
- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.

-- Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

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 HELD-FOR-SALE:

Loans held-for-sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges to operations. Interest income on mortgages held-for-sale is accrued currently and classified as interest on loans.

#### 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 amounts due to borrowers on unadvanced loans, 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.

Loan origination and commitment fees and certain direct origination costs are deferred, and the net amount amortized as an adjustment of the related loan's yield. The Company is amortizing these amounts over the contractual life of the related loans.

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

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

#### ALLOWANCE FOR LOAN LOSSES:

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, 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 Company will be unable to collect the

scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial 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.

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

#### 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 20 years for furniture and equipment. Leasehold improvements are amortized over the lesser of the life of the lease or the estimated life of the improvements.

#### FAIR VALUES OF FINANCIAL INSTRUMENTS:

Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosures about Fair Value of Financial Instruments," requires that the Company disclose estimated fair values 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: 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 for loans held-for-sale are estimated based on outstanding investor commitments, or in the absence of such commitments, are based on current investor yield requirements.

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 by discounting the future cash flows, 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 demand deposits, regular savings, NOW accounts, and money market accounts are equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for 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.

Securities sold under agreements to repurchase: The carrying amounts of securities sold under agreements to repurchase approximate their fair values.

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.

**ADVERTISING:**

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

**INCOME TAXES:**

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

**STOCK BASED COMPENSATION:**

At December 31, 2006, the Company has a stock-based employee compensation plan which is described more fully in Note 15. The Company accounts for the plan under SFAS No. 123(R) "Share-based payment". During the year ended December 31, 2006, \$123,810 in stock-based employee compensation was recognized. Prior to January 1, 2006, the Company accounted for the plan under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under this plan prior to January 1, 2006 had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share Based Payment" to stock-based employee compensation for the year ended December 31, 2005.

Net income, as reported	\$1,673,677
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	60,589
	-----
Pro forma net income	\$1,613,088
	-----
 Earnings per share:	
Basic - as reported	\$2.00
Basic - pro forma	\$1.93
Diluted - as reported	\$1.96
Diluted - pro forma	\$1.89

**EARNINGS PER SHARE:**

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. 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.

**RECENT ACCOUNTING PRONOUNCEMENTS:**

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Instruments" (SFAS 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 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 156). SFAS 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 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 157). SFAS 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 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 157 is effective for the Company's consolidated financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. The Company does not expect the adoption of this statement to have a material impact on its financial condition and results of operations.

NOTE 3 - INVESTMENTS IN AVAILABLE-FOR-SALE 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	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2006:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	\$ 17,825,395	\$ 6,169	\$ 169,644	\$ 17,661,920
Obligations of states and municipalities	3,985,050	137,626	28,368	4,094,308
Corporate debt securities	475,000		9,588	465,412
Mortgage-backed securities	14,112,206	15,723	287,923	13,840,006
U.S. government agencies perpetual/callable preferred stocks	2,000,000		244,400	1,755,600
Marketable equity securities	51,717			51,717
	38,449,368	159,518	739,923	37,868,963
Money market mutual funds included in cash and cash equivalents	(51,717)			(51,717)
Total available-for-sale securities	\$ 38,397,651	\$ 159,518	\$ 739,923	\$ 37,817,246
December 31, 2005:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	\$ 17,826,063	\$	\$ 346,668	\$ 17,479,395
Obligations of states and municipalities	4,989,994	189,025	31,955	5,147,064
Corporate debt securities	475,000		16,097	458,903
Mortgage-backed securities	15,848,575	20,856	378,903	15,490,528
U.S. government agencies perpetual/callable preferred stocks	2,000,000		344,750	1,655,250
Marketable equity securities	58,464			58,464
	41,198,096	209,881	1,118,373	40,289,604
Money market mutual funds included in cash and cash equivalents	(58,464)			(58,464)
Total available-for-sale securities	\$ 41,139,632	\$ 209,881	\$ 1,118,373	\$ 40,231,140

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

Fair

	Value
Due within one year	\$ 7,015,546
Due after one year through five years	13,373,000
Due after five years through ten years	1,833,094
Mortgage-backed securities	13,840,006
	-----
	\$ 36,061,646
	=====

There were no sales of available-for-sale securities during 2006 and 2005.

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

As of December 31, 2006 and 2005, the total carrying amounts of securities pledged for securities sold under agreements to repurchase and public deposits was \$5,421,325 and \$5,704,711, 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 not other than temporarily impaired, are as follows as of December 31, 2006:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities issued by the U.S.						
Treasury and other U.S. government corporations and agencies	\$ 3,990,180	\$ 9,820	\$ 11,665,571	\$ 159,824	\$ 15,655,751	\$ 169,644
Obligations of states and municipalities			902,855	28,368	902,855	28,368
Corporate debt securities			465,412	9,588	465,412	9,588
Mortgage-backed securities	322,744	1,899	11,892,440	286,024	12,215,184	287,923
U.S. government agencies perpetual/callable preferred stocks			1,755,600	244,400	1,755,600	244,400
Total temporarily impaired securities	\$ 4,312,924	\$ 11,719	\$ 26,691,078	\$ 728,204	\$ 30,994,802	\$ 719,923

Company management considers investments with an unrealized loss at December 31, 2006 to be only temporarily impaired because the impairment is due to the current interest rate environment, not other credit factors. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, 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	\$ 10,947,268	\$ 11,385,701
Real estate - construction and land development	21,113,090	9,037,438
Real estate - residential	106,375,264	96,458,618
Real estate - commercial	15,973,601	16,101,173
Municipal	987,153	987,153
Consumer	11,581,910	13,380,572
	-----	-----
	156,978,286	147,350,655
Allowance for loan losses	(1,698,329)	(1,719,533)
Deferred costs, net	232,878	174,616
	-----	-----
Net loans	\$ 155,512,835	\$ 145,805,738
	=====	=====

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

2006	2005
------	------

Balance at beginning of year	\$ 1,719,533	\$ 1,701,915
Recoveries of loans previously charged off	104	94
Charge offs	(21,300)	(12,476)
Provision for loan losses		30,300
Balance at end of year	\$ 1,698,329	\$ 1,719,533

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	\$ 78,047	\$ 32,443
Accruing loans which are 90 days or more overdue	\$ 0	\$ 0

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

	2006		2005	
	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses
Loans for which there is a related allowance for credit losses	\$ 78,047	\$ 1,756	\$ 32,443	\$ 3,244
Loans for which there is no related allowance for credit losses	0	0	0	0
Totals	\$ 78,047	\$ 1,756	\$ 32,443	\$ 3,244

Average recorded investment in impaired loans during the year ended December 31	\$ 60,186	\$ 6,489
---	-----------	----------

Related amount of interest income recognized during the time, in the year ended December 31, that the loans were impaired

Total recognized	\$ 3,735	\$ 0
Amount recognized using a cash basis method of accounting	\$ 3,735	\$ 0

#### NOTE 5 - PREMISES AND EQUIPMENT

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

	2006	2005
Leasehold improvements	\$ 1,148,740	\$ 666,102
Furniture and equipment	2,242,519	1,869,479
Accumulated depreciation and amortization	(1,839,299)	(1,529,224)
	\$ 1,551,960	\$ 1,006,357

#### 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 \$25,304,338 and \$21,483,496, respectively.

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

2007	\$ 66,629,836
2008	5,526,686
2009	1,232,341
2010	764,072
2011	422,432
	-----
Total	\$ 74,575,367
	=====

NOTE 7 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase consist of funds borrowed from customers on a short-term basis secured by portions of the Company's investment portfolio. The securities which were sold have been accounted for not as sales but as borrowings. The securities consisted of debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies. The securities were held in safekeeping by Morgan Stanley, under the control of the Company. The purchasers have agreed to sell to the Company substantially identical securities at the maturity of the agreements. The agreements mature generally within three months from date of issue.

NOTE 8 - INCOME TAX EXPENSE

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

	2006	2005
	-----	-----
Current:		
Federal	\$ 222,816	\$ 708,211
State	62,305	168,115
	-----	-----
	285,121	876,326
	-----	-----
Deferred:		
Federal	8,330	(26,718)
State	4,636	(4,190)
	-----	-----
	12,966	(30,908)
	-----	-----
Total income tax expense	\$ 298,087	\$ 845,418
	=====	=====

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
	-----	-----
	% of	% of
	Income	Income
	-----	-----
Federal income tax at statutory rate	34.0%	34.0%
Increase (decrease) in tax resulting from:		
Tax-exempt income	(14.6)	(5.1)
Other	1.4	.2
Stock based compensation	4.2	
State tax, net of federal tax benefit	4.4	4.5
	-----	-----
Effective tax rates	29.4%	33.6%
	=====	=====

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

	2006	2005
	-----	-----
Deferred tax assets:		
Allowance for loan losses	\$ 528,352	\$ 528,352
Deferred compensation	196,329	179,658
Other	6,586	17,370
Net unrealized holding loss on available-for-sale securities	226,067	353,858
	-----	-----
Gross deferred tax assets	957,334	1,079,238
	-----	-----



Deferred tax liabilities:		
Depreciation	(204,664)	(208,503)
Deferred loan costs/fees	(90,706)	(68,014)
	-----	-----
Gross deferred tax liabilities	(295,370)	(276,517)
	-----	-----
Net deferred tax asset	\$ 661,964	\$ 802,721
	=====	=====

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

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2006 the Company was obligated under non-cancelable operating leases for bank premises and equipment expiring between 2007 and 2016. The total minimum rental due in future periods under these existing agreements is as follows as of December 31, 2006:

2007	\$ 585,010
2008	588,307
2009	597,327
2010	604,811
2011	358,754
Thereafter	1,020,057
	-----
Total	\$ 3,754,266
	=====

Total rental expense amounted to \$574,782 and \$408,361 for the years ended December 31, 2006 and 2005, respectively.

NOTE 10 - FINANCIAL INSTRUMENTS

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. These financial instruments include commitments to originate loans, unadvanced funds on loans and standby letters of credit. 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 Company has in particular classes of financial instruments.

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

Commitments to originate loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company 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 Company 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 Company's obligation was \$428,312 and \$358,262, respectively, for financial and standby letters of credit. The Company's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

The estimated fair values of the Company'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
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 15,805,786	\$ 15,805,786	\$ 16,183,015	\$ 16,183,015
Available-for sale securities	37,817,246	37,817,246	40,231,140	40,231,140
Federal Home Loan Bank stock	667,800	667,800	965,600	965,600
Loans held-for-sale	268,000	268,386		
Loans, net	155,512,835	153,402,000	145,805,738	143,769,000
Accrued interest receivable	894,999	894,999	793,488	793,488
<b>Financial liabilities:</b>				
Deposits	198,402,158	198,404,000	191,115,680	191,117,000
Securities sold under agreements to repurchase	1,627,896	1,627,896	2,312,832	2,312,832

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.

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

	2006	2005
Commitments to originate loans	\$ 3,520,850	\$ 1,544,500
Standby letters of credit	428,312	359,262
<b>Unadvanced portions of loans:</b>		
Construction	6,697,932	5,270,221
Commercial lines of credit	6,380,518	6,654,353
Consumer	779,823	876,891
Home equity	22,897,790	20,115,648
	\$ 40,785,225	\$ 34,819,875

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

**NOTE 11 - RELATED PARTY TRANSACTIONS**

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 \$3,349,315 as of December 31, 2006. During the year ended December 31, 2006 principal payments totaled \$2,794,242 and advances amounted to \$3,875,866.

Deposits from related parties held by the Company as of December 31, 2006 and 2005 amounted to \$1,857,419 and \$1,761,463, respectively.

During 2006 and 2005, the Company paid \$53,932 and \$65,999, respectively, for rent and related expense of the Company's Granby branch office to a company of which a bank director is a principal. The rent expense for the Granby branch included in Note 9 amounted to \$44,935 in 2006 and \$45,385 in 2005.

During 2006 and 2005, the Company paid \$375,876 and \$228,148, respectively, for construction costs and related fees for the Company's Canton branch office to a company of which a bank director is a principal. This amount is included in capital expenditures for 2006 and 2005.

During 2006 and 2005, a director of the Company was paid \$6,352 and \$5,299, respectively, for legal services.

**NOTE 12 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK**

Most of the Company's business activity is with customers located within the state. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Company's loan portfolio is comprised of loans collateralized by real estate located in the State of

Connecticut.

NOTE 13 - REGULATORY MATTERS

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

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

As of December 31, 2006, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's and the Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollar amounts in thousands)						
As of December 31, 2006:						
Total Capital (to Risk Weighted Assets):						
Consolidated	\$ 17,927	13.13%	\$ 10,920	>8.0%	N/A	-
The Simsbury Bank & Trust Company, Inc.	17,398	12.75	10,928	>8.0	\$ 13,647	>10.0%
Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	16,229	11.89	5,460	>4.0	N/A	-
The Simsbury Bank & Trust Company, Inc.	15,700	11.50	5,459	>4.0	8,188	>6.0
Tier 1 Capital (to Average Assets):						
Consolidated	16,229	7.56	8,586	>4.0	N/A	-
The Simsbury Bank & Trust Company, Inc.	15,700	7.31	8,586	>4.0	10,733	>5.0
As of December 31, 2005 (Bank only):						
Total Capital (to Risk Weighted Assets)	17,153	13.66	10,046	>8.0	12,558	>10.0
Tier 1 Capital (to Risk Weighted Assets)	15,579	12.41	5,023	>4.0	7,535	>6.0
Tier 1 Capital (to Average Assets)	15,579	7.61	8,188	>4.0	10,235	>5.0

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

Under Connecticut law, the Bank may pay dividends only out of net profits. The Connecticut Banking Commissioner's approval is required for dividend payments which exceed the current year's net profits and retained net profits from the preceding two years. As of December 31, 2006, the Bank is restricted from declaring dividends to the Company in an amount greater than \$3,412,821.

NOTE 14 - EMPLOYEE BENEFITS

The Company sponsors a 401(k) savings and retirement plan. Employees who were 21 years of age and employed on the plan's effective date were immediately eligible to participate in the plan. Other employees who have attained age 21 are eligible for membership on the first day of the month following completion of 90 days of service.

The provisions of the 401(k) plan allow eligible employees to contribute subject to IRS limitations. The Company's matching contribution equaled 50 cents per dollar contributed by the participant up to 6% of the participant's annual salary. The Company's expense under this plan was \$75,868 in 2006 and \$49,205 in 2005.

The Company entered into employment agreements (the "Agreements") with the Executive Officers of the Company. The Agreements provide for severance benefits upon termination following a change in control as defined in the agreements in amounts equal to cash compensation as defined in the agreements and fringe benefits that the Executive(s) would have received if the Executive(s) would have continued working for an additional five years.

NOTE 15 - STOCK OPTION PLAN

The Simsbury Bank & Trust Company, Inc. 1998 Stock Plan ("Plan") provides for the granting of options to purchase shares of common stock or the granting of shares of restricted stock up to an aggregate amount of 142,000 shares of common stock of the Company. Options granted under the Plan may be either Incentive Stock Options ("ISOs") within the meaning of Section 422 of the Internal Revenue Code or non-qualified options which do not qualify as ISOs ("NQOs"). No restricted stock awards or stock options may be granted under the Plan after March 17, 2008.

The exercise price for shares covered by an ISO may not be less than 100% of the fair market value of common stock on the date of grant. The exercise price for shares covered by an NQO may not be less than 50% of the fair market value of common stock at the date of grant. All options must expire no later than ten years from the date of grant. The Plan also provides the Board with authority to make grants that will provide that options will become exercisable and restricted awards will become fully vested upon a change in control of the Company.

In accordance with the Plan each non-employee director is granted a NQO to purchase 1,000 shares of common stock at the fair market value of the common stock on the grant date. These options will become exercisable in two equal installments beginning on the first anniversary of the date of grant.

The fair value of each option granted in 2006 and 2005 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2006	2005
Expected volatility	14.6%	14.6%
Expected dividends	1.5%	1.5%
Expected term (in years)	10	10
Risk free rate	5.20%	4.49%

A summary of the status of the Company's stock option plan as of December 31 and changes during the years ending on that date is presented below:

Fixed Options	2006		2005	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	63,204	\$24.34	50,899	\$19.77
Granted	10,500	29.00	21,000	31.50
Exercised	(3,463)	16.17	(8,695)	14.89
Forfeited	(1,314)	36.55		
Outstanding at end of year	68,927	25.22	63,204	24.34
Options exercisable at year-end	41,364	21.46	34,764	17.76
Weighted-average fair value of options granted during the year	\$8.77		\$8.60	

The following table summarizes information about fixed stock options outstanding as of December 31, 2006:

Exercise Price	Number Outstanding	Options Outstanding and Exercisable		Exercise Price
		Weighted-Average Remaining Contractual Life	Number Exercisable	
\$13.625	21,016	1.4 years	21,016	\$13.625
15.65	2,185	5.2 years	2,185	15.65
16.25	2,409	4.9 years	2,409	16.25
33.25	2,625	7.5 years	1,750	33.25
34.90	1,314	7.3 years	876	34.90
35.00	5,250	7.8 years	3,500	35.00
36.55	2,628	7.3 years	2,628	36.55
31.50	21,000	9.0 years	7,000	31.50
29.00	10,500	9.5 years		
	68,927	6.2 years	41,364	

As of December 31, 2006, there was \$215,460 of total unrecognized compensation cost related to nonvested share-based arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.8 years. The total value of shares that vested during the years ended December 31, 2006 and 2005 was \$123,810 and \$60,589, respectively.

NOTE 16 - EARNINGS PER SHARE (EPS)

Reconciliation of the numerators and the denominators of the basic and diluted per share computations for net income are as follows:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Year ended December 31, 2006			
Basic EPS			
Net income	\$ 716,933	841,191	\$ .85
Effect of dilutive securities, options		14,283	
Diluted EPS			
Net income	\$ 716,933	855,474	\$ .84
Year ended December 31, 2005			
Basic EPS			
Net income	\$1,673,677	835,079	\$2.00
Effect of dilutive securities, options		18,276	
Diluted EPS			
Net income	\$1,673,677	853,355	\$1.96

NOTE 17 - RECLASSIFICATION

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

#### Shareholder Data

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The Company's shares of common stock are quoted for trading on the OTC Bulletin Board under the symbol "SBTB." At December 31, 2006, there were 841,991 shares outstanding and approximately 1,100 shareholders of record. There is a limited market for the Company's shares. The following table sets forth the high and low bid information for the period indicated.

	Year Ended December 31, 2006		Year Ended December 31, 2005	
	High	Low	High	Low
First Quarter	\$34.00	\$31.60	\$34.50	\$36.50
Second Quarter	\$34.00	\$28.75	\$34.00	\$31.50
Third Quarter	\$31.00	\$27.25	\$33.00	\$30.70
Fourth Quarter	\$31.00	\$29.55	\$33.50	\$33.15

The above quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not reflect actual transactions. The Company became the Bank's parent company in a reorganization that occurred on March 2, 2006. For periods prior to the reorganization, the above table sets forth the high and low bid information for the Bank's common shares.

#### Dividends

The Company's shareholders are entitled to dividends when and if declared by the Board of Directors out of funds legally available therefore. Connecticut law prohibits the Company from paying cash dividends except from its net profits, which are defined by state statutes. The Company declared and paid cash dividends of \$353,453 during 2006. The Company declared and paid cash dividends of \$334,163 during 2005.

The Company did not repurchase any of its securities during the fourth quarter of 2006.

#### Corporate Information

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SBT Bancorp, Inc.  
760 Hopmeadow Street  
P.O. Box 248  
Simsbury, Connecticut 06070-0248  
(860) 658-BANK  
Fax: (860) 651-5342  
www.simsburybank.com

#### Notice of Shareholders' Meeting

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The Annual Meeting of Shareholders of SBT Bancorp, Inc., the holding company for The Simsbury Bank & Trust Company, Inc., will be held at 5:00 p.m. on Tuesday, May 8, 2007 at 981 Hopmeadow Street, Simsbury, Connecticut.

#### Independent Auditors

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

#### Legal Counsel

-----

Day Pitney LLP  
Counselors at Law  
CityPlace I  
Hartford, CT 06103-3499

#### Transfer Agent

-----

American Stock Transfer & Trust Company

#### Shareholder Contact

-----

Susan D. Presutti

59 Maiden Lane  
Plaza Level  
New York, NY 10005  
Shareholder Relations: (800) 937-5449

SBT Bancorp, Inc.  
760 Hopmeadow Street  
Simsbury, CT 06370  
(860) 408-5493

Trading Symbol: SBTB  
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COPIES OF THE COMPANY'S ANNUAL REPORT ON FORM 10-KSB WILL BE FORWARDED WITHOUT CHARGE UPON WRITTEN REQUEST TO:

Jane F. von Holzhausen, Secretary  
SBT Bancorp, Inc.  
760 Hopmeadow Street  
P.O. Box 248  
Simsbury, CT 06370-0248

SBT Bancorp, Inc.  
-----

Board of Directors  
\*Chairman of Committee

Lincoln S. Young  
Chairman of the Board\*  
Retired Chief Executive Officer  
Turbine Engine Services Corp.  
Corporate Governance Committee\*  
Executive Committee  
Investment Services Committee  
Loan Committee  
Personnel Committee  
Marketing & Public Relations Committee

Robert J. Bogino  
Vice Chairman  
Retired President and Co-Owner  
Bogino & DeMaria, Inc.  
Audit & Compliance Committee  
Corporate Governance Committee  
Executive Committee  
Investment Services Committee  
Loan Committee\*

James T. Fleming  
Commissioner  
Department of Public Works  
State of Connecticut  
Audit & Compliance Committee  
Corporate Governance Committee  
Marketing & Public Relations Committee

Martin J. Ceitz  
President and Chief Executive Officer  
The Simsbury Company and Trust Company  
Executive Committee  
Investment Services Committee  
Loan Committee  
Marketing & Public Relations Committee

Edward J. Guarco  
Vice President  
State Line Oil  
Audit & Compliance Committee  
Personnel Committee

Gary R. Kevorkian  
Attorney at Law  
Loan Committee  
Personnel Committee

Barry R. Loucks  
Retired President and CEO  
The Simsbury Bank & Trust Company  
Executive Committee\*  
Loan Committee  
Marketing & Public Relations Committee

George B. Odium, Jr., DMD  
General Dentistry  
Audit & Compliance Committee\*  
Executive Committee

David W. Sessions  
President and Treasurer  
Casle Corporation  
Executive Committee  
Loan Committee  
Personnel Committee\*

Jane F. von Holzhausen  
Secretary  
Vice President of Operations,  
Southwest Region  
Prudential Connecticut Realty  
Corporate Governance Committee  
Executive Committee  
Marketing & Public Relations Committee\*

Penny R. Woodford  
Real Estate Agent  
Coldwell Companyer Residential Brokerage  
Audit & Compliance Committee  
Marketing & Public Relations Committee

Officers

Martin J. Geitz  
President and Chief Executive Officer

Anthony F. Bisceglia, Ph.D.  
Treasurer and Chief Financial Officer

Jane F. von Holzhausen  
Secretary

The Simsbury Bank and Trust Company, Inc.

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Board of Directors

All SBT Bancorp, Inc. Directors and:

NEW DIRECTOR  
New Director Occupation  
New Directors Committees

Directors Emeriti

Richard C. Anthony  
Chairman  
Weekapaug Foundation for Conservation

Robert B. August  
Attorney at Law

Jackson F. Eno  
Vice President  
Morgan Stanley

Evan W. Woollacott  
Retired Vice Chairman and Commissioner  
Connecticut D.P.U.C.

Officers

Martin J. Geitz  
President and Chief Executive Officer

Anthony F. Bisceglia, Ph.D.  
Executive Vice President, Treasurer and Chief Financial Officer

Terry L. Boulton  
Senior Vice President and  
Chief Retail Companying Officer



Paul R. Little  
Senior Vice President and  
Chief Lending Officer

Jane F. von Holzhausen  
Secretary

Vice Presidents

-----  
James R. Babcock  
Richard A. Bahre  
Robert A. Francolini  
H. Holbrook Hyde, Jr.  
Gladden R. Keyes  
Lauren S. McCoy  
Janice L. Zdun

Assistant Vice Presidents

-----  
Brian D. Belyea  
Juliana R. Gingerich  
Gladden R. Keyes  
Jeffrey J. Levitsky  
Kim A. McDonald  
Susan D. Presutti, Assistant Secretary  
Sophie S. Stevens  
Barbara J. Wallace

Assistant Treasurers

-----  
Margot M. Byrne  
Christine A. Gates  
Barbara J. Hanifin  
Aline C. Hoadley  
Karen G. Jepeal  
Lisa A. Morgan  
Craig S. Porter  
Salverio P. Titus

Employees

Dianna S. Anderson  
Theresa D. Bendell  
Torrance H L Berry  
Yvonne L. Bourgoin  
Erin A. Bowe  
Elizabeth A. Brady  
Alexandra S. Bullard  
Katherine P. Cain  
Carol D. Clifford  
Nicole A. Dietz  
Heather E. Dill  
Cheryl B. Dilisio  
S. Thomas Edge  
Marilyn E. Ehrhardt  
Lori L. Ethier  
Deborah A. Fochesato  
Pameia S. Ford  
Beate E. Forst  
Dawna M. Fuller  
Shirley T. Gentry  
Barbara A. Holcomb  
Jo-Ann Horton  
Regina M. Keith  
Tina M. Kuracz  
Elizabeth C. Lenhart  
Francine T. Love  
Abbey L. McGunnigle  
Catherine L. Miller  
Shawna L. Morin  
Irene P. Najman  
Alan G. Pollack  
Patricia A. Pschirer  
Margaret E. Rose  
Gerald Smith, Jr.  
Irene M. Smith  
Karen E. Storms  
Maria Theodoratos  
Annette M. Troutman  
Susan J. Truss  
Liliana C. Viveiros

EXHIBIT INDEX

Exhibit No.	Description
3(i)	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Form 9K12G3 filed with the Securities and Exchange Commission on March 7, 2006)
3(ii)	Bylaws (incorporated by reference to Exhibit 3.2 of the Company's Form 9K12G3 filed with the Securities and Exchange Commission on March 7, 2006)
4	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4 of the Company's 10-QSB dated May 12, 2006)
10.1	Employment Agreement, dated as of September 1, 2004, by and between the Bank and Martin J. Geitz (incorporated by reference to Exhibit 10.13 of the Bank's 10-QSB dated November 12, 2004)
10.2	Employment Agreement, dated as of February 6, 2004, by and between the Bank and Charles D. Forgie and amended as of November 15, 2005 (incorporated by reference to the Company's 10-KSB dated March 24, 2006)
10.3	Employment Agreement, dated as of February 6, 2004, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.3 of the Bank's Form 10-KSB dated March 17, 2004)
10.4	Supplemental Executive Retirement Plan Agreement, dated as of April 23, 2001, by and between the Bank and Charles D. Forgie (incorporated by reference to Exhibit 10.5 of the Bank's 10-KSB dated March 17, 2004)
10.5	Supplemental Executive Retirement Plan Agreement, dated as of April 23, 2001, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.6 of the Bank's 10-KSB dated March 17, 2004)
10.6	Change in Control Agreement, dated as of July 30, 1999, by and between the Bank and Charles D. Forgie (incorporated by reference to Exhibit 10.7 of the Bank's 10-KSB dated March 17, 2004)
10.8	Change in Control Agreement, dated as of July 30, 1999, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.8 of the Bank's 10-KSB dated March 17, 2004)
10.9	Change in Control Agreement dated as of December 23, 2005 by and between the Bank and Terry L. Boulton (filed herewith)
10.10	Letter Agreement dated as of April 25, 2006 by and between the Company and Paul R. Little (incorporated by reference to Exhibit 10.1 of the Company's 8-K filed with the Securities and Exchange Commission on May 22, 2006)
13	2006 Annual Report (except for those portions expressly incorporated by reference, the 2006 Annual Report is furnished for informational purposes and is not to be deemed filed as part of this Form 10-KSB)
21	Subsidiaries (filed herewith)
31.1	Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Executive Officer
31.2	Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Financial Officer
32.1	Section 1350 Certification by Chief Executive Officer
32.2	Section 1350 Certification by Chief Financial Officer

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## Section 2: EX-10.9 (EXHIBIT 10.9)

Exhibit 10.9

### CHANGE IN CONTROL SEVERANCE AGREEMENT SIMSBURY BANK AND TRUST COMPANY

This Agreement is made and entered into, effective as of the 23rd day of December, 2005, by and between Simsbury Bank and Trust Company, a state bank and trust company with its principal office and place of business at 981 Hopmeadow Street, Simsbury, Connecticut 06070 ("Bank") and Terry L. Boulton, a resident of Simsbury, Connecticut ("Executive").

#### W I T N E S S E T H:

WHEREAS, Executive is employed by Bank as Senior Vice President and Chief Retail Banking Officer;

WHEREAS, the Board of Directors of Bank considers it to be in the best interests of Bank and the stockholders of Bank to foster the continued employment of Executive in the event of a Potential Change-in-Control (as hereinafter defined), although no such event is now contemplated or foreseen;

WHEREAS, Bank desires to assure Executive of what it considers to be fair and reasonable terms in the event of a Change-in-Control (as hereinafter defined);

NOW THEREFORE, in consideration of the promises and mutual covenants herein contained, the parties hereto, intending to be legally bound, do hereby mutually covenant and agree as follows:

#### 1. Term of Agreement.

(a) Generally. Except as provided in Section 1(b) hereof, (i) this Agreement shall be effective as of the date and year first above written, and shall continue in effect through December 31, 2005, and (ii) commencing on January 1, 2006, and each January 1 thereafter, this Agreement shall be automatically extended for one additional year unless, not later than September 30th of the preceding year, either party to this Agreement gives notice to the other that the Agreement shall not be extended under this Section 1(a); provided, however, that no such notice by Bank shall be effective if prior to the date of such notice (i) a "Potential Change in Control" shall have occurred and the event giving rise thereto has not been terminated, abandoned or rescinded or (ii) a "Change in Control" shall have occurred.

(b) Upon a Change in Control. If a Change in Control shall have occurred at any time during the period in which this Agreement is effective, this Agreement shall continue in effect for (i) the remainder of the month in which the Change in Control occurred and (ii) a term of 12 months beyond the month in which such Change in Control occurred (such entire period hereinafter referred to as the "Protected Period").

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#### 2. Definitions.

For purposes of this Agreement, the following terms shall have the following meanings:

(a) A "Change in Control" shall be deemed to have occurred if, during the term of this Agreement:

(i) any Person directly or indirectly or acting through one or more other Persons owns, controls, or has power to vote 25% or more of the voting common stock of Bank or a Controlling Person; or

(ii) any Person acquires or agrees to acquire all or substantially all of the assets and business of Bank or a Controlling Person; or

(iii) any Person (A) is a party to a merger, consolidation, or any other

form of reorganization having substantially the same effect as a merger or consolidation, with Bank or a Controlling Person and (B) immediately prior to such transaction the Person had total assets as of the end of its most recent fiscal year equal to or greater than 100% of the total assets of Bank or the Controlling Person, as applicable, as of the end of its most recent fiscal year; or

(iv) during any period of twenty-four (24) consecutive months, individuals who at the beginning of such period constitute the Board of Directors of Bank cease for any reason to constitute a majority of such Board, unless the election, or the nomination for election of each new Director was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who were Directors at the beginning of such period; or

(v) the Board of Directors of Bank, by vote of a majority of all the Directors (excluding Executive if Executive is a Director), adopts a resolution to the effect that a "Change in Control" has occurred for purposes of this Agreement.

(b) A "Potential Change in Control" shall be deemed to have occurred if:

(i) Bank or any Controlling Person enters into a letter of intent, memorandum of understanding, or definitive agreement providing for, or publicly announces that it is considering, one or more transactions, the consummation of which would result in the occurrence of a Change in Control;

(ii) any Person (including Bank) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control; or

(iii) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

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(c) A "Person" shall include a natural person, corporation, or other entity. When two or more persons act as a partnership, limited partnership, syndicate, or other group for the purpose of acquiring, holding, or disposing of Bank common stock, such partnership, syndicate, or group shall be considered a Person. Beneficial ownership shall be determined under the then current provisions of Securities Exchange Act Rule 13d-3; 17 C.F.R. ss. 240.13d-3.

(d) A "Controlling Person" shall mean a Person who directly or indirectly or acting through one or more other Persons owns, controls or has power to vote 50% or more of the voting common stock of Bank.

(e) Notwithstanding the definitions contained in Section 2 hereof, the formation by Bank of a bank holding company that is approved by the Board and the shareholders of Bank shall not constitute either a Change in Control or a Potential Change in Control.

### 3. Duties Upon Potential Change-in-Control.

In the event that a Potential Change-in-Control shall occur while Executive is employed by Bank, Executive agrees to remain in the employ of Bank, at the request of Bank, and in such event Bank agrees to continue to employ Executive in the offices then held by Executive with Bank and on the terms of employment then in effect until the earlier to occur of the following: (i) the event giving rise to the Potential Change-in-Control shall have been abandoned or terminated; (ii) a Change-in-Control has occurred; or (iii) the Board of Directors of Bank shall have determined by vote of at least two-thirds (2/3) of all the Directors (excluding Executive if Executive is a Director) that Executive's obligations under this Section 3 shall cease. During the period covered by the preceding sentence, Executive shall render, to the best of Executive's ability, such services as shall be required of Executive in order to explore and pursue fully the Potential Change-in-Control in accordance with directions, policies and determinations from time to time made by the Board of Directors of Bank and communicated to Executive. During said period, Executive shall use reasonable best efforts to fulfill Executive's responsibilities to Bank in the interests of Bank and the shareholders of Bank and as reasonably requested of Executive for such purposes. The employment of Executive pursuant to the first sentence of this Section 3 may be terminated, without breach of this Agreement, either by Bank for Cause, Disability or Material Breach, or by Executive for Good Reason (as such terms are defined in Section 4(f) below).

### 4. Termination.

(a) Termination by Bank for Cause, by Executive Without Good Reason, or by Reason of Death, Disability or Retirement. If during the Protected Period

Executive's employment by Bank is terminated by Bank for Cause, by Executive without Good Reason, or because of Executive's death, Disability or Retirement, Bank shall not be obligated to make any payments to Executive by reason of this Agreement other than (i) payment of amounts otherwise accrued and owing but not yet paid and (ii) any amounts payable under then-existing employee benefit programs at the time such amounts are due.

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(b) Termination by Bank Without Cause or by Executive for Good Reason. If during the Protected Period Executive's employment by Bank is terminated by Bank without Cause or by Executive for Good Reason, subject to the provisions of Section 6 hereof, Executive shall be entitled to the compensation and benefits described in this Section 4(b). If Executive's employment by Bank is terminated prior to a Change in Control at the request of a Person engaging in a transaction or series of transactions that would result in a Change in Control, the Protected Period shall commence upon the subsequent occurrence of a Change in Control, Executive's actual termination shall be deemed a termination occurring during the Protected Period and covered by this Section 4(b), Executive's Date of Termination shall be deemed to have occurred immediately following the Change in Control, and Notice of Termination shall be deemed to have been given by Bank immediately prior to Executive's actual termination. Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason hereunder.

The compensation and benefits provided under this Section 4(b) are as follows:

(i) Bank shall pay Executive's full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, no later than the fifth day following the Date of Termination, and Executive shall receive all other amounts to which Executive is entitled under any benefit plan of Bank, at the time such payments are due.

(ii) At the time specified in Section 4(d) hereof, Bank shall pay to Executive, in lieu of amounts which may otherwise be payable to Executive under any bonus plan for the year in which the Date of Termination occurs, an amount in cash equal to Executive's annual target bonus that would be payable in cash for such year multiplied by a fraction, (A) the numerator of which equals the number of full or partial days in such annual performance period during which Executive was employed by Bank and (B) the denominator of which is 365.

(iii) At the time specified in Section 4(d) hereof, Bank shall pay Executive, in lieu of any further salary, bonus or severance payments for periods subsequent to the Date of Termination, a lump sum amount in cash equal to two times the sum of:

(A) the greater of (I) Executive's annual base salary in effect immediately prior to the Change in Control of Bank or (II) Executive's annual base salary in effect at the time Notice of Termination is given; and

(B) the greater of (I) Executive's annual target bonus for the year in which the Change in Control occurs or, (II) if no such target bonus has yet been determined for such year, Executive's annual target bonus actually earned by Executive in the year immediately preceding the year in which the Change in Control occurs.

(iv) Stock options or restricted stock held by Executive at the time of Executive's termination, the vesting of which is service based, if not then vested and exercisable, will become fully vested and exercisable at the date of such termination, and, in other respects (including the period following termination during which such options may be exercised), such options or restricted stock shall be governed by the plans and programs and the agreements and other documents pursuant to which such options or restricted stock were granted.

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(v) Any performance objectives upon which the earning of performance based restricted stock or deferred stock awards, including outstanding stock plan awards, and other long-term incentive awards is conditioned shall be deemed to have been met at target level at the date of termination, and restricted stock and deferred stock awards, including outstanding stock plan awards, and other long-term incentive awards (to the extent then or previously earned, in the case of performance-based awards) shall become fully vested and non-forfeitable at the date of such termination, and, in other respects, such awards shall be governed by the plans and programs and the

agreements and other documents pursuant to which such awards were granted.

(vi) For a 24-month period following Executive's termination of employment, Bank shall arrange to provide Executive with health insurance benefits no less favorable than those which Executive was receiving immediately prior to the Notice of Termination. If Executive elects after termination of employment continued coverage under Bank's health plan in accordance with the applicable provisions of the Consolidated Omnibus Reconciliation Act of 1985 ("COBRA"), Executive shall continue to receive such individual and/or family health benefits coverage as Executive was receiving at the time of termination of employment with Bank with Executive paying the same portion of the cost of such coverage as existed at the time of Executive's termination, for so long during the continuation period as Executive elects to continue coverage and pays Executive's portion of the costs of coverage.

(vii) (vii) At the time specified in Section 4(d) hereof, an amount equal to the aggregate amounts that Bank would have contributed on behalf of Executive under Bank's 401(k) Plan, or similar qualified plan if any such plan shall be in effect, for a 24-month period following Executive's termination of employment (plus estimated earnings thereon) had Executive continued in the employ of Bank until the end of said period and made contributions under said plan at a rate, as a percentage of salary, equal to the rate at which Executive had made contributions to said plan in the plan year immediately preceding Executive's termination.

(viii) At the time specified in Section 4(d) hereof, a cash allowance for outplacement and job search activities (including, but not limited to, office and secretarial expenses) not to exceed \$10,000, provided that such cash allowance shall apply only to those costs or obligations that are incurred by Executive during the 24-month period following Executive's termination of employment.

(ix) Bank shall not be obligated to continue any disability or disability income insurance on behalf of Executive following the date of Executive's termination of employment. To the extent permitted under any contracts, programs or policies of such nature in effect at the time of such termination, Executive may continue at Executive's sole cost and expense coverage thereunder for a period of up to 24 months.

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(x) For a 24 month period following Executive's termination of employment, Executive shall continue to receive such perquisites, other than those specified in the preceding subparagraphs above, as Executive was receiving at the time of termination of employment with, to the extent applicable, the same cost sharing with Bank as was in effect immediately prior to Executive's termination of employment.

(xi) Bank shall reimburse Executive for the amount of any reasonable legal fees and expenses incurred by Executive in any successful action (whether or not arbitration or litigation shall be involved) to obtain or enforce any right or benefit provided to Executive by Bank hereunder or as confirmed or acknowledged hereunder.

(c) Section 280G Limit. Notwithstanding any other provision of this Agreement, in the event that any payment or benefit received or to be received by Executive, whether payable pursuant to the terms of this Agreement or any other plan, arrangement or agreement with Bank, its successors, or any person affiliated with Bank ("Affiliate") within the meaning of Section 1564 of the Internal Revenue Code of 1986, as amended (the "Code") (collectively "Total Payments") would, in the determination of the independent certified public accounting firm then retained by Bank (the "Tax Advisor"), not be deductible (in whole or in part) by Bank, an affiliate of Bank or other person making such payment or providing such benefit as a result of Section 280G of the Code, or any successor to such Section, payments and benefits pursuant to this Agreement shall be reduced until no portion of the Total Payments is not deductible as a result of Section 280G of the Code, or payments and benefits pursuant to this Agreement are reduced to zero. At the time of Executive's termination, Bank shall obtain from the Tax Advisor an appraisal of the then current present value of the covenants by Executive set forth in Sections 7 and 8 of this Agreement, an amount of the total payments to be made to Executive under clause (ii) of Section 4(b) equal to said amount shall be for all purposes treated as a payment to Executive in consideration of such covenants and the remainder, if any, shall be treated as supplemental wage payments to Executive. For purposes of the limitation contained in this Section 4(c), (i) no portion of the Total Payments the receipt of which Executive, in the determination of the Tax Advisor, shall have effectively waived prior to the date which is fifteen (15) days following termination of employment and prior to the earlier of the date of constructive receipt and the date of payment thereof shall be taken into account; and (ii)

any reduction in the payments and benefits pursuant to Section 4(b) above shall be made from the payments and benefits to be made pursuant to clauses (i) through (xi) of Section 4(b) hereof, in such order as may be determined by Executive, except to the extent that such payments and benefits, in the determination of the Tax Advisor, are reasonable compensation within the meaning of Section 280G of the Code. The determination of the Tax Advisor as to the deductibility of the Total Payments shall be completed not later than forty-five (45) days following Executive's termination of employment, and such determination shall be communicated in writing to Bank, with a copy to Executive, within said forty-five (45) day period. The determination of the Tax Advisor as to the deductibility of the Total Payments shall be deemed conclusive and binding on Bank and Executive and shall not be subject to the arbitration provisions of this Agreement. Bank shall pay the fees and other costs of the Tax Advisor hereunder. In the event that the independent certified public accounting firm then retained by Bank is unable or declines to serve as Tax Advisor for purposes of making the foregoing determinations, Bank shall appoint another accounting firm of national reputation to serve as Tax Advisor.

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(d) Time of Payment. The payments provided for in clauses (ii), (iii), (vii) and (viii) of Section 4(b) hereof shall be made not later than the fifteenth day following the Date of Termination; provided, however, that if the amount of such payments cannot be finally determined on or before such day, Bank shall pay to Executive on such day an estimate, as determined in good faith by Bank, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth day after the Date of Termination.

(e) Notice. During the Protected Period, any purported termination of Executive's employment by Bank or by Executive shall be communicated by written Notice of Termination to the other party hereto.

(f) Certain Definitions. Except as otherwise indicated in this Agreement, all definitions in this Section 4(f) shall be applicable during the Protected Period.

(i) Disability. "Disability" shall mean Executive's absence from the full-time performance of Executive's duties with Bank for six consecutive months as a result of Executive's incapacity due to physical or mental illness or disability, and within 30 days after written Notice of Termination is thereafter given Executive shall not have returned to the full-time performance of Executive's duties.

(ii) Cause. "Cause" shall mean termination on account of (A) the willful and continued failure by Executive to substantially perform Executive's duties with Bank (other than any such failure resulting from Executive's incapacity due to physical or mental illness or Disability or any failure after the issuance of a Notice of Termination by Executive for Good Reason) which failure is demonstrably and materially damaging to the financial condition or reputation of Bank and/or its affiliates, and which failure continues more than 48 hours after a written demand for substantial performance is delivered to Executive by the Board, which demand specifically identifies the manner in which the Board believes that Executive has not substantially performed Executive's duties or (B) the willful engaging by Executive in conduct which is demonstrably and materially injurious to Bank or its affiliates, monetarily or otherwise. No act, or failure to act, on Executive's part shall be deemed "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that Executive's action or omission was in the best interest of Bank. Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Executive a copy of the resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board (after reasonable notice to Executive and an opportunity for Executive, together with Executive's counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, Executive was guilty of conduct set forth above in this Section 4(f)(ii) and specifying the particulars thereof in detail.

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(iii) Good Reason. "Good Reason" shall mean, without Executive's express written consent, the occurrence upon or after a Change in Control of any of the following circumstances unless, in the case of subsections (A), (C), (F), (G) and (H) hereof, such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(A) the assignment to Executive of any duties inconsistent with the position in Bank that Executive held immediately prior to the Change in Control, or an adverse alteration in the nature or status of Executive's responsibilities or the conditions of Executive's employment from those in effect immediately prior to such Change in Control (excluding inadvertent actions that are promptly remedied);

(B) a reduction in Executive's annual base salary as in effect immediately prior to the Change in Control;

(C) a reduction in Executive's perquisites as in effect immediately prior to the Change in Control as the same may be increased from time to time except for across-the-board perquisite reductions similarly affecting all senior executives of Bank and all senior executives of any Person in control of Bank;

(D) the relocation of the principal place of Executive's employment to a location more than 50 miles from Executive's principal place of employment immediately prior to the Change in Control;

(E) the failure by Bank to pay to Executive any portion of Executive's compensation or to pay to Executive any portion of an installment of deferred compensation under any deferred compensation program of Bank within seven days of the date such compensation is due;

(F) the failure by Bank to continue in effect any material compensation or benefit plan in which Executive participated immediately prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by Bank to continue Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amounts of benefits provided and the level of Executive's participation relative to other participants, as existed at the time of the Change in Control;

(G) the failure of Bank to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 11 hereof; or

(H) any purported termination of Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 4(f)(v) hereof, which purported termination shall not be effective for purposes of this Agreement.

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(iv) Retirement. "Retirement" shall mean Executive's retirement from Bank in accordance with the retirement policy of Bank, including early retirement, generally applicable to its executives or in accordance with any retirement arrangement with respect to Executive established by the Board with the consent of Executive.

(v) Notice of Termination. "Notice of Termination" shall mean notice indicating the specific termination provision in this Agreement relied upon and setting forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

(vi) Date of Termination. "Date of Termination" shall mean (A) if Executive's employment is terminated for Disability, 30 days after Notice of Termination is given (provided that Executive shall not have returned to the full-time performance of Executive's duties during such 30-day period) or (B) if Executive's employment is terminated for any other reason, the date specified in the Notice of Termination (which, in the case of a termination for Cause, shall not be less than 30 days from the date such Notice of Termination is given and, in the case of a termination for Good Reason, shall not be less than 15 nor more than 60 days from the date such Notice of Termination is given).

#### 5. Mitigation.

So long as Executive shall not be in breach of any provisions of Sections 7 or 8, Executive shall not be required to mitigate the amount of payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of payment or benefit provided for under this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by Executive to Bank, or otherwise.

#### 6. Release.



As a condition of receiving payments or benefits provided for in this Agreement, at the request of Bank, or its successor, Executive shall execute and deliver for the benefit of Bank and any Controlling Person, a general release in substantially the form set forth in Attachment A hereto, and such release shall become effective in accordance with its terms. The failure or refusal of Executive to sign such a release or the revocation of such a release shall cause the termination of any and all obligations of Bank to make payments or provide benefits hereunder, and the forfeiture of Executive's right to receive any such payments and benefits. Executive acknowledges that Bank has advised Executive to consult with an attorney prior to signing this Agreement and that Executive have had an opportunity to do so.

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#### 7. Confidential Information.

Executive understands that in the course of Executive's employment by Bank, Executive will receive or have access to confidential information concerning the business or purposes of Bank which Bank desires to protect. Such confidential information shall be deemed to include, but not be limited to, Bank's customer lists and information, and employee lists, including, if known, personnel information and data. Executive agrees that Executive will not, at any time during the period ending two years after the Date of Termination, reveal to anyone outside Bank or use for Executive's own benefit any such information without specific written authorization by Bank. Executive further agrees not to use any such confidential information or trade secrets in competing with Bank at any time during or in the two year period immediately following the Date of Termination.

#### 8. Non-Competition and Non-Disclosure; Non-Disparagement; Certain Forfeitures.

(a) Non-Competition. In consideration for the compensation and benefits provided under this Agreement, without the consent in writing of the Board of Bank, Executive will not, at any time during the term of this Agreement and for a period of two years following Executive's termination of employment during the Protected Period, acting alone or in conjunction with others, directly or indirectly (i) engage (either as owner, investor, partner, stockholder, employer, employee, consultant, advisor, or director) in any business of any bank, bank holding company, savings bank, savings and loan association, savings and loan holding company, or other institution engaged in the business of accepting deposits or making loans, or any direct or indirect subsidiary or affiliate of any such entity, that maintains an office in any town in which Bank maintains an office as of Executive's date of termination or in any town in which Bank had plans to open an office within six months after Executive's date of termination; (ii) induce any customers of Bank or any of its affiliates with whom Executive had contacts or relationships, directly or indirectly, during and within the scope of Executive's employment with Bank, to curtail or cancel their business with Bank or any such affiliate; (iii) induce or attempt to influence any employee of Bank or any affiliate to terminate employment; or (iv) solicit, hire or retain as an employee or independent contractor, or assist any third party in the solicitation, hire, or retention as an employee or independent contractor, any person who during the previous twelve months was an employee of Bank or any such affiliate; provided, however, that activities engaged in by or on behalf of Bank are not restricted by this covenant. The provisions of clauses (i), (ii), (iii), and (iv) above are separate and distinct commitments, each independent of the other subparagraphs. It is agreed that the ownership of not more than one percent (1%) of the equity securities of any company having securities listed on an exchange or regularly traded in the over-the-counter market shall not, of itself, be deemed inconsistent with clause (i) of this Section 8(a).

(b) Non-Disparagement. Executive shall not, at any time during the term of this Agreement or thereafter, make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action which may, directly or indirectly, disparage Bank or any of its affiliates or their respective officers, directors, employees, advisors, businesses or reputations. Notwithstanding the foregoing, nothing in this Agreement shall preclude Executive from making truthful statements that are required by applicable law, regulation or legal process.

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(c) Injunction. Executive hereby acknowledges that Executive's services are unique and extraordinary, and are not readily replaceable, and hereby expressly agrees that Bank, in enforcing the covenants contained in Sections 7 and 8 herein, in addition to any other remedies provided for herein or otherwise

available at law, shall be entitled in any court of equity having jurisdiction to an injunction restraining him in the event of a breach, actual or threatened, of the agreements and covenants contained in such Sections.

(d) Scope. The parties hereto believe that the restrictive covenants contained in Sections 7 and 8 hereof are reasonable. However, if at any time it shall be determined by any court of competent jurisdiction that these Sections or any portion of them as written, are unenforceable because the restrictions are unreasonable, the parties hereto agree that such portions as shall have been determined to be unreasonably restrictive shall thereupon be deemed so amended as to make such restrictions reasonable in the determination of such court, and the said covenants, as so modified, shall be enforceable between the parties to the same extent as if such amendments had been made prior to the date of any alleged breach of said covenants. (e) Provision Not Applicable. The provisions of this Section 8 shall not apply if Bank shall be prohibited under Section 14 below from making any payments to Executive pursuant to Section 4(b) above.

#### 9. Right of Discharge.

Subject to the obligations to make the payments specified in Section 4(b), and subject to the obligations of Bank under any employment agreement that may exist between Bank and Executive, it is expressly agreed that, except as set forth in Section 3 above, Bank shall have the right to discharge or terminate Executive at any time and for any reason, or no reason.

#### 10. Exclusivity.

It is understood and agreed that if any payments are due and made to Executive under this Agreement then no payments will be due or required, and Bank shall not in any respect be obligated to Executive, under any severance pay plan, agreement, or arrangement that might otherwise be applicable to Executive, or under or by reason of any employment severance pay or similar agreement between Bank and Executive, including without limitation the Executive Severance Pay Agreement executed on the same date as this Agreement.

#### 11. Successors; Binding Agreement.

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(a) Bank shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Bank, and in the case of an acquisition of Bank in which the corporate existence of Bank continues, the ultimate parent company following such acquisition, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that Bank would be required to perform it if no such succession had taken place. As used in this Agreement, "Bank" shall mean Bank as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

(b) This Agreement shall inure to the benefit of and be enforceable by Executive and Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. In the event of Executive's death following becoming entitled to payments hereunder but prior to completion of such payments, all amounts otherwise payable to Executive hereunder shall, unless otherwise provided herein, be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, if there is no such designee, to Executive's estate.

#### 12. Notice.

Notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when (a) personally delivered, (b) sent by Federal Express or other similar overnight service or (c) mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addressees set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt. In the case of Federal Express or other similar overnight service, such notice or advice shall be effective when sent, and, in the cases of certified or registered mail, shall be effective two days after deposit into the mail by delivery to the U.S. Post Office.

If to Executive, to:

Terry L. Boulton  
36 Laurel Lane  
Simsbury, CT 06070

If to Bank, to:

Simsbury Bank and Trust Company  
981 Hopmeadow Street  
Simsbury, CT 06070  
Attn: President and Chief Executive Officer

13. Dispute Resolution.

(a) Negotiation. Bank and Executive shall attempt in good faith to resolve any dispute arising out of or relating to this Agreement promptly by negotiation between the designated representative of the Board of Bank and Executive. Any party may give the other party written notice of any dispute in accordance with the notice procedures set forth in Section 12. Within 15 days after delivery of the notice, the receiving party shall submit to the other, in accordance with the notice procedures set forth in Section 12, a written response. The notice and response shall include a statement of that party's position and summary of arguments supporting that position. Within 30 days after delivery of the initial notice, the parties shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to attempt to resolve the dispute. All negotiations pursuant to this clause are confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of evidence.

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(b) Mediation. If the dispute has not been resolved by negotiation as provided herein within 45 days after delivery of the initial notice of negotiation, or if the parties failed to meet within 30 days after delivery, the parties shall endeavor to settle the dispute by mediation under the CPR Mediation Procedure then currently in effect; provided, however, that if one party fails to participate in the negotiation as provided herein, the other party may initiate mediation prior to the expiration of the 45 days. Unless otherwise agreed, the parties will select a mediator from the CPR Panels of Distinguished Neutrals.

(c) Arbitration. Any dispute arising under or in connection with this Agreement which has not been resolved by mediation as provided herein within 45 days after initiation of the mediation procedure, shall be finally resolved by arbitration in accordance with the CPR Rules for Non-Administered Arbitration then currently in effect, by three independent and impartial arbitrators, of whom each party shall designate one and the two so designated shall designate the third; provided, however, that if one party fails to participate in either the negotiation or mediation as agreed herein, the other party may commence arbitration prior to the expiration of the time periods set forth above. The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. ss. ss. 1-16, and judgment upon the award rendered by the arbitrators may be entered by any court having jurisdiction thereof. The place of arbitration shall be Hartford, Connecticut. For purposes of entering any judgment upon an award rendered by the arbitrators, Bank and Executive hereby consent to the jurisdiction of any or all of the following courts: (i) the United States District Court for the District of Connecticut, (ii) any of the courts of the State of Connecticut, or (iii) any other court having jurisdiction. Bank and Executive hereby agree that a judgment upon an award rendered by the arbitrators may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Subject to subsection (e) of this Section 13, Bank shall bear all costs and expenses arising in connection with any arbitration proceeding pursuant to this Section 13(c). Notwithstanding any provision in this Section 13(c), Executive shall be entitled to seek specific performance of Executive's right to be paid during the pendency of any dispute or controversy arising under or in connection with this Agreement.

(d) Interest on Unpaid Amounts. Any amount which has become payable pursuant to the terms of this Agreement or any decision by arbitrators or judgment by a court of law pursuant to this Section 13 but which has not been timely paid shall bear interest at the prime rate as quoted by Bank at the time such amount first becomes payable.

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(e) Costs of Proceedings. Bank shall pay all costs and expenses, including all attorneys' fees and disbursements, of Bank and, at least monthly, Executive, in connection with any proceedings undertaken pursuant to this Section 13, whether or not instituted by Bank, or Executive, relating to the interpretation or enforcement of any provision of this Agreement; provided that if Executive instituted the proceeding and a finding is entered that Executive instituted the proceeding in bad faith, Executive shall pay all of Executive's costs and

expenses, including attorneys' fees and disbursements.

14. Regulatory Limitation.

Notwithstanding any other provision of this Agreement, Bank shall not be obligated to make, and Executive shall have no right to receive, any payment, benefit or amount under this Agreement which would violate any law, regulation or regulatory order applicable to Bank or its parent at the time such payment, benefit or amount is due, including, without limitation, Section 1928(k)(1) of Title 12 of the United States Code and any regulation or order thereunder of the Federal Deposit Insurance Corporation ("Prohibited Payment"). If and to the extent Bank shall at a later date be relieved of the restriction on its ability to make any Prohibited Payment, then at such time Bank shall promptly make payment of any such amounts to Executive.

15. Miscellaneous.

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Executive and such officer as may be designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the time or at any prior or subsequent time. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Connecticut without regard to its conflicts of law principles. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of Bank under this Agreement shall survive the expiration of this Agreement to the extent necessary to give effect to this Agreement.

16. Validity.

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

17. Counterparts.

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This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

18. Entire Agreement.

This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and during the term of this Agreement supersedes the provisions of all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereof with respect to the subject matter contained herein. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. Notwithstanding anything to the contrary in this Agreement, the procedural provisions of this Agreement shall apply to all benefits payable as a result of a Change in Control (or other change in control) under any employee benefit plan, agreement, program, policy or arrangement of Bank.

IN WITNESS WHEREOF, Bank has caused this Agreement to be executed by a duly authorized officer, and Executive has executed this Agreement, as of the 23rd day of December, 2005.

SIMSBURY BANK AND TRUST COMPANY

By

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Martin J. Geitz

Its President and Chief Executive Officer

EXECUTIVE

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Terry L. Boulton

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ATTACHMENT A

RELEASE

We advise Executive to consult an attorney before Executive sign this Release. Executive have until the date which is seven (7) days after the Release is signed and returned to Simsbury Bank and Trust Company ("Bank") to change Executive's mind and revoke this Release. Executive's Release shall not become effective or enforceable until after that date.

In consideration for the benefits provided under Executive's Change in Control Severance Agreement with Bank effective [ ] (the "Agreement"), and more specifically enumerated in Exhibit 1 hereto, by Executive's signature below, Executive, for and on behalf of Executive, Executive's heirs, executors, agents, representatives, successors and assigns, hereby release and forever discharge Bank its past and present parent corporations, subsidiaries, divisions, subdivisions, affiliates and related companies (collectively, the "Company") and the Company's past, present and future agents, directors, officers, employees, representatives, successors and assigns (hereinafter "those associated with the Company") with respect to any and all claims, demands, actions and liabilities, whether in law or equity, which Executive may have against the Company or those associated with the Company of whatever kind, including but not limited to those arising out of Executive's employment with the Company or the termination of that employment. Executive agree that this release covers, but is not limited to, claims arising under the Age Discrimination in Employment Act of 1967, 29 U.S.C. ss. 621 et seq., Title VII of the Civil Rights Act of 1964, 42 U.S.C. ss. 2000e et seq., the Americans with Disabilities Act of 1990, 42 U.S.C. ss. 12101 et seq., the Fair Labor Standards Act, 29 U.S.C. ss. 201 et seq., the Employee Retirement Income Security Act of 1974, 29 U.S.C. ss. 1001 et seq., the Connecticut Fair Employment Practices Act, C.G.S. ss. 46a-51 et seq., and any other local, state or federal law, regulation or order dealing with discrimination in employment on the basis of sex, race, color, national origin, veteran status, marital status, religion, disability, handicap, or age. Executive also agree that this release includes claims based on wrongful termination of employment, breach of contract (express or implied), tort, or claims otherwise related to Executive's employment or termination of employment with the Company and any claim for attorneys' fees, expenses or costs of litigation.

This Release covers all claims based on any facts or events, whether known or unknown by Executive, that occurred on or before the date of this Release. Except to enforce this Release, Executive agree that Executive will never commence, prosecute, or cause to be commenced or prosecuted any lawsuit or proceeding of any kind against the Company or those associated with the Company in any forum and agree to withdraw with prejudice all complaints or charges, if any, that Executive have filed against the Company or those associated with the Company.

Anything in this Release to the contrary notwithstanding, this Release does not include a release of: (i) Executive's rights under the Agreement or Executive's right to enforce the Agreement; (ii) any rights Executive may have to indemnification under any agreement, law, Company organizational document or policy, or otherwise; (iii) except as expressly provided in the Agreement, any rights Executive may have to benefits under the Company's benefit plans; or (iv) Executive's right to enforce this Release.

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By signing this Release, Executive further agree as follows:

- i. Executive has read this Release carefully and fully understand its terms;
- ii. Executive has had at least twenty-one (21) days to consider the terms of the Release;
- iii. Executive has seven (7) days from the date Executive signs this Release to revoke it by written notification to the Company. After this seven

(7) day period, this Release is final and binding and may not be revoked;

iv. Executive has been advised to seek legal counsel and have had an opportunity to do so;

v. Executive would not otherwise be entitled to the benefits provided under Executive's Agreement had Executive not agreed to execute this Release; and

vi. Executive's agreement to the terms set forth above is voluntary.

IN WITNESS WHEREOF, Executive has executed and delivered this release at Simsbury, Connecticut on the date indicated below.

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

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### Section 3: EX-21 (EXHIBIT 21)

Exhibit 21

#### SUBSIDIARIES

Name	Jurisdiction of Incorporation	Nature of Ownership (direct/indirect)
The Simsbury Bank & Trust Company Inc.	Connecticut	Direct
SBT Investment Services, Inc.	Connecticut	Indirect (a wholly-owned subsidiary of The Simsbury Bank & Trust Company, Inc.)

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### Section 4: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

#### CERTIFICATION AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Martin J. Ceitz, Chief Executive Officer of SBT Bancorp, Inc. (the "Company") certify that:

- I have reviewed this annual report on Form 10-KSB of the Company;
- Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of SBT Bancorp, Inc. as of, and for, the periods presented in this report;
- The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in

Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company (and previously were responsible for establishing and maintaining such disclosure controls and procedures for The Simsbury Bank & Trust Company, Inc. (the "Bank")), and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company or the Bank, as applicable, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the disclosure controls and procedures of the Company or the Bank, as applicable, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the fourth fiscal quarter of Bank in the year ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, the internal control of the Bank or the Company, as applicable, over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the auditors of the Company or the Bank, as applicable, and the audit committee of the board of directors of the Company or the Bank, as applicable (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the ability of the Company or the Bank, as applicable, to record, process, summarize and report financial information; and

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(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the internal control of the Company or the Bank, as applicable, over financial reporting.

/s/

-----  
Martin J. Geitz  
Chief Executive Officer

Date: March 21, 2007

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## Section 5: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

### CERTIFICATION AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony P. Bisceglia, Chief Financial Officer of SBT Bancorp, Inc. (the "Company") certify that:

1. I have reviewed this annual report on Form 10-KSB of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were

made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of SBT Bancorp, Inc. as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company (and previously were responsible for establishing and maintaining such disclosure controls and procedures for The Simsbury Bank & Trust Company, Inc. (the "Bank")), and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company or the Bank, as applicable, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the disclosure controls and procedures of the Company or the Bank, as applicable, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the fourth fiscal quarter of Bank in the year ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, the internal control of the Bank or the Company, as applicable, over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the auditors of the Company or the Bank, as applicable, and the audit committee of the board of directors of the Company or the Bank, as applicable (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the ability of the Company or the Bank, as applicable, to record, process, summarize and report financial information; and

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(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the internal control of the Company or the Bank, as applicable, over financial reporting.

/s/

-----  
Anthony F. Bisceglia, Ph.D.  
Chief Financial Officer

Date: March 21, 2007

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## Section 6: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1



In connection with the Annual Report of SBT Bancorp, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof, I, Martin J. Geitz, the Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

(i) The Report for the year ended December 31, 2006 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/

-----  
Martin J. Geitz  
Chief Executive Officer

Date: March 21, 2007

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## Section 7: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

### CERTIFICATION AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of SBT Bancorp, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof, I, Anthony F. Bisceglia, the Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

(i) The Report for the year ended December 31, 2006 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/

-----  
Anthony F. Bisceglia, Ph.D.  
Chief Financial Officer

Date: March 21, 2007

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**SBTB 10KSB 12/31/2007**

**Section 1: 10KSB (SBT BANCORP, INC. 10KSB)**

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 31, 2007

OR

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

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

Commission file number: 000-51832

SBT Bancorp, Inc.  
(Name of small business issuer in its charter)

Connecticut 20 4346972  
-----  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

760 Hopmeadow Street,  
P.O. Box 248,  
Simsbury, CT 06070  
-----  
(Address of principal executive offices) (Zip Code)

Issuer's telephone number, including area code: (860) 408-5493

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange On which registered
-----	-----
None	None

Securities registered under Section 12(g) of the Exchange Act:

Title of each class  
-----  
Common Stock, no par value

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item

405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b02 of the Exchange Act). Yes [ ] No [X]

The issuer's revenues, which include interest income and other income, for its fiscal year ended December 31, 2007, were \$12,942,593.

As of February 15, 2007, the aggregate market value of the outstanding common equity of the registrant held by non-affiliates, based upon the average of the bid and ask prices for such stock on that date, was approximately \$ 23,612,364.

There were 850,896 shares of Common Stock, no par value, outstanding on February 15, 2007.

Transitional small business disclosures format (check one): [ ] Yes [X] No

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the SBT Bancorp, Inc. definitive Proxy Statement for the 2008 Annual Meeting of Shareholders to be held May 13, 2008 (the "Proxy Statement") to be filed with the Securities and Exchange Commission are incorporated by reference into Part III of this Form 10-KSB, and portions of the SBT Bancorp, Inc. Annual Report to Shareholders for the fiscal year ended December 31, 2007 (the "Annual Report") are incorporated by reference into Part II of this Form 10-KSB.

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ITEM 1. DESCRIPTION OF BUSINESS

General

SBT Bancorp, Inc. (the "Company") is the holding company for The Simsbury Bank & Trust Company, Inc. (the "Bank"). The Company was incorporated in the State of Connecticut on February 17, 2006. The Company became the Bank's sole shareholder pursuant to a reorganization that occurred on March 7, 2006. The Company's only business is its investment in the Bank, which is a community oriented financial institution providing a variety of banking and investment services.

The Simsbury Bank & Trust Company, Inc. was incorporated on April 28, 1992 and commenced operations as a Connecticut chartered bank on March 31, 1995. The Bank's deposit accounts are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits thereof. The Bank is not a member of the Federal Reserve System. The Bank's main office and corporate offices are located in the town of Simsbury, Connecticut. The Bank has branch offices in Avon, Bloomfield, Canton and Granby, Connecticut. Simsbury has a population over 23,000. The aggregate population for the Bank's market area is 75,000 people and is comprised of approximately 29,000 households. The towns of Avon and Granby have had some of the most significant growth in the Farmington Valley of Connecticut over the last ten years. The Bank's customer base consists primarily of individual consumers and small businesses in the Farmington Valley. The Bank has over 20,300 deposit accounts.

The Bank also has seven ATMs; two are located at its main office including a drive-through ATM, two are located at its Bloomfield office and one at each of the other branch offices. The ATMs generate activity fees based upon utilization by other banks' customers.

The Bank offers a full range of commercial banking services, including making commercial loans, term real estate loans, construction loans, SEA loans and various types of consumer loans; accepting checking, savings, and time deposits; NOW, Super NOW and money market deposit accounts; and providing travelers' checks, safe deposit and other customary non-deposit banking services. The Bank does not have a trust department. The Bank offers investment products to customers through SBT Investment Services, Inc., a wholly-owned subsidiary of the Bank, and through its affiliation with the securities broker/dealer Infinex Financial Services.

As of December 31, 2007, approximately 74% of the Bank's loans were secured by residential property located in Connecticut.

The Bank's deposits decreased by \$11.6 million (5.8%) in 2007, compared to a \$7.3 million increase in 2006. The Bank's total assets at year-end 2007 were \$210 million, a decrease of \$6.7 million (3.1%) from the \$217 million at year-end 2006. The Bank's loan portfolio increased by \$8.5 million (5.4%) in 2007 and ended the year at \$165.7 million. The Bank's loan-to-deposit ratio, an important determinant of net interest income, increased to 89% at year-end 2007, compared to 79% at year-end 2006.

Net income of \$1,139,711 (\$1.34 per common share) for the year ending December 31, 2007 was a 59% increase from the net income of \$716,933 (\$0.85 per common share) reported for the year ended December 31, 2006.

Banking is a business that depends on rate differentials. In general, the difference between the interest rate paid by the Bank on its deposits and its other borrowings and the interest rate received by the Bank on loans extended to its customers and securities held in the Bank's portfolio comprise the major portion of the Bank's earnings. These rates are highly sensitive to many factors that are beyond the control of the Bank. Accordingly, the earnings and growth of the Bank are subject to the influence of domestic and foreign economic conditions, including inflation, recession and unemployment.

The commercial banking business is not only affected by general economic conditions but is also influenced by the monetary and fiscal policies of the

federal government and the policies of regulatory agencies, particularly the Federal Reserve Board. The Federal Reserve Board implements national monetary policies (with objectives such as curbing inflation and combating recessions) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

#### Market Area

The towns of Simsbury, Granby, Avon, Canton, and Bloomfield, which comprise the Bank's primary market, are located in Northwestern Connecticut, west of the Connecticut River near the northern corner of Hartford. All towns are situated near Interstate Routes 91 and 84. Bradley International Airport is within ten miles of Simsbury, Granby and Avon and provides a convenient alternative to road systems for passengers or cargo.

The road network from each of the towns included in the Bank's secondary market of Barkhamsted, East Granby and New Hartford, leads through Simsbury, Granby or Avon. Residents of these communities, therefore, may travel near the Bank's offices and may find it convenient to bank there.

Based on the most current information available, the Bank's primary and secondary markets have a median household income of \$73,673. This level places the overall market approximately 36% above the median income of all Connecticut's households. Compared to the nation as a whole, the median income in the Bank's primary and secondary markets is approximately 75% greater than the median income for all U.S. households. By themselves, the towns of Simsbury and Avon had median household incomes of over \$92,428, placing them 96% over the median income for the U.S. and almost 53% over the median income of all households in Connecticut.

Educational attainment in the Bank's primary and secondary markets is similarly high. Fifty-seven percent of the residents aged twenty-five and over in the eight towns are college graduates. In Simsbury, Granby and Avon, this figure averages 63%.

#### Employees

At December 31, 2007, the Bank employed a total of 65 people, 59 full-time employees and 6 part-time employees. The Bank's employees are not represented by any union or other collective bargaining agreement and the Bank believes its employee relations are satisfactory.

#### Competition

The banking and financial services business in Connecticut generally, and in the Bank's market areas specifically, is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. The Bank competes for loans and deposits and customers for financial services with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other nonbank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader array of financial services than the Bank. In order to compete with the other financial services providers, the Bank principally relies upon local promotional activities, personal relationships established by officers, directors and employees with its customers, and specialized services tailored to meet its customers' needs. In those instances where the Bank is unable to accommodate a customer's needs, the Bank will seek to have those services provided by its correspondents.

The Bank's primary and secondary markets have a number of banking institutions which offer a variety of financial products. The types of institutions range from large nationwide banks to various institutions of smaller size. Other than the Bank, no bank is headquartered in the Bank's primary market area. Simsbury is served by seven depository institutions with a total of seven offices. Of these institutions, there are three commercial banks, two savings banks and two credit unions. Avon is served by eleven depository institutions with fourteen offices. Of these institutions, there are four commercial banks, five savings banks and two credit unions. Granby is served by five depository institutions with the same number of offices. Two of these institutions are commercial banks and three are savings banks. Canton is served by five depository institutions with six offices. Four of these institutions are commercial banks and one is a savings bank. Bloomfield is served by six depository institutions, four commercial banks and two savings banks. The total

eight-town area of the Bank's primary and secondary markets is served by fourteen institutions.

As of June 30, 2007, by deposit account market share, the top three banks in Simsbury are Simsbury Bank & Trust Company (29%), Bank of America (28%), and Webster Bank (19%). The top three banks in Avon are People's Bank (23%), Bank of America (18%), and Webster Bank (15%). In Granby, the top three banks are Bank of America (28%), Windsor Federal Savings And Loan Association (26%) and Simsbury Bank & Trust Company (21%). In Canton, the top three banks are Collinsville Savings Society (42%), Webster Bank (24%) and Bank of America (23%). In Bloomfield, the top three banks are Wachovia Bank (32%), Webster Bank (27%) and Bank of America (22%). In the Bank's primary market (Simsbury, Granby, Avon, Canton and Bloomfield), the top 3 banks are Bank of America with 23% of the market, Webster Bank with 18% and The Simsbury Bank and Trust Company with 12%. In the total eight-town area of the Bank's primary and secondary markets, the top three banks are Bank of America with 23% of the market, Webster Bank with 17% and The Simsbury Bank & Trust Company with 11%.

The present bank regulatory scheme is undergoing significant change, both as it affects the banking industry itself and as it affects competition between banks and non-banking financial institutions. There has been a significant regulatory change in the bank merger and acquisition area, in the products and services banks can offer, and in the non-banking activities in which bank holding companies may engage. Under the Gramm-Leach-Bliley Act enacted by Congress on November 12, 1999, banks and bank holding companies may now affiliate with insurance and securities companies. In part as a result of these changes, banks are now actively competing with other types of non-depository institutions, such as money market funds, brokerage firms, insurance companies and other financial service enterprises.

Moreover, certain legislation and regulatory proposals that could affect the Bank and the banking industry in general are pending or may be introduced before the United States Congress, the Connecticut General Assembly and various governmental agencies. These proposals include measures that may further alter the structure, regulation and competitive relationship of financial institutions and that may subject the Bank to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies frequently propose rules and regulations to implement and enforce already existing regulation. It cannot be predicted whether or in what form any legislation or regulations will be enacted or the extent to which the business of the Bank will be affected thereby.

#### Supervision and Regulation

Banks and bank holding companies are extensively regulated under both federal and state law. Set forth below are brief summaries of various aspects of the supervision and regulation of the Company and the Bank. These summaries do not purport to be complete and are qualified in their entirety by reference to applicable laws, rules and regulations.

As a bank holding company, the Company is regulated by and subject to the supervision of the Board of Governors of the Federal Reserve System (the "FRB") and is required to file with the FRB an annual report and such other information as may be required. The FRB has the authority to conduct examinations of the Company as well.

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The Bank Holding Company Act of 1956 (the "BHC Act") limits the types of companies which the Company may acquire or organize and the activities in which they may engage. In general, a bank holding company and its subsidiaries are prohibited from engaging in or acquiring control of any company engaged in non-banking activities unless such activities are so closely related to banking or managing and controlling banks as to be a proper incident thereto. Activities determined by the FRB to be so closely related to banking within the meaning of the BHC Act include operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing certain data processing operations; providing limited securities brokerage services; acting as an investment or financial advisor; acting as an insurance agent for certain types of credit-related insurance; leasing personal property on a full-payout, non-operating basis; providing tax planning and preparation service; operating a collection agency; and providing certain courier services. The FRB also has determined that certain other activities, including real estate brokerage and syndication, land development, property management and underwriting of life insurance unrelated to credit transactions, are not closely related to banking and therefore are not proper activities for a bank holding company.

The BHC Act requires every bank holding company to obtain the prior approval of the FRB before acquiring substantially all the assets of, or direct or indirect ownership or control of more than five percent of the voting shares of, any bank. Subject to certain limitations and restrictions, a bank holding company, with the prior approval of the FRB, may acquire an out-of-state bank.

In November 1999, Congress amended certain provisions of the BHC Act through passage of the Gramm-Leach-Bliley Act. Under this legislation, a bank holding company may elect to become a "financial holding company" and thereby engage in a broader range of activities than would be permissible for traditional bank holding companies. In order to qualify for the election, all of the depository institution subsidiaries of the bank holding company must be well capitalized and well managed, as defined under FRB regulations, and all such subsidiaries must have achieved a rating of "satisfactory" or better with respect to meeting community credit needs. Pursuant to the Gramm-Leach-Bliley Act, financial holding companies are permitted to engage in activities that are "financial in nature" or incidental or complementary thereto, as determined by the FRB. The Gramm-Leach-Bliley Act identifies several activities as "financial in nature", including, among others, insurance underwriting and agency activities, investment advisory services, merchant banking and underwriting, and dealing in or making a market in securities. The Company currently owns a financial subsidiary, SBT Investment Services, Inc.

The Company believes that it meets the regulatory criteria that would enable it to elect to become a financial holding company. At this time, the Company has determined not to make such an election, although it may do so in the future.

The Gramm-Leach-Bliley Act also makes it possible for entities engaged in providing various other financial services to form financial holding companies and form or acquire banks. Accordingly, the Gramm-Leach-Bliley Act makes it possible for a variety of financial services firms to offer products and services comparable to the products and services offered through the Company's subsidiaries.

There are various statutory and regulatory limitations regarding the extent to which present and future banking subsidiaries of the Company can finance or otherwise transfer funds to the Company or its non-banking subsidiaries, whether in the form of loans, extensions of credit, investments or asset purchases, including regulatory limitation on the payment of dividends directly or indirectly to the Company from the Bank. Federal bank regulatory agencies also have the authority to limit further the Bank's payment of dividends based on such factors as the maintenance of adequate capital for such subsidiary bank, which could reduce the amount of dividends otherwise payable.

Under the policy of the FRB, the Company is expected to act as a source of financial strength to its banking subsidiaries and to commit resources to support its banking subsidiaries in circumstances where the Company might not do so absent such policy. In addition, any subordinated loans by the Company to its banking subsidiaries would also be subordinate in right of payment to depositors and obligations to general creditors of such subsidiary banks.

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The FRB has established capital adequacy guidelines for bank holding companies that are similar to the FDIC capital requirements for banks described below under the heading "Capital Standards." The Company exceeded all current regulatory capital requirements to be considered "well capitalized" at December 31, 2007.

The Bank, as a Connecticut state-chartered bank, is subject to supervision, periodic examination and regulation by the Connecticut Commissioner of Banking (the "Commissioner") and the Federal Deposit Insurance Corporation (the "FDIC"). If, as a result of an examination of a bank, the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the bank's operations are unsatisfactory or that the bank or its management is violating or has violated any law or regulation, various remedies are available to the FDIC. Such remedies include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the bank, to assess civil monetary penalties, to remove officers and directors, and ultimately, to terminate a bank's deposit insurance, which for a Connecticut state-chartered bank would result in a revocation of the bank's charter. The Commissioner has many of the same remedial powers.

The deposits of the Bank are insured by the FDIC in the manner and to the extent provided by law. For this protection, the Bank is subject to a semiannual statutory assessment. (See "Premiums for Deposit Insurance"). Although the Bank is not a member of the Federal Reserve System, it is nevertheless subject to certain regulations of the Board of Governors of the Federal Reserve System.

Various requirements and restrictions under the laws of the State of Connecticut and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank's operations, including reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends,

locations of branch offices and capital requirements. Further, the Bank is required to maintain certain levels of capital.

#### Capital Standards

The FDIC has adopted risk-based capital guidelines to which FDIC-insured, state-chartered banks that are not members of the Federal Reserve System, such as the Bank, are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to the differences in risk profiles among banking organizations. Banks are required to maintain minimum levels of capital based upon their total assets and total "risk-weighted assets." For purposes of these requirements, capital is comprised of both Tier 1 and Tier 2 capital. Tier 1 capital consists primarily of common stock and retained earnings. Tier 2 capital consists primarily of loan loss reserves, subordinated debt, and convertible securities. In determining total capital, the amount of Tier 2 capital may not exceed the amount of Tier 1 capital. A bank's total "risk-based assets" are determined by assigning the bank's assets and off-balance sheet items (e.g., letters of credit) to one of four risk categories based upon their relative credit risks. The greater the risk associated with an asset, the greater the amount of such asset that will be subject to capital requirements. Banks must satisfy the following three minimum capital standards: (1) Tier 1 capital in an amount equal to between 4% and 5% of total assets (the "leverage ratio"); (2) Tier 1 capital in an amount equal to 4% of risk-weighted assets; and (3) total Tier 1 and Tier 2 capital in an amount equal to 8% of risk-weighted assets.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") defines specific capital categories based upon an institution's capital ratios. The capital categories, in declining order, are: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. Under FDICIA and the FDIC's prompt corrective action rules, the FDIC may take any one or more of the following actions against an undercapitalized bank: restrict dividends and management fees, restrict asset growth and prohibit new acquisitions, new branches or new lines of business without prior FDIC approval. If a bank is significantly undercapitalized, the FDIC may also require the bank to raise capital, restrict interest rates a bank may pay on deposits, require a reduction in assets, restrict any activities that might cause risk to the bank, require improved management, prohibit the acceptance of deposits from correspondent banks and restrict compensation to any senior executive officer. When a bank becomes critically undercapitalized (i.e., the ratio of tangible equity to total assets is equal to or less than 2%), the FDIC must, within 90 days thereafter, appoint a receiver for the bank or take such action as the FDIC determines would better achieve the purposes of the law. Even where such other action is taken, the FDIC generally must appoint a receiver for a bank if the bank remains critically undercapitalized during the calendar quarter beginning 270 days after the date on which the bank became critically undercapitalized.

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To be considered "adequately capitalized," an institution must generally have a leverage ratio of at least 4%, a Tier 1 capital to risk-weighted assets ratio of at least 4% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 8%. As of December 31, 2007, the most recent notification from the FDIC 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 below. There are no conditions that Management believes have changed the Bank's category.

The following table presents the amounts of regulatory capital and the capital ratios for the Bank compared to its minimum regulatory capital requirements as of December 31, 2007 and 2006.

	December 31, 2007		December 31, 2006	
	Ratio	Capital Minimum Requirement	Ratio	Capital Minimum Requirement
Leverage ratio	8.21%	4.00%	7.31%	4.00%
Tier 1 risk-based ratio	12.23%	4.00%	11.50%	4.00%
Total risk-based ratio	13.48%	8.00%	12.75%	8.00%

#### Safety and Soundness Standards

Federal law requires each federal banking agency to prescribe for depository institutions under its jurisdiction standards relating to, among other things: internal controls; information systems and audit systems; loan documentation; credit underwriting; interest rate risk exposure; asset growth; compensation; fees and benefits; and such other operational and managerial



standards as the agency deems appropriate. The federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness (the "Guidelines") to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The Guidelines address internal controls and information systems; internal audit system; credit underwriting; loan documentation; interest rate risk exposure; asset quality; earnings and compensation; fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard set by the Federal Deposit Insurance Act, as amended. The final regulations establish deadlines for submission and review of such safety and soundness compliance plans.

The federal banking agencies also have adopted final regulations for real estate lending prescribing uniform guidelines for real estate lending. The regulations require insured depository institutions to adopt written policies establishing standards, consistent with such guidelines, for extensions of credit secured by real estate. The policies must address loan portfolio management, underwriting standards and loan to value limits that do not exceed the supervisory limits prescribed by the regulations.

Appraisals for "real estate-related financial transactions," generally transactions with a value of \$250,000 or more, must be conducted, depending on the value of the transaction by either state certified or state licensed appraisers. State certified appraisers are required for: all transactions with a transaction value of \$1,000,000 or more; nonresidential transactions valued at \$250,000 or more; and transactions of \$250,000 or more involving "complex" 1-4 family residential properties. An appraisal or real estate "evaluation" executed by a state licensed appraiser is required for all other federally related transactions. Federally related transactions include the sale, lease, purchase, investment in, or exchange of, real property or interests in real property, the financing or refinancing of real property, and the use of real property or interests in real property as security for a loan or investment, including mortgage-backed securities.

#### Premiums for Deposit Insurance

The FDIC has implemented a risk based assessment system under which an institution's deposit insurance premium assessment is based on the probability that the deposit insurance fund will incur a loss with respect to the institution, the likely amount of any such loss, and the revenue needs of the deposit insurance fund.

Under this risk-based assessment system, banks are categorized into one of three capital categories (well capitalized, adequately capitalized, and undercapitalized) and one of three categories based on supervisory evaluations by its primary federal regulator (in the Bank's case, the FDIC). The three supervisory categories are: financially sound with only a few minor weaknesses (Group A), demonstrates weaknesses that could result in significant deterioration (Group B), and poses a substantial probability of loss (Group C). The capital ratios used by the FDIC to define well-capitalized, adequately capitalized and undercapitalized are the same in the FDIC's prompt corrective action regulations. The Bank is currently considered a "Well Capitalized Group A" institution and, therefore, is not subject to any quarterly FDIC Bank Insurance Fund ("BIF") or Savings Association Insurance Fund ("SAIF") assessments. This could change in the future based on the capitalization of the BIF and SAIF. The Bank is, however, subject to quarterly assessments by The Financing Corporation ("FICO") to service the interest on its bond obligations. The rate for this assessment is determined quarterly and is paid based on the Bank's average deposits for a given quarter. The Bank paid \$59,557 in FICO assessments during 2007.

#### Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle Neal") was enacted to ease restrictions on interstate banking. Effective September 25, 1995, Riegle-Neal allows the Federal Reserve Board to approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve Board may not approve the acquisition of a bank that has not been in existence for a minimum time period (not exceeding five years) specified by the statutory law of the host state. Riegle-Neal also prohibits the Federal Reserve Board from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. Riegle Neal does not affect the authority of states to

limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit contained in Riegle Neal.

#### Community Reinvestment Act

Under the Community Reinvestment Act, as amended, ("CRA"), as implemented by FDIC regulations, the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate-income neighborhoods. The CRA does not prescribe specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a savings institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) amended the CRA to require public disclosure of an institution's CRA rating and require the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. The Bank's latest CRA rating, received from the FDIC, was "satisfactory."

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#### ITEM 2. DESCRIPTION OF PROPERTY

The Company does not own any properties.

The Bank's main office is located at 981 Hopmeadow Street, Simsbury, Connecticut. The Bank leases its main office pursuant to a lease with an initial term of ten years, expiring 2011, and which contains renewal options for a total of an additional ten years. The Bank also has the option to purchase the office during the tenth year of the lease. This lease also covers the lot at 989 Hopmeadow Street and the building at 987 Hopmeadow Street that is being used as additional administrative offices and is partially subleased to small local businesses.

The Bank's Granby branch office is located at 11 Hartford Avenue, Granby, Connecticut. The Bank leases this office pursuant to a lease with an initial term of fifteen years, expiring in 2013, and which contains renewal options for a total of an additional ten years.

The Bank's Avon branch office is located at 27 Dale Road, Avon, Connecticut. The Bank leases this office pursuant to a lease with an initial term of fifteen years, expiring in 2014, and which contains renewal options for a total of an additional ten years.

The Bank's Canton Branch office is located at 250 Albany Turnpike, Canton, Connecticut. The Bank leases this office pursuant to a lease with an initial term of ten years, expiring in 2015, and which contains renewal options for a total of an additional fifteen years.

The Bank's Bloomfield office is located at 864 Cottage Grove Road, Bloomfield, Connecticut. The Bank leases this office pursuant to a lease with an initial term of ten years, expiring in 2016, and which contains renewal options for a total of an additional ten years.

The Bank's administrative offices are located at 760 Hopmeadow Street, Simsbury, Connecticut. The Bank leases this building pursuant to a lease with a term that expires in 2011. The Bank has an option to renew the lease for an additional term of five years.

The Bank made \$618,592 in total rental payments during 2007.

The Bank's Investment Policy permits the Bank to invest in mortgage-backed securities. It is the policy of the Bank to invest in mortgage-backed securities that have no more risk than the underlying mortgages. The Investment Policy also permits the Bank to invest in Preferred Stock issued by Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC).

#### ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any pending legal proceeding, nor is its property the subject of any pending legal proceeding, other than routine litigation that is incidental to its business, and the Company is not aware of any pending or threatened litigation that could have a material adverse effect upon its business, operating results, or financial condition. Moreover, the Company is not a party to any administrative or judicial proceeding, including but not limited to proceedings arising under Section 8 of the Federal Deposit Insurance Act.

To the best of our knowledge, no director, officer, affiliate or holder, of record or beneficially, of 5% or more of our securities is a party adverse to the Company or has a material interest adverse to the Company in any proceeding.

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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 fiscal year ended December 31, 2007.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

The information required by this Item 5 is incorporated into this Form 10-KSB by reference to the Company's Annual Report under the caption "SHAREHOLDER DATA."

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The information required by this Item 6 is incorporated into this Form 10-KSB by reference to the Company's Annual Report under the caption "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

ITEM 7. FINANCIAL STATEMENTS

The information required by this Item 7 is incorporated into this Form 10-KSB by reference to the Company's Annual Report under the captions "SELECTED FINANCIAL AND OTHER DATA" and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A(T). CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Control Procedures

The Company has initiatives in place to ensure compliance with the Sarbanes-Oxley Act of 2002 (the "Act"). The Company has an Internal Compliance Committee that is responsible for the monitoring of and compliance with all federal regulations. This committee reports to the Audit and Compliance Committee of the Board of Directors.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2007 and have concluded that, as of that date, the Company's disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis. This conclusion is based on the above-referenced officers' evaluation of such controls and procedures.

(b) Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. Based on that assessment, management believes that the Company maintained effective internal control over

financial reporting as of December 31, 2007.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(c) Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

Not Applicable.

PART III

ITEM 9. DIRECTORS EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Directors

The information required by this Item 9 is incorporated into this Form 10-KSB by reference to the Proxy Statement of SBT Bancorp, Inc. for the annual meeting of shareholders of the Company to be held on May 13, 2008 under the caption "ELECTION OF DIRECTORS" and "INFORMATION ABOUT OUR DIRECTORS."

Executive Officers

The following table shows the name, age, positions held with the Company and principal occupations during the past five years of the Company's executive officers.

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NAME	AGE	POSITIONS HELD / PRINCIPAL OCCUPATIONS	YEAR OF HIRE
Martin J. Geitz President and Chief Executive Officer	51	President and Chief Executive Officer of the Company since March 2006; President and Chief Executive Officer of the Bank since October 2004; Vice President of Massachusetts Mutual Life Insurance Company, 2003 to 2004; Chief Executive Officer and Chief Financial Officer of Cigna Bank & Trust Company, 2000 to 2003; President of Fleet Development Ventures, LLC and Fleet Community Development Corp, 1997 to 2000.	2004
Anthony F. Bisceglia, Ph.D. Executive Vice President and Chief	60	Treasurer and Chief Financial Officer of the Company since March 2006; Executive Vice President and CFO of Financial Officer the Bank since January 2005; Senior Vice President and Chief Financial Officer of the Bank from 1995 through January, 2005.	1995
Terry L. Boulton Senior Vice President and Chief	52	Senior Vice President and Chief Retail Banking Officer of the Bank since January 2005; Vice Retail Banking Officer President of Bank of America, formerly Fleet Bank, from 1988 through January, 2005.	2005
Paul R. Little Senior Vice President and Chief Lending Officer	47	Senior Vice President and Chief Lending Officer of the Bank since May, 2006; Vice President, Commercial Real Estate Lending, Liberty Bank, 2004 through May, 2006; Vice President, Commercial Real Estate Loans, Savings Bank of Manchester/New Alliance Bank, 1990 through 2004	2006

Compliance with Section 16(a)

The information required by this item 9 is incorporated into this Form 10-KSB by reference to the Company's Proxy Statement under the caption "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE."

Code of Ethics

The Company has adopted a Code of Ethics and Conflicts of Interest Policy applicable to directors, officers and employees. The Company will provide to any shareholder, without charge, upon written request, a copy of our Code of Ethics and Conflicts of Interest Policy. All such requests should be directed to EBT Bancorp, Inc., 760 Hopmeadow Street, P.O. Box 248, Simsbury, Connecticut, 06070, Attention: Secretary.

ITEM 10. EXECUTIVE COMPENSATION

The information required by this Item 10 is incorporated into this Form 10-KSB by reference to the Company's Proxy Statement under the captions "EXECUTIVE COMPENSATION" and "EMPLOYMENT AGREEMENTS."

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the securities authorized for issuance under equity compensation plans.

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	Number of securities to be issued upon exercise of outstanding options(a)	Weighted-average exercise price of outstanding options in column (a)(b)(c)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected
Equity compensation plans approved by security holders	69,208	\$27.21	6,931
Equity compensation plans not approved by security holders	0	0	0
Total	69,208	\$27.21	6,931

The remaining information required by this Item 11 is contained in the Company's Proxy Statement under the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" and is hereby incorporated by reference herein.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 12 is incorporated into this form 10-KSB by reference to the Company's Proxy Statement under the captions "CERTAIN TRANSACTIONS" and "INDEPENDENCE OF DIRECTORS AND NOMINEES."

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ITEM 13. EXHIBITS

Exhibits.

The following exhibits required by Item 601 are filed herewith or are incorporated by reference to the filings previously made by the Bank and the Company as noted below (the reference in parentheses at the end of an Exhibit indicates the number of the Exhibit as it was filed in the document referenced below):

Exhibit No.	Description
3(i)	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Form 8K12G3 filed with the Securities and Exchange Commission on March 7, 2006)
3(ii)	Bylaws (incorporated by reference to Exhibit 3.2 of the Company's Form 8K12G3 filed with the Securities and Exchange Commission on March 7, 2006)
4	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4 of the Company's 10-QSB dated May 12, 2006)

- 10.1 Employment Agreement, dated as of September 1, 2004, by and between the Bank and Martin J. Geitz (incorporated by reference to Exhibit 10.13 of the Bank's 10-QSB dated November 12, 2004)
- 10.2 Employment Agreement, dated as of February 6, 2004, by and between the Bank and Charles D. Forgie and amended as of November 15, 2005 (incorporated by reference to the Company's 10-KSB dated March 24, 2006)
- 10.3 Employment Agreement, dated as of February 6, 2004, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.3 of the Bank's Form 10-KSB dated March 17, 2004)
- 10.4 Supplemental Executive Retirement Plan Agreement, dated as of April 23, 2001, by and between the Bank and Charles D. Forgie (incorporated by reference to Exhibit 10.5 of the Bank's 10-KSB dated March 17, 2004)
- 10.5 Supplemental Executive Retirement Plan Agreement, dated as of April 23, 2001, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.6 of the Bank's 10-KSB dated March 17, 2004)
- 10.6 Change in Control Agreement, dated as of July 30, 1999, by and between the Bank and Charles D. Forgie (incorporated by reference to Exhibit 10.7 of the Bank's 10-KSB dated March 17, 2004)
- 10.8 Change in Control Agreement, dated as of July 30, 1999, by and between the Bank and Anthony F. Bisceglia (incorporated by reference to Exhibit 10.8 of the Bank's 10-KSB dated March 17, 2004)
- 10.9 Change in Control Agreement dated as of December 23, 2005 by and between the Bank and Terry L. Boulton (incorporated by reference to Exhibit 10.9 of the Company's 10-KSB filed with the Securities and Exchange Commission on April 2, 2007)
- 10.10 Letter Agreement dated as of April 25, 2006 by and between the Company and Paul R. Little (incorporated by reference to Exhibit 10.1 of the Company's 8-K filed with the Securities and Exchange Commission on May 22, 2006)
- 13 2007 Annual Report (except for those portions expressly incorporated by reference, the 2007 Annual Report is furnished for informational purposes and is not to be deemed filed as part of this Form 10-KSB)

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- 21 Subsidiaries (filed herewith)
- 31.1 Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Executive Officer
- 31.2 Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Financial Officer
- 32.1 Section 1350 Certification by Chief Executive Officer
- 32.2 Section 1350 Certification by Chief Financial Officer

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 appears in the Company's Proxy Statement under the caption "RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS" and is incorporated by reference herein.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 21, 2007.

SBT BANCORP, INC.

By: /s/

-----  
Martin J. Geitz  
President and Chief Executive Officer

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Capacity	Date
/s/ ----- Martin J. Geitz	President and Chief Executive Officer	March 27, 2007
/s/ ----- Anthony F. Bisceglie	Executive Vice President, Chief Financial Officer and Chief Accounting Officer	March 27, 2007
/s/ ----- Robert J. Bogino	Director	March 27, 2007
/s/ ----- James T. Fleming	Director	March 27, 2007
/s/ ----- Edward J. Guarco	Director	March 28, 2007
/s/ ----- Gary R. Kevorkian	Director	March 27, 2007
/s/ ----- Barry R. Loucks	Director	March 27, 2007
/s/ ----- George B. Odium, Jr., DMD	Director	March 27, 2007
/s/ ----- David W. Sessions	Director	March 27, 2007
/s/ ----- Rodney R. Reynolds	Director	March 27, 2007
/s/ ----- Penny R. Woodford	Director	March 27, 2007
/s/ ----- Lincoln S. Young	Director	March 27, 2007

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- 32.2 Section 1350 Certification by Chief Financial Officer

April 9, 2008

Dear Fellow Shareholders:

We are very pleased to report great progress in 2007. Your company SBT Bancorp, Inc. (the "Company") delivered significant earnings improvement and, through its subsidiary, The Simsbury Bank & Trust Company, Inc. ("Simsbury Bank" or, the "Bank"), grew its customer base, increased loans to businesses, families and individuals, and expanded the management of its clients' wealth through investments and insurance. Our earnings in each quarter of the year were better than the quarter before. A reflection of our success is that Simsbury Bank remains Simsbury's largest bank, as well as the largest community bank and the third largest bank overall in our primary market.\*

Our performance in 2007 occurred in an extremely challenging environment. For most of the year, interest rates worked against us with a flat or inverted yield curve. Competition was intense in all of our markets. And expense management remained a challenge as we continued to slowly grow into the capacity associated with our two newest branches.



## Key Strategies and Customer Growth

During 2007, we believed that shareholder value would be most enhanced by emphasizing strategies that would improve current earnings although these strategies made it more difficult to grow market share. We focused on three areas: net interest income; noninterest income; and expense management.

o We derive over 80% of our revenue from interest rate spread activities, so we took steps to improve our net interest margin. Our deposit and loan pricing strategies yielded a 4.4% increase in net interest and dividend income before provision for loan losses compared to a 1.2% decline in 2006. Total revenue increased 5.0% in 2007, assisted by two atypical events described below, after an only slight 0.5% increase in 2006. Total deposits declined 5.8%, however, our deposit mix improved. Through continuing success with our free business checking product and attracting new non-business customers, we grew checking deposits 3.6% from year-end 2006 to year-end 2007 (5.6% comparing full year average balances) and permitted rate sensitive deposits, especially certificates of deposit, to decline 10.2% from year-end to year-end (8.2% comparing full year average balances). Low cost demand, NOW and savings deposits accounted for 66% of deposits at year-end compared to 62% at year-end 2006. Net loans increased 5.3% due principally to commercial loans and residential real estate secured loans. We funded our loan growth (5.3%) principally through redeploying funds from our investment portfolio.

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\*According to the 2007 FDIC Survey of Deposits, Simsbury Bank's deposits were greater than any other bank with branches in Simsbury (including the nation's largest) and greater than any other community bank serving any of the towns of Avon, Bloomfield, Canton, Granby, New Hartford and Simsbury. Only Bank of America and Webster Bank reported more deposits than Simsbury Bank in our eight town primary market.

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These strategies yielded a significant improvement in our net interest margin to 4.16% from 3.84% in 2006.

o Noninterest income related directly to banking customer products and services as well as investment services commissions increased 16.3% to \$1,150,014 in 2007 due to continued growth of our investment services business and growth in banking service fees. Our efforts to expand our investment services capabilities continued to meet great success with a 27.3% increase in commissions to \$210,631. Assets under management increased 49% (\$17.1 million) to \$51.6 million at year end. Service charge and fee income for deposit and other banking services increased 14.1% to \$939,383 due both to volume and price increases. Overdraft fees, ATM fees and debit card fees were the major contributors to banking fee income growth.

o Noninterest expense increased only 2.9% in 2007 after a 25.3% increase in 2006. The 2006 increase was due principally to the staffing, occupancy and equipment expenses associated with opening two new branches to increase our total to five. In 2007, staffing, occupancy and equipment expenses increased 5.3% due principally to the full year impact of expenses associated with our newest branch in Bloomfield. Growth in staffing, occupancy and equipment expenses was offset by a 2.7% decline in all other noninterest expenses as we managed all expenses very closely. Despite our successful efforts to contain expense growth, our efficiency ratio shows that we continue to carry excess capacity to deliver banking and investment services to our customers.

o The Bank's number of deposit accounts increased only modestly (0.7%) due to our deposit pricing strategy which resulted in a decline in time deposit accounts offset by growth in checking accounts. More of our customers continue to use our state-of-the-art online services. SBT Online customers increased 15.8% (15.2% in 2006) while the number of customers using online bill pay increased 17.9% (29.2% in 2006). During the past several years, our commercial loan business has grown steadily. At year end 2007, we had 7% more commercial loan facilities than at the prior year end. Our mortgage and consumer loan facilities have also grown. Most of our consumer loans are home equity loans. During 2006 and 2005, they grew faster than mortgages, which actually declined during those years as we stood by our conventional mortgage underwriting standards. In 2007, however, consumer loan facilities and mortgages increased by 6% and 3%, respectively, as our reliability as a conventional mortgage and consumer lender became more apparent in the emerging subprime mortgage crisis.

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## Capital and Shareholder Value

The Bank's capital position improved in 2007 and remains strong. We remain substantially in excess of the FDIC's "well capitalized" definition. This is a

very important fact at a time of increasing economic uncertainty. While our local markets have not exhibited the economic strains present in other parts of the country, a national economic slowdown will inevitably have a local impact.

Despite the Company's earnings dip since our investment in creating a geographically larger franchise area, shareholder equity and book value per share have continued to grow. Stockholders' Equity grew by 7.4% in 2007 (4.8% in 2006) while Book Value per Share grew by 6.3% (4.4% in 2006). Earnings per share reflect our improved earnings in 2007 as well as a slight increase in the number of shares outstanding. We did not utilize the share buyback program approved by the Board in 2006 and the program has expired.

#### Investment Portfolio Actions and BOLI Income

In the fourth quarter, the Bank took actions related to its investment portfolio precipitated by the rapidly changing financial market conditions brought on by the subprime mortgage crisis. The gradual steepening of the interest rate yield curve and the decline of short term interest rates created an opportunity for the Bank to sell certain securities and reinvest in other securities to engineer a better return from our investment portfolio. The Bank also wrote down the value of a Federal National Mortgage Association ("FNMA") trust preferred stock security whose market value had declined below the Bank's internal valuation change guidelines following the onset of the subprime mortgage crisis. The combined impact of these actions was a one-time \$313,369 loss.

The Bank funds a portion of employee benefits, including our supplemental employee retirement plan ("SERP"), through an earning asset called bank owned life insurance ("BOLI"). Charles "Chip" Fergie, our former Chief Lending Officer, unexpectedly passed away in 2007. As a result of Chip's actuarially premature death, the Bank received death benefit income from BOLI of \$613,349 in the fourth quarter.

#### Financial Markets, Economic Conditions and SBT Bancorp

Since August 2007, the subprime mortgage crisis has had a major impact on financial markets and the economy. The continuing unfolding of the crisis has fostered extraordinary actions by the Federal Reserve, the Treasury and the Congress to try to address financial market liquidity concerns and indications of a residential real estate led weakening of the economy nationally.

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The Bank never engaged in originating or holding subprime mortgages and holds no securities backed by subprime mortgages. Our only direct exposure to the subprime mortgage crisis is FNMA and Freddie Mac trust preferred stock investments totaling \$1.3 million. Fannie's and Freddie's financial conditions have been adversely impacted through their subprime mortgage exposure. As such, the value of certain securities issued by them has been adversely impacted. As noted above, the Bank wrote down one such security in its portfolio due to a drop in value below internal value change guidelines.

At its most simple, the subprime mortgage crisis is a painful downward revaluation of a large asset class. It is similar to the downward revaluations of internet and information technology companies in 2000 and 2001, New England commercial real estate in 1990 and 1991, savings and loan owned real estate development projects in the late 1980's, and oil and gas reserves and drilling equipment in the early 1980's. Asset revaluations through the early 1990's tended to be most visible at commercial and savings banks. Commercial and savings banks with too much exposure to the affected asset classes experienced difficulties and sometimes failed. By the late 1990's, however, financial market deregulation and the emergence of other significant investors such as private equity funds, leveraged buyout funds and hedge funds led to a much more complicated and less transparent financial market. In the current subprime mortgage crisis, the uncertainty associated with who holds what securities and the quality of those holdings has led to liquidity and investor confidence crises for a number of investment banks and hedge funds and, to a lesser extent, large commercial banks.

Banks are a reflection of the economy. The continued unraveling of the subprime mortgage crisis will impact the national economy for much of 2008 and, therefore, banks such as yours. Simsbury Bank's success is tied to the success of the businesses, families and individuals in Central Connecticut, particularly in our primary market area. Simsbury Bank manages its assets and liabilities conservatively and with the knowledge that economic cycles will test any unhealthy loan or deposit concentrations. Most of our loans are to businesses, families and individuals in our primary market area. We try to mitigate this geographic concentration risk by having a diverse loan portfolio by loan type and borrower. Half of our over \$160 million in loans at year end were conventional home mortgages. One quarter of our loans were consumer loans including home equity loans. Finally, one quarter of our loans were to commercial businesses. Our loan quality at year end continued to be outstanding with no nonaccrual loans and low delinquency rates. However, we have seen some weakening of certain loans. Due principally to the prospects of a weakening

economy as well as some of the challenges faced by some of our commercial borrowers, we made a \$250,000 addition to our loan loss reserve in the fourth quarter.

On the liability side, our deposits of over \$180 million are adequate to fund most of our loan and investment activities. We do not rely on wholesale funding such as brokered CDs. We occasionally borrow from the Federal Home Loan Bank when it offers rates, terms and flexibility better than we can obtain through local deposits. Our deposit mix is advantageous with one third each in checking, savings and time deposit accounts.

We feel very confident in the strength and diversity of our loan portfolio and our deposit base. We will continue to manage our risks closely as we execute our plans to grow revenues and earnings and thereby enhance shareholder value.

#### In Recognition

In 2007, Simsbury Bank lost two of its most valued alumni. Modesto Brunoli was a founder of the Bank and served as a director until 2003. Charles "Chip" Forgia was the Bank's first Chief Lending Officer. Moe and Chip contributed much to the Bank's success and will be missed by all who had the honor to know and work with them.

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Also in 2007, one of our Founding Directors, Jane von Holzhausen, retired from the Board of Directors due to new career demands that required her to relocate to southern Connecticut. We will miss Jane's candor and insights.

#### Looking Forward

We look forward with a confidence rooted in the strength of our people, our capacity and capabilities, and our market area. The current financial market and economic weaknesses create an opportunity for us. We are open for business and seeking to provide the capital and financial strength that our market demands.

We will continue to grow shareholder value by continuing to focus in three areas. First, we will serve our current markets so well that existing customers choose to do more business with us and those who are not currently customers choose to select us as a banking and investment partner. Second, we will continue to diversify our business by building our business banking and investment services capabilities. This strategy supports our goals of becoming a more important partner to our customers in their financial lives and becoming less dependent on interest rate spread income for our revenue and earnings. Third, we will remain open to and opportunistic with regard to acquisitions as a way to grow.

We appreciate your support and look forward to continuing to help our customers achieve their life goals by being their banking and investment partner of choice.

Sincerely,

/s/  
 .....

Martin J. Geitz  
 President & Chief Executive Officer

/s/  
 .....

Lincoln S. Young  
 Chairman of the Board of Directors

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#### Selected Financial and Other Data

	At 12/31/07	At 12/31/06	At 12/31/05
<b>Balance Sheet Data:</b>			
Total assets	\$210,390,282	\$217,046,550	\$209,544,654
Loans, net	163,765,440	155,512,835	145,805,738
Investment securities	25,501,248	38,485,046	41,196,740
Federal funds sold and other interest earning deposits	2,330,187	4,944,524	6,833,970
Deposits	186,805,866	198,402,158	191,115,680
Stockholders' equity	17,318,059	16,119,064	15,375,598
	For the Year Ended 12/31/07	For the Year Ended 12/31/06	For the Year Ended 12/31/05

Statement of Income Data:

Total interest and dividend income	\$11,349,114	\$11,135,620	\$9,759,483
Total interest expense	3,477,333	3,596,887	2,126,399
Net interest and dividend income	7,871,781	7,538,733	7,633,084
Provision for loan losses	250,000	0	30,000
Net interest and dividend income after-provision for loan losses	7,621,781	7,538,733	7,603,084
Gains (loss) on loans sold, net	(414)	3,977	61,222
Other noninterest income	1,593,893	1,152,262	983,637
Noninterest expense	7,901,091	7,679,952	6,128,848
Income tax expense	174,458	298,087	846,418
Net income	1,139,711	716,933	1,673,677
Earnings per common share	\$1.34	\$0.85	\$2.00
Earnings per common share, assuming dilution	\$1.33	\$0.84	\$1.96

Other Data:

Net interest spread	3.64%	3.44%	3.80%
Net interest margin	4.16%	3.84%	4.06%
Return on average assets	0.65%	0.34%	0.83%
Return on average stockholders' equity	6.80%	4.02%	11.19%
Average stockholders' equity to average assets	8.11%	7.49%	7.45%

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Management's Discussion and Analysis of Financial Conditions and Results of Operations

Forward Looking Statements

When used in this Annual Report or any press release, public announcement or filing, the words "intends," "expects," "plans," "estimates," "projects," "believes," "anticipates" and similar expressions are intended to identify forward-looking statements. The Company (defined below) has made and may continue to make various forward-looking statements with respect to earnings, credit quality and other financial and business matters for periods subsequent to December 31, 2007. All statements, other than statements of historical facts, are forward-looking statements. The Bank (defined below) cautions that these forward looking statements are not guarantees of future performance and are subject to numerous assumptions, risks and uncertainties, and that statements relating to subsequent periods are subject to greater uncertainty because of the increased likelihood of changes in underlying factors and assumptions. Actual results could differ materially from forward-looking statements. In addition to those factors previously disclosed by the Bank and those factors identified elsewhere herein, the following factors could cause actual results to differ materially from such forward-looking statements: competitive pressures on loan and deposit product pricing; other actions of competitors; changes in economic conditions; the extent and timing of actions of the Federal Reserve Board; customer deposit disintermediation; changes in customers' acceptance of the Bank's products and services; and the extent and timing of legislative and regulatory actions and reforms.

Please do not rely unduly on any forward looking statement, as such statements speak only as of the date made and the Bank undertakes no obligation to revise or update such statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events or circumstances.

General

This discussion is designed to assist you in better understanding the Company's financial condition, results of operations, liquidity and capital resources and any significant changes and trends related thereto. This discussion should be read in conjunction with the Company's financial statements.

SBT Bancorp, Inc. (the "Company") is the holding company for The Simsbury Bank & Trust Company, Inc. (the "Bank"). The Company's only business is its investment in the Bank, which is a community oriented financial institution providing a variety of banking and investment services.

The Bank was incorporated on April 28, 1992 and commenced operations as a Connecticut chartered bank on March 31, 1995. The Bank's deposit accounts are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits thereof. The Bank is not a member of the Federal Reserve System. The Bank's main office and its corporate offices are located in the town of

Simsbury, Connecticut. The Bank has branch offices in the towns of Granby, Avon, Canton and Bloomfield, Connecticut. Simsbury has a population of more than 23,000. The aggregate population for the Bank's market area is 75,000, comprised of approximately 29,000 households. The Bank's customer base consists primarily of individual consumers and small businesses in the Farmington Valley of Connecticut. The Bank has in excess of 20,300 deposit accounts.

The Bank offers a full range of banking services including commercial loans, term real estate loans, construction loans, SBA loans and a variety of consumer loans; checking, savings, certificates of deposit and money market deposit accounts; and travelers' checks, safe deposit and other customary non-deposit banking services. As of December 31, 2007, approximately 74% of the Bank's loans were secured by residential property located in Connecticut. The Bank has two ATMs at its main office and the Bloomfield branch, and one ATM at each of its other branch locations. The ATMs generate activity fees based upon utilization by other banks' customers. The Bank does not have a trust department. The Bank offers investment products to customers through SBT Investment Services, Inc., a wholly-owned subsidiary of the Bank, and through its affiliation with the securities broker/dealer Infindex Financial Services.

The deposits decreased by \$11.6 million (5.8%) in 2007, compared to \$7.3 million in growth during 2006. Total assets are \$210 million, a decrease of \$6.7 million (3.1%) from the \$217 million at year-end 2006. The Bank's loan portfolio grew, increasing by \$8.5 million (5.4%) to end the year at \$165.7 million. The Bank's loan to deposit ratio, an important determinant of net interest income increased to 89% at year-end 2007, compared to 79% at year-end 2006.

Net income of \$1,139,711 (\$1.34 per common share) for the year ending December 31, 2007 was a 5% increase from the net income of \$716,933 (\$0.85 per common share) reported for the year ended December 31, 2006.

Results of Operations for the Years Ended December 31, 2007, 2006 and 2005.

Net Interest Income and Net Interest Margin

The Bank's earnings depend largely upon the difference between the income received from its loan portfolio and investment securities and the interest paid on its liabilities, mainly interest paid on deposits. This difference is "net interest income." The net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by the change in the level and the mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. The Bank's net interest margin is also affected by changes in yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on the Bank's loans are affected principally by the demand for such loans, the supply of money available for lending purposes and competitive factors. These factors are in turn affected by general economic conditions and other factors beyond the Bank's control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters, and the actions of the Federal Reserve.

Net interest and dividend income, after provision for loan losses which totaled \$7,621,781 in 2007, which is an increase by \$93,048 from 2006, or 1.1% in 2007. Earning assets have grown from \$191 million on December 31, 2005 to over \$199 million at December 31, 2006 decreasing to \$194 million at December 31, 2007. The Bank's net interest spread and net interest margin increased to 3.64% and 4.16% during 2007 as compared to 3.44% and 3.84% during 2006. This was primarily due to the unusual interest rate environment that was prevalent during the year. This environment was characterized by interest rates that were higher in the short term than they were in the long term. This made it necessary for the Bank to pay more for shorter term time deposits than it would have in a more normal interest rate climate.

The following table presents the average amounts outstanding for the major categories of the Bank's interest-earning assets and interest-bearing liabilities and the average interest rates earned or paid thereon for the years ended December 31, 2007, 2006 and 2005.

NET INTEREST INCOME  
(Dollars in thousands)

For the Year Ended 12/31/07		
Average	(1)	
Balance	Interest	Yield
-----	-----	-----

Federal funds sold and overnight deposits	\$ 3,812	\$ 201	5.23%
Investments (1)	33,092	1,598	4.83
Mortgage loans	78,901	4,343	5.50
Commercial loans	38,528	2,747	7.13
Consumer loans	39,864	2,566	6.44
Term federal funds sold	33	1	3.03
Total loans	157,326	9,657	6.14
	-----	-----	
Total interest-earning assets	\$ 194,230	11,456	5.90
	=====	=====	
NOW deposits	\$ 27,764	\$ 51	0.18%
Savings deposits	57,754	546	0.95
Time deposits	65,016	2,759	4.24
	-----	-----	
Total interest-bearing deposits	150,534	3,356	2.23
Securities sold under agreements to repurchase	1,529	37	2.42
Federal Home Loan Bank advances	1,632	85	5.21
	-----	-----	
Total interest-bearing liabilities	\$ 153,695	\$ 3,478	2.26%
	=====	=====	
Net interest income		\$ 7,978	
		=====	
Net interest spread			3.64%
			=====
Net interest margin			4.16%
			=====

For the Year Ended 12/31/06

	Average Balance	(1) Interest	Yield
	-----	-----	-----
Federal funds sold and overnight deposits	\$ 4,348	\$ 216	4.97%
Investments (1)	43,776	1,983	4.53
Mortgage loans	77,038	4,174	5.42
Commercial loans	36,727	2,594	7.06
Consumer loans	37,920	2,296	6.05
Term federal funds sold	137	6	4.38
	-----	-----	
Total loans	151,822	9,070	5.97
	-----	-----	
Total interest-earning assets	\$ 199,946	\$ 11,269	5.64%
	=====	=====	
NOW deposits	\$ 25,951	\$ 26	0.10%
Savings deposits	61,444	558	0.91
Time deposits	72,271	2,878	3.98
	-----	-----	
Total interest-bearing deposits	159,666	3,462	2.17
Securities sold under agreements to repurchase	1,903	41	2.15
Federal Home Loan Bank advances	1,763	94	5.33
	-----	-----	
Total interest-bearing liabilities	\$ 163,332	\$ 3,597	2.20%
	=====	=====	
Net interest income		\$ 7,672	
		=====	
Net interest spread			3.44%
			=====
Net interest margin			3.84%
			=====

For the Year Ended 12/31/05

	Average Balance	(1) Interest	Yield
Federal funds sold and overnight deposits	\$ 5,267	\$ 169	3.21%
Investments (1)	40,636	1,628	4.01
Mortgage loans	80,376	4,364	5.43
Commercial loans	32,893	2,108	6.41
Consumer loans	30,938	1,579	5.10
Term federal funds sold	542	14	2.58
Total loans	144,749	8,065	5.57
Total interest earning assets	\$ 190,652	\$ 9,962	5.17%
NOW deposits	\$ 26,721	\$ 27	0.10%
Savings deposits	73,994	597	0.81
Time deposits	51,684	1,427	2.76
Total interest-bearing deposits	152,399	2,051	1.35
Securities sold under agreements to repurchase	2,007	32	1.59
Federal Home Loan Bank advances	1,201	44	3.66
Total interest-bearing liabilities	\$ 155,607	\$ 2,127	1.37%
Net interest income		\$ 7,735	
Net interest spread			3.80%
Net interest margin			4.06%

(1) On a fully taxable equivalent basis based on a tax rate of 34 %. Interest income on investments includes a fully taxable equivalent adjustment of \$106,090 in 2007, \$133,000 in 2006 and \$103,000 in 2005.

The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume.

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	Year Ended December 31, 2007 Compared to Year Ended December 31, 2006			Year Ended December 31, 2006 Compared to Year Ended December 31, 2005		
	Increase (Decrease) Due to		Net	Increase (Decrease) Due to		Net
Volume	Rate	Volume		Rate		
(In thousands)						
Interest and dividend income:						
Federal funds sold and overnight deposits	\$ 12	\$ (27)	\$ (15)	\$ 69	\$ (22)	\$ 47
Investments	327	(617)	(290)	223	132	355
Loans	253	334	587	599	406	1,005
Total interest-earning assets	592	(310)	282	891	516	1,407
Interest expense:						
NOW deposits	23	2	25	0	(1)	(1)

Savings deposits	26	(38)	(12)	11	(150)	(39)
Time deposits	225	(344)	(119)	763	688	1,451
Total interest-bearing deposits	274	(380)	(106)	874	537	1,411
Securities sold under agreements to repurchase	7	(11)	(4)	11	(2)	9
FHLB advances	(2)	(7)	(9)	25	25	59
Total interest-bearing liabilities	279	(398)	(119)	910	560	1,470
Net change in interest income	\$ 313	\$ 55	\$ 401	\$ (19)	\$ (44)	\$ (63)

#### Provision for Loan Losses

Provisions for loan losses are charged to earnings to bring the total allowance for loan losses to a level deemed appropriate by the Bank's management ("Management") based on such factors as historical experience, the volume and type of lending conducted by the Bank, the amount of non-performing loans, regulatory policies, generally accepted accounting principles, general economic conditions, and other factors related to the collectability of loans in the Bank's portfolio.

Each month the Bank reviews the allowance for loan losses and makes additional provisions to the allowance, as needed. For the year ended December 31, 2007, the allowance was increased by \$226,223, net of charge offs and recoveries. The total allowance for loan losses at December 31, 2007 was \$1,924,552 or 1.16% of outstanding loans. This compares with a total allowance for loan losses of \$1,698,329 at year-end 2006, which represented 1.08% of outstanding loans. With the exclusion of loans to financial institutions (term federal funds sold), this ratio was 1.16% at year-end 2007 and 1.08% at year-end 2006. During 2007, the Bank charged-off 4 loans for a total of \$23,777. During 2006, the Bank charged-off five loans for a total of \$21,358. There were no loan recoveries in 2007. The Bank recovered one loan for \$104 during 2006. Management believes the allowance for loan losses is adequate.

#### Noninterest Income and Noninterest Expense

The following table sets forth the various components of the Bank's noninterest income and noninterest expense for the years ended December 31, 2007, 2006 and 2005.

	NONINTEREST INCOME					
	For Year Ended 12/31/07	% of Total	For Year Ended 12/31/06	% of Total	For Year Ended 12/31/05	% of Total
Service charges on deposit accounts	\$ 413,758	26.0%	\$ 336,664	29.1%	\$ 313,746	30.0%
Safe deposit fees	79,764	5.0	74,039	6.4	64,819	6.2
Business manager income	132,339	8.3	129,232	11.2	127,157	12.2
Loss on loans sold, net	(414)	(0.0)	3,977	0.3	61,222	5.9
SBT Investment Services, Inc	210,520	13.2	165,496	14.3	83,705	8.0
Other income	757,402	47.5	446,831	38.7	394,210	37.7
Total	\$ 1,593,479	100.0%	\$ 1,156,239	100.0%	\$ 1,044,859	100.0%

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#### NONINTEREST EXPENSE

For Year Ended 12/31/07	% of Total	For Year Ended 12/31/06	% of Total	For Year Ended 12/31/05	% of Total
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Salaries and employee benefits	\$ 4,166,414	52.7%	\$ 4,036,284	52.6%	\$ 3,114,881	50.8%
Occupancy expense	1,115,588	14.1	1,028,280	13.4	753,452	12.3
Equipment expense	391,122	5.0	324,683	4.2	211,354	3.4
Forms and supplies	417,476	5.3	209,355	2.7	163,881	2.7
Advertising and promotions	335,999	4.3	346,677	4.5	350,690	5.7
Professional fees	126,826	1.6	364,191	4.7	328,850	5.4
Insurance	110,172	1.4	75,023	1.0	78,757	1.3
Loan expenses	77,603	1.0	120,846	1.6	85,142	1.4
Telephone and postage	130,700	1.6	147,885	1.9	138,457	2.3
Other expenses	1,029,191	13.0	1,026,738	13.4	903,384	14.7
-----						
Total	\$ 7,901,092	100.0%	\$ 7,679,952	100.0%	\$ 6,128,848	100.0%
=====						

Noninterest income for the twelve months ended December 31, 2007 was \$1,593,478, an increase of over \$437,000 from the twelve months ended December 31, 2006. The 2007 increase was due primarily to an increase of \$597,465 in cash surrender value of bank owned life insurance and BOLI death benefit income net of a \$313,569 loss on sales and write downs of available for sale securities in 2007. Growth in service charges on deposit accounts, other service charges and fees also contributed to the increase. The Bank continued to sell residential mortgage loans with thirty year maturities during 2007 resulting in losses of \$414 compared to gains of \$3,977 during 2006. The increase in service charges on deposit accounts was primarily due to an increase in overdraft fees collected. The Bank collected approximately \$274,000 in these charges during 2007 compared to approximately \$214,000 collected during 2006. At December 31, 2007, the Bank had over 20,300 deposit accounts, 100 or 0.50% more than the approximately 20,200 accounts at year-end 2006 and 1,200 or 6% more than the approximately 19,000 accounts at year-end 2005. The increase in other income during 2007 is primarily due to an increase in other fees received related to ATM and point of sales transactions, an increase in income from bank-owned life insurance and an increase in investment services fees and commissions.

During 2007, proceeds from sales of available-for-sale securities amounted to \$8,236,450. Gross realized losses on those sales amounted to \$85,669. The tax benefit applicable to these gross realized losses amounted to \$33,368. In 2007, a write-down of \$227,900 was recorded on an available-for-sale security as management had deemed this particular security to be other than temporarily impaired. There were no sales of available-for-sale securities during 2006.

Noninterest expense for the year ended December 31, 2007 was \$7,901,092, an increase of \$221,140 or 3%, over 2006. Noninterest expense for the year ended December 31, 2006 was \$7,679,952. This compares to an increase of 25% from 2005 to 2006 in noninterest expense. The increases in 2007 were primarily related to the addition of our fourth and fifth full-service branches and the Bank's continued efforts to promote itself as the bank of choice in the Farmington Valley of Connecticut. In 2007 other factors in this increase are expenses related to compliance with new regulatory requirements and the formation of a bank holding company.

Salaries and employee benefits comprised 53% of total noninterest expense during 2007, as compared to 53% in 2006. Other major categories during 2007 included occupancy expense and equipment expense at approximately 14% and 5%, respectively, advertising and promotions at approximately 4%, and professional fees at approximately 5%. Other major categories in 2006 also included occupancy and equipment expenses at approximately 13% and 4%, respectively. The largest components of other expenses, totaling \$1,029,191 in 2007 and \$1,026,738 in 2006, consisted of correspondent banking charges and software costs.

Financial Condition at Years Ended December 31, 2007, 2006 and 2005

The following table sets forth the average balances of each principal category of the Bank's assets, liabilities and capital accounts for the years ended December 31, 2007, 2006 and 2005.

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Distribution of Assets, Liabilities and Stockholders' Equity  
(Dollars in thousands)

For the Year Ended 12/31/07		For the Year Ended 12/31/06		For the Year Ended 12/31/05	
Average Balance	Percent of Total Assets	Average Balance	Percent of Total Assets	Average Balance	Percent of Total Assets
-----	-----	-----	-----	-----	-----

Assets						
Cash and due from banks	\$ 7,604	3.7%	\$ 6,511	3.1%	\$ 6,195	3.1%
Investment securities	13,092	16.0	43,776	20.7	40,636	20.2
Federal funds sold and overnight deposits	3,812	1.9	4,348	2.1	5,267	2.6
Loans, net	155,616	75.4	150,102	71.0	143,385	71.4
Premises and equipment	1,410	0.7	1,309	0.5	570	0.3
Accrued interest and other assets	4,942	2.3	5,462	2.5	4,872	2.4
<b>Total assets</b>	<b>\$ 206,476</b>	<b>100.0%</b>	<b>\$ 211,508</b>	<b>100.0%</b>	<b>\$ 200,925</b>	<b>100.0%</b>
-----						
Liabilities and Stockholders' Equity						
Deposits						
Demand and NOW deposits	\$ 62,955	30.5%	\$ 57,982	27.4%	\$ 56,639	28.2%
Savings deposits	57,754	28.0	61,444	29.1	73,994	36.8
Time deposits	65,016	31.5	72,271	34.1	51,684	25.7
<b>Total deposits</b>	<b>185,725</b>	<b>90.0</b>	<b>191,697</b>	<b>90.6</b>	<b>182,317</b>	<b>90.7</b>
Accrued interest and other liabilities	3,995	1.9	3,964	1.9	3,648	1.8
<b>Total liabilities</b>	<b>189,720</b>	<b>91.9</b>	<b>195,661</b>	<b>92.5</b>	<b>185,965</b>	<b>92.5</b>
-----						
Stockholders' equity:						
Common stock	8,576	4.2	8,555	4.1	8,397	4.2
Retained earnings and other comprehensive income	8,180	3.9	7,292	3.4	6,563	3.3
<b>Total stockholders' equity</b>	<b>16,756</b>	<b>8.1</b>	<b>15,847</b>	<b>7.5</b>	<b>14,960</b>	<b>7.5</b>
-----						
<b>Total liabilities and stockholders' equity</b>	<b>\$ 206,476</b>	<b>100.0%</b>	<b>\$ 211,508</b>	<b>100.0%</b>	<b>\$ 200,925</b>	<b>100.0%</b>
-----						

#### Investment Portfolio

In order to maintain a reserve of readily marketable assets to meet the Bank's liquidity and loan requirements, the Bank purchases United States Treasury securities and other investments. Sales of "federal funds" (short-term loans to other banks) are regularly utilized. Placement of funds in certificates of deposit with other financial institutions may be made as alternative investments pending utilization of funds for loans or other purposes.

Securities may be pledged to meet security requirements imposed as a condition for receipt of deposits of public funds and repurchase agreements. At December 31, 2007, the Bank had twelve securities with a carrying value totaling \$4,374,960 pledged for such purposes.

As of December 31, 2007, the Bank's investment portfolio consisted of U.S. government and agency securities and preferred stocks, mortgage-backed securities, corporate bonds, municipal securities, and money market mutual funds. The Bank's policy is to stagger the maturities of its investments to meet overall liquidity requirements of the Bank. The Bank's current policy is to invest only in securities with average maturities of less than ten years.

The following table summarizes the amounts and distribution of the Bank's investment securities held as of December 31, 2007, 2006, and 2005.

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#### INVESTMENT PORTFOLIO (Dollars in thousands)

December 31, 2007

Amortized Cost	Fair Value	Yield
----------------	------------	-------

AVAILABLE-FOR-SALE SECURITIES

-----			
U.S. Government and Agency securities			
Due within one year	\$ 3,000	\$ 2,999	4.85%
Due after one to five years	1,500	1,503	5.53
Total U.S. Government and Agency securities	4,500	4,502	5.08
State and Municipal securities			
Due after one to five years	2,325	2,393	5.30
Due after five to ten years	4,588	4,624	4.46
Total State and Municipal securities	6,913	7,017	4.79
Corporate debt securities			
Due after one to five years	475	474	3.30
Total Corporate debt securities	475	474	3.30
Mortgage-backed securities			
WARM* within one year	-	-	-
WARM* after one to five years	11,636	11,625	5.02
Total Mortgage-backed securities	11,636	11,625	5.02
Preferred stocks	1,772	1,253	5.09
Total Available for sale securities	\$ 25,296	\$ 24,871	4.79%
-----			

\* Weighted Average Remaining Maturity

December 31, 2006			
	Amortized Cost	Fair Value	Yield
-----			
AVAILABLE FOR SALE SECURITIES			
-----			
U.S. Government and Agency securities			
Due within one year	\$ 7,075	\$ 7,016	3.45%
Due after one to five years	10,750	10,646	4.41
Total U.S. Government and Agency securities	17,826	17,662	4.03
State and Municipal securities			
Due after one to five years	2,261	2,261	4.31
Due after five to ten years	1,724	1,833	5.43
Total State and Municipal securities	3,985	4,094	4.79
Corporate debt securities			
Due after one to five years	475	465	3.30
Total Corporate debt securities	475	465	3.30
Mortgage-backed securities			
WARM* within one year	7,951	7,698	4.63
WARM* after one to five years	6,261	6,142	4.67
Total Mortgage-backed securities	14,212	13,840	4.65
Preferred stocks	2,000	1,756	4.18
Total Available-for-sale securities	\$ 38,398	\$ 37,817	4.29%
-----			

\* - Weighted-Average Remaining Maturity

33

INVESTMENT PORTFOLIO  
(Dollars in thousands)

December 31, 2005			
	Amortized Cost	Fair Value	Yield
-----			
AVAILABLE FOR SALE SECURITIES			
-----			
U.S. Government and Agency securities			
Due within one year	\$ 4,500	\$ 4,431	2.65%
Due after one to five years	13,326	13,048	3.62
Total U.S. Government and Agency securities	17,826	17,479	3.39
State and Municipal securities			
Due after one to five years	1,000	998	2.80
Due after five to ten years	1,937	1,950	4.14
Due after ten years	1,821	1,949	5.38
Total State and Municipal securities	2,758	2,997	5.60

Corporate debt securities	4,990	5,147	4.39
Due within one year			
Due after one to five years	475	459	3.30
Total Corporate debt securities	475	459	3.30
Mortgage-backed securities			
WARM* within one year	3,977	3,944	4.96
WARM* after one to five years	11,846	11,522	4.46
WARM* after five to ten years	26	25	6.30
Total Mortgage-backed securities	15,849	15,491	4.59
Preferred stocks	2,000	1,655	2.84
Total Available-for-sale securities	\$ 41,140	\$ 40,231	4.22%

\* - Weighted-Average Remaining Maturity

#### Loan Portfolio

General The following table presents the Bank's loan portfolio as of December 31, 2007, 2006 and 2005.

#### LOAN PORTFOLIO (Dollars in thousands)

	December 31, 2007		December 31, 2006		December 31, 2005	
	Balance	% Total Loans	Balance	% Total Loans	Balance	% Total Loans
Commercial, financial and agricultural *	\$16,585	10.0%	\$10,947	7.0%	\$11,386	7.7%
Real estate - construction and land development	10,756	6.5	11,113	7.1	9,037	6.1
Real estate - residential	113,629	68.7	106,375	67.7	96,459	65.5
Real estate - commercial	15,135	9.1	15,974	10.2	16,101	10.9
Municipal	1,916	1.2	987	0.6	987	0.7
Consumer	7,427	4.5	12,582	7.4	13,381	9.2
<b>Total loans</b>	<b>165,448</b>	<b>100.0%</b>	<b>156,978</b>	<b>100.0%</b>	<b>147,351</b>	<b>100.0%</b>
Allowance for loan losses	(1,925)		(1,690)		(1,720)	
Deferred costs, net	242		233		175	
<b>Net Loans</b>	<b>\$163,765</b>		<b>\$155,513</b>		<b>\$145,806</b>	

\* - Includes Term federal funds sold of \$3,000,000 at 12/31/2007, \$0 at 12/31/2006 and \$2,000,000 at 12/31/2005.

\* - Includes Term federal funds sold of \$3,000,000 at 12/31/2007, \$0 at 12/31/2006 and \$2,000,000 at 12/31/2005.

The Bank's commercial loans are made for the purpose of providing working capital, financing the purchase of equipment or for other business purposes. Such loans include loans with maturities ranging from thirty days to one year and "term loans" which are loans with maturities normally ranging from one to twenty-five years. Short-term business loans are generally intended to finance current transactions and typically provide for periodic principal payments, with interest payable monthly. Term loans normally provide for fixed or floating interest rates, with monthly payments of both principal and interest.

The Bank's construction loans are primarily interim loans made to finance the construction of commercial and single family residential property. These loans are typically short-term. The Bank generally pre-qualifies construction loan borrowers for permanent "take-out" financing as a condition to making the construction loan. The Bank occasionally will make loans for speculative housing construction or for acquisition and development of raw land.

The Bank's other real estate loans consist primarily of loans made based on the borrower's cash flow and which are secured by deeds of trust on commercial and residential property to provide another source of repayment in the event of

default. It is the Bank's policy to restrict real estate loans without credit enhancement to no more than 80% of the lower of the appraised value or the purchase price of the property depending on the type of property and its utilization. The Bank offers both fixed and floating rate loans. Maturities on such loans typically range from five to twenty years. However, Small Business Administration ("SBA") and certain other real estate loans easily sold in the secondary market are made for longer maturities. The Bank has been designated an approved SBA lender. The Bank's SBA loans are categorized as commercial or real estate commercial depending on the underlying collateral. Also, the Bank has been approved as an originator of loans that can be sold to the Federal Home Loan Mortgage Corporation.

The Bank has entered into an agreement with Resource Mortgage Solutions, a division of NetBank ("RMS") to sell mortgage loans originated by the Bank to RMS. During the year ended December 31, 2007, the Bank sold one loan with total principal balance of \$ 268,000 to RMS resulting in a total net loss of \$(414) for the Bank. During the year ended December 31, 2006, the Bank sold four loans with total principal balances of \$598,000 to RMS resulting in total net gains of \$3,977 for the Bank.

Consumer loans are made for the purpose of financing automobiles, various types of consumer goods, and other personal purposes. Consumer loans generally provide for the monthly payment of principal and interest. Most of the Bank's consumer loans are secured by the personal property being purchased.

With certain exceptions, the Bank is permitted under applicable law to make related extensions of credit to any one borrowing entity up to 15% of the Bank's capital and reserves. An additional 10% is allowable if the credit is fully secured by qualified collateral. The Bank sells participations in its loans when necessary to stay within lending limits. As of December 31, 2007, these lending limits for the Bank were \$2,815,875 and \$4,693,125, respectively.

Loan Concentrations The Bank does not have any significant concentrations in its loan portfolio by industry or group of industries. As of December 31, 2007, approximately 74% of the Bank's loans were secured by residential property located in Connecticut. As of December 31, 2006, 75% of the Bank's loans were secured by such property.

Loan Portfolio Maturities and Interest Rate Sensitivity The following table summarizes the maturities and interest rate sensitivity of the Bank's loan portfolio.

MATURITIES AND RATE SENSITIVITY OF LOANS  
As of December 31, 2007  
(In thousands)

	One Year Or Less	Over One but less than Five Years	Over Five Years	Total
Commercial, financial and agricultural	\$ 6,624	\$ 9,863	\$ 98	\$ 16,585
Real Estate - construction and land development	10,756	-	-	10,756
Real Estate - residential	23,520	25,023	65,086	113,629
Real Estate - commercial	14,649	324	162	15,135
Municipal	1,916	-	-	1,916
Consumer	3,028	4,399	-	7,427
<b>Total loans</b>	<b>\$ 60,493</b>	<b>\$ 39,609</b>	<b>\$ 65,346</b>	<b>\$ 165,448</b>
Loans with fixed interest rates	\$ 12,114	\$ 33,169	\$ 51,338	\$ 96,621
Loans with variable interest rates	48,379	6,439	14,009	68,827
<b>Total loans</b>	<b>\$ 60,493</b>	<b>\$ 39,608</b>	<b>\$ 65,347</b>	<b>\$ 165,448</b>

The following table sets forth at December 31, 2007, 2006 and 2005 the Bank's loan commitments, standby letters of credit and unadvanced portions of loans.

	12/31/07	12/31/06	12/31/05
Commitments to originate loans	\$ 2,222	\$ 3,521	\$ 1,545
Standby letters of credit	557	428	358
Unadvanced portion of loans			
Construction	8,480	6,698	5,270
Commercial lines of credit	6,891	6,380	6,654
Residential real estate	-	-	-
Consumer	730	780	877
Home equity lines of credit	22,721	22,898	20,116
Total	\$ 41,511	\$ 40,705	\$ 34,820

Non-Performing Assets Interest on performing loans is accrued and taken into income daily. Loans over 90 days past due are deemed "non-performing" and are placed on a nonaccrual status, unless the loan is well collateralized and in the process of collection. Interest received on nonaccrual loans is credited to income only upon receipt and in certain circumstances may be applied to principal until the loan has been repaid in full, at which time the interest received is credited to income. The Bank had one nonaccrual loan with a balance of approximately \$5,328 as of December 31, 2007. The Bank had one nonaccrual loan with a balance of approximately \$78,000 as of December 31, 2006. The Bank had one nonaccrual loan with a balance of approximately \$32,500 as of December 31, 2005. As of December 31, 2007 the bank had one loan with a balance of approximately \$973 that was more than 90 days past due and still accruing interest. The Bank had no loans more than 90 days past due and still accruing interest as of December 31, 2006 or 2005.

When appropriate or necessary to protect the Bank's interests, real estate taken as collateral on a loan may be taken by the Bank through foreclosure or a deed in lieu of foreclosure. Real property acquired in this manner by the Bank will be known as "other real estate owned" ("OREO"), and will be carried on the books of the Bank as an asset, at the lesser of the Bank's recorded investment or the fair value less estimated costs to sell. As of December 31, 2007, 2006 and 2005, there was no OREO held by the Bank.

The risk of nonpayment of loans is an inherent feature of the banking business. That risk varies with the type and purpose of the loan, the collateral which is utilized to secure payment, and ultimately, the credit worthiness of the borrower. In order to minimize this credit risk, the Bank requires that most loans be approved by at least two officers, one of whom must be an executive officer. Commercial loans greater than \$100,000 as well as other loans in certain circumstances must be approved by the Loan Committee of the Company's Board of Directors.

The Bank also maintains a program of annual review of certain new and renewed loans by an outside loan review consultant. Loans are graded from "pass" to "loss", depending on credit quality, with "pass" representing loans that are fully satisfactory as additions to the Bank's portfolio. These are loans which involve a degree of risk that is not unwarranted given the favorable aspects of the credit and which exhibit both primary and secondary sources of repayment. Classified loans identified in the review process are added to the Bank's Internal Watchlist and an additional allowance for loan losses is established for such loans if appropriate. Additionally, the Bank is examined regularly by the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking at which time a further review of the loan portfolio is conducted.

There were twenty four classified loans with a combined outstanding balance of \$ 4,157,400 as of December 31, 2007 and eighteen classified loans with a combined outstanding balance of \$2,168,600 as of December 31, 2006.

#### Allowance for Loan Losses

The Bank maintains an allowance for loan losses to provide for potential losses in the loan portfolio. Additions to the allowance are made by charges to operating expenses in the form of a provision for loan losses. All loans that are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. Management conducts a critical evaluation of the loan portfolio monthly. This evaluation includes an assessment of the following factors: the results of the Bank's internal loan review, any external loan review, any regulatory examination, loan loss experience, estimated potential loss exposure on each credit, concentrations of credit, value of collateral, any known impairment in the borrower's ability to repay, and present and prospective economic conditions.

The following table summarizes the Bank's loan loss experience, transactions in the allowance for loan losses and certain prominent ratios at or

for the years ended December 31, 2007, 2006 and 2005.

ALLOWANCE FOR LOAN LOSSES  
(Dollars in thousands)

	At or For the Year Ended 12/31/07	At or For the Year Ended 12/31/06	At or For the Year Ended 12/31/05
ALLOWANCE FOR LOAN LOSSES			
Balance at beginning of period	\$ 1,698	\$ 1,720	\$ 1,702
Total charge offs	(24)	(22)	(12)
Total recoveries	-	-	-
Net loans (charged-off) recovered	(24)	(22)	(12)
Provision for loan losses	250	-	30
Balance at end of period	\$ 1,924	\$ 1,698	\$ 1,720
BALANCES			
Average total loans	\$ 157,326	\$ 151,822	\$ 144,749
Total loans at end of period	165,448	156,978	147,351
RATIOS			
Allowance for loan losses to average loans	1.22%	1.12%	1.19%
Allowance for loan losses to loans at end of period	1.16	1.08	1.17

The following table summarizes the allocation of the allowance for loan losses by loan type and the percent of loans in each category compared to total loans at December 31, 2007, 2006 and 2005.

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES  
(Dollars in thousands)

	December 31, 2007		December 31, 2006		December 31, 2005	
	Allocation of Allowance	% of Loans by Category	Allocation of Allowance	% of Loans by Category	Allocation of Allowance	% of Loans by Category
Real estate - residential	\$ 563	68.7%	\$ 464	67.7%	\$ 428	65.5%
Real estate - commercial	316	9.1	465	10.2	455	10.9
Real estate - construction and land development	464	6.5	212	7.1	208	6.1
Commercial, financial and agricultural	363	10.0	331	7.0	370	7.7
Municipal	31	1.2	9	0.6	9	0.7
Consumer	188	4.5	217	7.4	260	9.1
Total	\$ 1,925	100.0%	\$ 1,698	100.0%	\$ 1,720	100.0%

Deposits

Deposits are the Bank's primary source of funds. At December 31, 2007, the Bank had a deposit mix of 37% checking, 29% savings and 34% certificates. Twenty two percent of the total deposits of \$186.8 million were noninterest bearing at December 31, 2007. At December 31, 2006, the Bank had a deposit mix of 34% checking, 28% savings and 38% certificates. Twenty percent of the total deposits of \$198.4 million were noninterest bearing at December 31, 2006. At December 31, 2007, \$7,499,000 of the Bank's deposits were from public sources. At December 31, 2006, \$7,142,000 of the Bank's deposits were from public sources. The Bank's net interest income is enhanced by its percentage of noninterest bearing deposits.

The Bank's deposits are obtained from a cross-section of the communities it serves. No material portion of the Bank's deposits has been obtained from or is dependent upon any one person or industry. The Bank's business is not seasonal in nature. The Bank accepts deposits in excess of \$100,000 from customers. Those deposits are priced to remain competitive. As of December 31, 2007 and 2006, the Bank had no brokered funds on deposit.

The Bank is not dependent upon funds from sources outside the United States and has not made loans to any foreign entities.

The following table summarizes the distribution of average deposits and the average annualized rates paid for the years ended December 31, 2007, 2006 and 2005.

	AVERAGE DEPOSITS (Dollars in thousands)					
	For the Year Ended December 31, 2007		For the Year Ended December 31, 2006		For the Year Ended December 31, 2005	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Demand deposits	\$ 35,189	0.00%	\$ 32,031	0.00%	\$ 29,918	0.00%
NOW deposits	27,764	0.18	25,951	0.10	26,721	0.10
Savings deposits	57,754	0.94	61,444	0.91	73,994	0.81
Time deposits	64,999	4.24	72,271	3.98	51,684	2.76
<b>Total average deposits</b>	<b>\$ 185,706</b>	<b>1.81%</b>	<b>\$ 191,697</b>	<b>1.81%</b>	<b>\$ 182,317</b>	<b>1.12%</b>

The following table indicates the maturity schedule for the Bank's time deposits of \$100,000 or more as of December 31, 2007, 2006 and 2005.

	SCHEDULED MATURITY OF TIME DEPOSITS OF \$100,000 OR MORE (Dollars in thousands)					
	December 31, 2007		December 31, 2006		December 31, 2005	
	Balance	% of Total	Balance	% of Total	Balance	% of Total
Three months or less	\$ 9,723	47.4%	\$ 15,322	60.5%	\$ 7,521	35.0%
Over three through six months	6,474	31.5	6,036	23.9	5,498	25.6
Over six through twelve months	2,938	14.3	1,998	7.9	5,236	24.4
Over twelve months	1,358	6.8	1,948	7.7	3,228	15.0
<b>Total Time Deposits</b>	<b>\$ 20,523</b>	<b>100.0%</b>	<b>\$ 25,304</b>	<b>100.0%</b>	<b>\$ 21,483</b>	<b>100.0%</b>

#### Liquidity and Asset-Liability Management

Liquidity management for banks requires that funds always be available to pay anticipated deposit withdrawals and maturing financial obligations promptly and fully in accordance with their terms. The balance of the funds required is generally provided by payments on loans, sale of assets, liquidation of assets and the acquisition of additional deposit liabilities. One method banks utilize for acquiring additional liabilities is through the acceptance of "brokered deposits" (defined to include not only deposits received through deposit brokers, but also deposits bearing interest in excess of 75 basis points over market rates), typically attracting large certificates of deposit at high interest rates. The Bank, however, has not accepted and does not anticipate accepting "brokered deposits" in the future.

To meet liquidity needs, the Bank maintains a portion of its funds in cash deposits in other banks, federal funds sold, and available-for-sale securities. As of December 31, 2007, the Bank's liquidity ratio was 22%, defined as the sum of \$2.3 million in federal funds sold, \$24.9 million in available-for-sale securities at fair value, and \$13.4 million in cash and due from banks and interest-bearing deposits at the Federal Home Loan Bank, as a percentage of deposits. As of December 31, 2006, the Bank's liquidity ratio was 27%, defined as the sum of \$4.9 million in federal funds sold, \$27.8 million in available for-sale securities at fair value, and \$10.9 million in cash and due from banks and interest bearing deposits at the Federal Home Loan Bank, as a percentage of deposits.

The careful planning of asset and liability maturities and the matching of interest rates to correspond with this maturity matching is an integral part of the active management of an institution's net yield. To the extent maturities of



assets and liabilities do not match in a changing interest rate environment, net yields may be affected. Even with perfectly matched repricing of assets and liabilities, risks remain in the form of prepayment of assets, timing lags in adjusting certain assets and liabilities that have varying sensitivities to market interest rates and basis risk. In its overall attempt to match assets and liabilities, Management takes into account rates and maturities to be offered in connection with its time deposits and by offering variable rate loans. The Bank has generally been able to control its exposure to changing interest rates by maintaining shorter-term investments and offering floating interest rate loans and a majority of its time deposits at relatively short maturities.

The table below sets forth the interest rate sensitivity of the Bank's interest-sensitive assets and interest-sensitive liabilities as of December 31, 2007, 2006 and 2005, using the interest rate sensitivity gap ratio. For the purposes of the following table, an asset or liability is considered rate-sensitive within a specified period when it can be repriced or matures within its contractual terms.

INTEREST RATE SENSITIVITY  
(Dollars in thousands)

December 31, 2007

	Due Within Three Months	Due in Three to Twelve Months	Due After One Year to Five Years	Due After Five Years	Total
<b>Rate sensitive assets</b>					
Federal funds sold and overnight deposits	\$ 5,300	-	-	-	\$ 5,300
Available-for-sale securities	3,728	\$ 524	\$ 15,995	\$ 4,624	24,871
Total loans	56,231	4,263	39,609	65,346	165,448
<b>Total</b>	<b>\$ 65,259</b>	<b>\$ 4,787</b>	<b>\$ 55,603</b>	<b>\$ 69,970</b>	<b>\$ 195,619</b>
<b>Rate sensitive liabilities</b>					
NOW deposits	\$ 1,311	-	-	\$ 24,905	\$ 26,216
Savings deposits	29,988	-	-	24,241	54,229
Time deposits	25,118	\$ 32,840	\$ 5,201	7	63,166
Securities sold under agreements to repurchase	2,000	-	-	-	2,000
<b>Total</b>	<b>\$ 58,417</b>	<b>\$ 32,840</b>	<b>\$ 5,201</b>	<b>\$ 49,153</b>	<b>\$ 145,611</b>
<b>Interest rate sensitivity gap</b>	<b>\$ 6,842</b>	<b>\$ (28,053)</b>	<b>\$ 50,402</b>	<b>\$ 20,818</b>	<b>\$ 50,009</b>
<b>Cumulative gap</b>	<b>\$ 6,842</b>	<b>\$ (21,211)</b>	<b>\$ 29,191</b>	<b>\$ 50,009</b>	
<b>Cumulative gap ratio to total assets</b>	<b>3%</b>	<b>(10)%</b>	<b>13%</b>	<b>23%</b>	

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INTEREST RATE SENSITIVITY  
(Dollars in thousands)

December 31, 2006

	Due Within Three Months	Due in Three to Twelve Months	Due After One Year to Five Years	Due After Five Years	Total
<b>Rate sensitive assets</b>					
Federal funds sold and overnight deposits	\$ 4,875	-	-	-	\$ 4,875
Available-for-sale securities	3,001	\$ 13,469	\$ 19,514	\$ 1,833	37,817
Total loans	54,835	6,512	31,140	64,491	156,978
<b>Total</b>	<b>\$ 62,711</b>	<b>\$ 19,981</b>	<b>\$ 50,654</b>	<b>\$ 66,324</b>	<b>\$ 199,670</b>
<b>Rate sensitive liabilities</b>					
NOW deposits	\$ 1,458	-	-	\$ 27,701	\$ 29,159
Savings deposits	32,641	-	-	23,235	55,876
Time deposits	40,294	\$ 26,336	\$ 7,945	-	74,575

Securities sold under agreements to repurchase	1,628	-	-	-	1,628
Total	\$ 76,921	\$ 26,336	\$ 7,945	\$ 50,936	\$ 161,238
Interest rate sensitivity gap	\$ (13,310)	\$ (6,355)	\$ 42,709	\$ 15,388	\$ 38,432
Cumulative gap	\$ (13,310)	\$ (19,665)	\$ 23,044	\$ 38,432	
Cumulative gap ratio to total assets	(6)%	(9)%	11%	18%	

December 31, 2005

	Due Within Three Months	Due in Three to Twelve Months	Due After One Year to Five Years	Due After Five Years	Total
<b>Rate sensitive assets</b>					
Federal funds sold and overnight deposits	\$ 6,767	-	-	-	\$ 6,767
Available-for-sale securities	1,656	\$ 9,372	\$ 26,979	\$ 2,224	40,231
Total loans	52,274	6,208	30,367	59,502	147,351
Total	\$ 60,697	\$ 15,580	\$ 57,346	\$ 60,726	\$ 194,349
<b>Rate sensitive liabilities</b>					
NOW deposits	\$ 1,277	-	-	\$ 24,266	\$ 25,543
Savings deposits	40,692	-	-	26,243	66,935
Time deposits	15,539	\$ 31,803	\$ 15,221	-	62,563
Securities sold under agreements to repurchase	2,313	-	-	-	2,313
Total	\$ 59,821	\$ 31,803	\$ 15,221	\$ 50,509	\$ 157,354
Interest rate sensitivity gap	\$ 876	\$ (16,223)	\$ 42,125	\$ 10,217	\$ 36,995
Cumulative gap	\$ 876	\$ (15,347)	\$ 26,778	\$ 36,995	
Cumulative gap ratio to total assets	0%	(7)%	13%	18%	

Since interest rate changes do not affect all categories of assets and liabilities equally or simultaneously, a cumulative gap analysis alone cannot be used to evaluate the Bank's interest rate sensitivity position. To supplement traditional gap analysis, the Bank performs simulation modeling to estimate the potential effects of changing interest rates. This process allows the Bank to explore complex relationships among repricing assets and liabilities over time in various interest rate environments.

The Company's Executive Committee meets at least quarterly to monitor the Bank's investments, liquidity needs and oversee its asset-liability management. Between meetings of the Executive Committee, Management oversees the Bank's liquidity.

Capital Reserve

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") defines specific capital categories based upon an institution's capital ratios. The capital categories, in declining order, are: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. Under FDICIA and the FDIC's prompt corrective action rules, the FDIC may take any one or more of the following actions against an undercapitalized bank: restrict dividends and management fees, restrict asset growth and prohibit new acquisitions, new branches or new lines of business without prior FDIC approval. If a bank is significantly undercapitalized, the FDIC may also require the bank to raise capital, restrict interest rates a bank may pay on deposits, require a reduction in assets, restrict any activities that might cause risk to the bank, require improved management, prohibit the acceptance of deposits from correspondent banks and restrict compensation to any senior executive officer. When a bank becomes critically undercapitalized, (i.e., the ratio of tangible equity to total assets is equal to or less than 2%), the FDIC must, within 90

days thereafter, appoint a receiver for the bank or take such action as the FDIC determines would better achieve the purposes of the law. Even where such other action is taken, the FDIC generally must appoint a receiver for a bank if the bank remains critically undercapitalized during the calendar quarter beginning 270 days after the date on which the bank became critically undercapitalized.

To be considered "adequately capitalized," an institution must generally have a leverage ratio of at least 4%, a Tier 1 capital to risk-weighted assets ratio of at least 4% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 8%. As of December 31, 2007, 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 below. There are no conditions that Management believes have changed the Bank's category.

At December 31, 2007, 2006 and 2005, the Bank's capital exceeded all minimum regulatory requirements and the Bank was considered to be "well capitalized" as defined in the regulations issued by the FDIC.

#### CAPITAL RATIOS

	Actual 12/31/07	Actual 12/31/06	Actual 12/31/05	Minimum Regulatory Requirements	Well- Capitalized
Bank:					
Total capital (to risk weighted assets)	13.48%	12.75%	13.66%	9.00%	10.00%
Tier 1 capital (to risk weighted assets)	12.23%	11.50%	12.41%	4.00%	6.00%
Tier 1 capital (to average assets)	8.21%	7.31%	7.61%	4.00%	5.00%

#### Inflation

The impact of inflation on a financial institution can differ significantly from that exerted on other companies. Banks, as financial intermediaries, have many assets and liabilities that may move in concert with inflation both as to interest rates and value. This is especially true for companies, such as the Bank, with a high percentage of interest rate sensitive assets and liabilities. A bank can reduce the impact of inflation if it can manage its interest rate sensitivity position. The Bank attempts to structure its mix of financial instruments and manage its interest rate sensitivity position in order to minimize the potential adverse effects of inflation or other market forces on its net interest income and therefore its earnings and capital.

Financial institutions are also affected by inflation's impact on non-interest expenses, such as salaries and occupancy expenses. During the period 1992 through 2007 inflation has remained relatively stable, due primarily to continuous management of the money supplied by the Federal Reserve. Based on the Bank's interest rate sensitivity position at year-end 2007, the Bank benefits in the short term from rising interest rates and is adversely impacted by falling interest rates. As such, indirectly, the management of the money supply by the Federal Reserve to control the rate of inflation may have an impact on the earnings of the Bank. Also, the changes in interest rates may have a corresponding impact on the ability of borrowers to repay loans with the Bank.

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#### Sarbanes-Oxley Act of 2002

The Company has initiatives in place to ensure compliance with the Sarbanes-Oxley act of 2002. The Company has an Internal Compliance Committee that is responsible for the monitoring of and compliance with all federal regulations. This committee reports to the Audit and Compliance Committee of the Board of Directors.

#### Evaluation of Disclosure Control Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2007 and have concluded that, as of that date, the Company's disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis. This conclusion is based on the above-referenced officers' evaluation of such controls and procedures within 90 days of the date of this Form 10-KSB.

#### Changes in Internal Controls

There were no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect the

Company's internal controls during the fiscal year ended December 31, 2007.

Options Outstanding

The following table sets forth the securities authorized for issuance under equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)(c))
Equity compensation plans approved by security holders	69,208	\$27.21	6,931
Equity compensation plans not approved by security holders	0	0	0
Total	69,208	\$27.21	6,931

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

The Board of Directors and Stockholders  
 SBT Bancorp, Inc.  
 Simsbury, Connecticut

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
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We have audited the accompanying consolidated balance sheets of SBT Bancorp, Inc. and Subsidiary as of December 31, 2007 and 2006 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 SBT Bancorp, Inc. and Subsidiary as of December 31, 2007 and 2006 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

West Peabody, Massachusetts  
 March 27, 2008

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SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

ASSETS	2007	2006
Cash and due from banks	\$ 13,423,626	\$ 10,861,262
Interest-bearing deposits with the Federal Home Loan Bank	25,982	17,807
Money market mutual funds	4,205	51,717
Federal funds sold	2,300,000	4,875,000
Cash and cash equivalents	15,753,813	15,805,786
Investments in available-for-sale securities (at fair value)	24,870,548	37,817,246
Federal Home Loan Bank stock, at cost	630,700	667,800
Loans held-for-sale		268,000
Loans	165,689,992	157,211,164
Less allowance for loan losses	1,924,552	1,698,329
Loans, net	163,765,440	155,512,835
Premises and equipment	1,222,955	1,551,960
Accrued interest receivable	808,430	894,999
Bank owned life insurance	1,818,081	2,827,460
Other assets	1,520,315	1,700,464
Total assets	\$210,390,282	\$217,046,550
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LIABILITIES AND STOCKHOLDERS' EQUITY		
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Deposits:		
Demand deposits	\$ 40,195,563	\$ 38,791,256
Savings and NOW deposits	83,444,482	85,035,535
Time deposits	63,165,821	74,575,367
Total deposits	186,805,866	198,402,158
Federal Home Loan Bank advances	2,000,000	
Securities sold under agreements to repurchase	1,363,033	1,627,896
Due to broker	1,433,223	
Other liabilities	1,470,101	897,432
Total liabilities	193,072,223	200,927,486
-----		
Stockholders' equity:		
Common stock, no par value; authorized 2,000,000 shares; issued and outstanding 850,896 shares in 2007 and 841,991 shares in 2006	8,975,051	8,636,380
Retained earnings	8,602,875	7,837,022
Accumulated other comprehensive loss	(259,867)	(354,338)
Total stockholders' equity	17,318,059	16,119,064
Total liabilities and stockholders' equity	\$210,390,282	\$217,046,550
=====		

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

SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2007 and 2006

	2007	2006
Interest and dividend income:		
Interest and fees on loans	\$ 9,656,912	\$ 9,068,964
Interest on debt securities:		

Taxable	1,191,681	1,558,164
Tax-exempt	205,940	208,591
Dividends	94,034	83,544
Other interest	200,547	216,357
Total interest and dividend income	11,349,114	11,135,620
Interest expense:		
Interest on deposits	3,355,094	3,462,049
Interest on Federal Home Loan Bank advances	85,312	93,619
Interest on securities sold under agreements to repurchase	36,927	41,219
Total interest expense	3,477,333	3,596,887
Net interest and dividend income	7,871,781	7,538,733
Provision for loan losses	250,000	
Net interest and dividend income after provision for loan losses	7,621,781	7,538,733
Noninterest income:		
Service charges on deposit accounts	413,758	336,664
Losses on sales and write-down of available-for-sale securities	(313,369)	
Investment services fees and commissions	210,631	165,496
Other service charges and fees	525,625	486,458
Increase in cash surrender value of life insurance policies	114,772	130,656
BOLI death benefit income	613,349	
(Loss) gain on loans sold, net	(414)	3,977
Other income	29,327	32,988
Total noninterest income	1,593,479	1,156,239
Noninterest expense:		
Salaries and employee benefits	4,166,414	4,036,284
Occupancy expense	1,115,588	1,028,280
Equipment expense	391,122	324,683
Professional fees	417,476	364,181
Advertising and promotions	335,999	346,677
Forms and supplies	126,826	209,355
Correspondent charges	187,484	196,001
Postage	92,744	102,850
Directors' fees	140,500	129,335
Other expense	926,938	942,306
Total noninterest expense	7,901,091	7,679,952
Income before income tax expense	1,314,169	1,015,020
Income tax expense	174,458	298,087
Net income	\$ 1,139,711	\$ 716,933
Earnings per common share	\$ 1.34	\$ .85
Earnings per common share, assuming dilution	\$ 1.33	\$ .84

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

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SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2007 and 2006

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2005	\$8,456,690	\$7,473,542	\$ (554,634)	\$15,375,598
Comprehensive income:				
Net income		716,933		
Net change in unrealized holding loss on available-for-sale securities, net of tax effect			200,296	
Comprehensive income				917,229

3,463 shares issued on stock options exercised	55,860			55,860
Stock based compensation	123,810			123,810
Dividends declared (\$1.42 per share)		(353,453)		(353,453)
Balance, December 31, 2006	8,636,380	7,817,022	(354,338)	16,119,064
Comprehensive income:				
Net income		1,139,711		
Net change in unrealized holding loss on available-for-sale securities, net of tax effect			94,471	
Comprehensive income				1,214,182
8,905 shares issued on stock options exercised	122,657			122,657
Tax benefit on stock options exercised	82,847			82,847
Stock based compensation	133,167			133,167
Dividends declared (\$1.44 per share)		(373,858)		(373,858)
Balance, December 31, 2007	\$8,975,051	\$8,602,875	\$(259,867)	\$17,310,059

Reclassification disclosure for the years ended December 31:

	2007	2006
Net unrealized holding (losses) gains on available-for-sale securities	\$(150,826)	\$ 328,087
Reclassification adjustment for realized losses in net income	313,569	
Other comprehensive income before income tax effect	154,743	328,087
Income tax expense	(60,272)	(127,791)
Other comprehensive income, net of tax	\$ 94,471	\$ 200,296

Accumulated other comprehensive loss as of December 31, 2007 and 2006 consists of net unrealized holding losses on available-for-sale securities, net of taxes.

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

SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Net income	\$ 1,139,711	\$ 716,933
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	5,607	21,059
Loss on sales and write-down of available for sale securities	313,569	
Change in deferred loan costs, net	(8,919)	(58,262)
Provision for loan loss	250,000	
Decrease (increase) in loans held for sale	268,000	(268,000)
Depreciation and amortization	356,731	314,817
Decrease in other assets	261,809	117,937
Decrease (increase) in interest receivable	86,569	(101,511)
Decrease (increase) in taxes receivable	187,616	(70,880)
Increase in cash surrender value of bank owned life insurance	(114,772)	(130,656)
BOLI death benefit income	(613,349)	
Stock based compensation	133,167	123,810
Increase in other liabilities	357,223	144,587
Increase in interest payable	215,446	12,301
Deferred tax (benefit) expense	(252,771)	12,966
Net cash provided by operating activities	2,585,637	935,101
Cash flows from investing activities:		
Purchases of available for-sale securities	(5,576,817)	(6,915,828)
Proceeds from maturities of available-for-sale securities	11,555,855	9,636,750
Proceeds from sales of securities	8,236,450	
Redemption of Federal Home Loan Bank stock	69,000	297,800
Purchase of Federal Home Loan Bank stock	(31,900)	
Loan originations and principal collections, net	(6,243,686)	(5,085,846)

Loan purchases	(2,250,000)	(4,563,093)
Recoveries of previously charged off loans		104
Capital expenditures	(21,656)	(870,749)
Redemption of life insurance policies	1,752,937	
Premiums paid on life insurance policy	(15,437)	(15,437)
	-----	-----
Net cash provided by (used in) investing activities	7,474,716	(7,516,299)
	-----	-----
Cash flows from financing activities:		
Net decrease in demand deposits, NOW and savings accounts	(186,746)	(4,725,761)
Net (decrease) increase in time deposits	(11,409,546)	12,012,239
Net change in short term advances from the Federal Home Loan Bank	2,000,000	
Net decrease in securities sold under agreements to repurchase	(264,863)	(684,936)
Proceeds from exercise of stock options	122,657	55,880
Dividends paid	(373,858)	(353,453)
	-----	-----
Net cash (used in) provided by financing activities	(10,112,356)	6,303,969
	-----	-----
Net decrease in cash and cash equivalents	(51,973)	(377,229)
Cash and cash equivalents at beginning of year	15,805,786	16,183,015
	-----	-----
Cash and cash equivalents at end of year	\$15,753,813	\$15,805,786
	-----	-----
Supplemental disclosures:		
Interest paid	\$3,261,887	\$3,584,586
Income taxes paid	239,613	356,001

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

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SBT BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS

On March 2, 2006, The Simsbury Bank & Trust Company, Inc. (the "Bank") reorganized into a holding company structure. As a result, the Bank became a wholly-owned subsidiary of SBT Bancorp, Inc. (the "Company") and each outstanding share of common stock of the Bank was converted into the right to receive one share of the common stock, no par value, of the Company. The Company files reports with the Securities and Exchange Commission and is supervised by the Board of Governors of the Federal Reserve System.

The Bank is a state chartered bank which was incorporated on April 29, 1992 and is headquartered in Simsbury, Connecticut. The Bank commenced operations on March 31, 1995 engaging principally in the business of attracting deposits from the general public and investing those deposits in securities, residential and commercial real estate, consumer and small business loans.

NOTE 2 - ACCOUNTING POLICIES

The accounting and reporting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America and predominant practices within the banking industry. The consolidated financial statements of the Company were prepared using the accrual basis of accounting. The significant accounting policies of the Company 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 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**BASIS OF PRESENTATION:**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary the Bank and the Bank's wholly-owned subsidiary, SBT Investment Services, Inc. SBT Investment Services, Inc. was established solely for the purpose of providing investment products, financial advice and services to its clients and the community. 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, Federal Home Loan Bank interest-bearing demand and overnight deposits, money market mutual funds and federal funds sold.

Cash and due from banks as of December 31, 2007 and 2006 includes 2,676,000 and \$2,446,000, respectively, which is subject to withdrawals and usage restrictions to satisfy the reserve requirements of the Federal Reserve Bank.

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**SECURITIES:**

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts computed 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 measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, or in a separate component of capital. They are merely disclosed in the notes to the consolidated financial statements.
- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.
- Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

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 HELD-FOR-SALE:**

Loans held-for-sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges to operations. Interest income on mortgages held-for-sale is accrued currently and classified as interest on loans.

**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 amounts due to borrowers on unadvanced loans, 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.

Loan origination and commitment fees and certain direct origination

costs are deferred, and the net amount amortized as an adjustment of the related loan's yield. The Company is amortizing these amounts over the contractual life of the related loans.

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity line 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.

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

#### ALLOWANCE FOR LOAN LOSSES:

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, 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 Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial 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.

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

#### 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 20 years for furniture and equipment. Leasehold improvements are amortized over the lesser of the life of the lease or the estimated life of the improvements.

#### FAIR VALUES OF FINANCIAL INSTRUMENTS:

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

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

**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 for loans held-for-sale are estimated based on outstanding investor commitments, or in the absence of such commitments, are based on current investor yield requirements.

**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 by discounting the future cash flows, 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 demand deposits, regular savings, NOW accounts, and money market accounts are equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for 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 of Federal Home Loan Bank advances are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

**Securities sold under agreements to repurchase:** The carrying amounts of securities sold under agreements to repurchase approximate their fair values.

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

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

#### ADVERTISING:

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

#### INCOME TAXES:

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

temporary differences are realized or settled.

#### STOCK BASED COMPENSATION:

At December 31, 2007, the Company has a stock-based employee compensation plan which is described more fully in Note 16. The Company accounts for the plan under SFAS No. 123(R) "Share-Based Payment". During the years ended December 31, 2007 and 2006, \$133,167 and \$123,810, respectively, in stock-based employee compensation was recognized.

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#### EARNINGS PER SHARE:

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. 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.

#### RECENT ACCOUNTING PRONOUNCEMENTS:

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Instruments" (SFAS 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 155 did not 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 156). SFAS 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 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 adoption of this statement did not have a material impact on the Company's financial condition, results of operations or cash flows.

In June 2006 the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 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 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 157 is effective for the Company's consolidated financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. 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 ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue No. 06-4 "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," (EITF 06-4). EITF 06-4 requires companies with an endorsement split-dollar life insurance arrangement to recognize a liability for future postretirement

benefits. The effective date is for fiscal years beginning after December 15, 2007, with earlier application permitted. Companies should recognize the effects of applying this issue through either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all periods. The Company does not expect the adoption of the issue to have a material impact on its financial condition and results of operations.

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In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective at the beginning of the Company's fiscal year beginning January 1, 2008, and early application may be elected in certain circumstances. The Company does not expect the adoption of this statement to have a material impact on its financial condition and results of operation.

NOTE 3 - INVESTMENTS IN AVAILABLE-FOR-SALE 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	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2007:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	\$ 4,500,000	\$ 3,404	\$ 1,778	\$ 4,501,626
Obligations of states and municipalities	6,913,444	107,323	3,681	7,017,086
Corporate debt securities	475,000		892	474,108
Mortgage-backed securities	11,635,666	43,506	53,944	11,625,228
U.S. government sponsored enterprises perpetual/callable preferred stocks	1,772,100	400	520,000	1,252,500
Marketable equity securities	4,205			4,205
	25,300,415	154,633	580,295	24,874,753
Money market mutual funds included in cash and cash equivalents	(4,205)			(4,205)
Total available-for-sale securities	\$ 25,296,210	\$ 154,633	\$ 580,295	\$ 24,870,548
December 31, 2006:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	\$ 17,825,395	\$ 6,169	\$ 169,644	\$ 17,661,920
Obligations of states and municipalities	3,985,050	137,626	28,368	4,094,308
Corporate debt securities	475,000		9,588	465,412
Mortgage-backed securities	14,112,206	15,723	287,923	13,840,006
U.S. government sponsored enterprises perpetual/callable preferred stocks	2,000,000		244,400	1,755,600
Marketable equity securities	51,717			51,717
	38,449,368	159,518	739,923	37,868,963
Money market mutual funds included in cash and cash equivalents	(51,717)			(51,717)
Total available-for-sale securities	\$ 38,397,651	\$ 159,518	\$ 739,923	\$ 37,817,246

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The scheduled maturities of debt securities were as follows as of December 31, 2007:

	Fair Value
Due within one year	\$ 3,974,397
Due after one year through five years	3,394,519
Due after five years through ten years	768,363
Due after ten years	3,855,541
Mortgage-backed securities	11,625,229
	-----
	\$ 23,618,048
	-----

During 2007, proceeds from sales of available-for-sale securities amounted to \$8,236,450. Gross realized losses on those sales amounted to \$85,669. The tax benefit applicable to these gross realized losses amounted to \$33,360. In 2007, a write-down of \$227,900 was recorded on an available-for-sale security as management had deemed this particular security to be other than temporarily impaired. There were no sales of available-for-sale securities during 2006.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders' equity as of December 31, 2007.

As of December 31, 2007 and 2006, the total carrying amounts of securities pledged for securities sold under agreements to repurchase and public deposits was \$4,374,960 and \$5,421,325, 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 not other than temporarily impaired, are as follows

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2007:						
Debt securities issued by the U.S.						
Treasury and other U.S. government corporations and agencies	\$ 999,357	\$ 642	\$ 998,864	\$ 1,136	\$ 1,998,221	\$ 1,778
Obligations of states and municipalities	632,686	3,681			632,686	3,681
Corporate debt securities			474,108	892	474,108	892
Mortgage-backed securities	565,430	20	4,994,383	53,924	5,859,813	53,944
U.S. government sponsored enterprises perpetual/callable preferred stocks			980,000	520,000	980,000	520,000
Total temporarily impaired securities	\$ 2,497,473	\$ 4,343	\$ 7,447,355	\$ 575,952	\$ 9,944,828	\$ 580,295
	-----	-----	-----	-----	-----	-----
December 31, 2006:						
Debt securities issued by the U.S.						
Treasury and other U.S. government corporations and agencies	\$ 3,990,180	\$ 9,820	\$11,665,571	\$ 159,824	\$15,655,751	\$ 169,644
Obligations of states and municipalities			902,855	28,368	902,855	28,368
Corporate debt securities			465,412	9,588	465,412	9,588
Mortgage-backed securities	322,744	1,899	11,892,440	286,024	12,215,184	287,923
U.S. government sponsored enterprises perpetual/callable preferred stocks			1,755,600	244,400	1,755,600	244,400
Total temporarily impaired securities	\$ 4,312,924	\$ 11,719	\$ 26,681,87	\$ 728,204	\$30,994,802	\$ 739,923
	-----	-----	-----	-----	-----	-----

Company management considers investments with an unrealized loss at December 31, 2007 to be only temporarily impaired because the impairment is due primarily to the current interest rate environment, not other credit factors. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, and equity securities until 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:

	2007	2006
Commercial, financial and agricultural	\$ 16,585,402	\$ 10,947,268
Real estate - construction and land development	10,755,501	11,113,090
Real estate - residential	113,629,149	106,375,264

Real estate - commercial	15,114,849	15,973,501
Municipal	1,915,727	987,153
Consumer	7,427,567	11,581,910
	-----	-----
	165,448,195	156,978,286
Allowance for loan losses	(1,924,552)	(1,698,329)
Deferred costs, net	241,797	232,878
	-----	-----
Net loans	\$163,765,440	\$155,512,835
	-----	-----

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

	2007	2006
	-----	-----
Balance at beginning of year	\$ 1,698,329	\$ 1,719,533
Provision for loan losses	250,000	
Recoveries of loans previously charged off		104
Charge offs	(23,777)	(21,308)
	-----	-----
Balance at end of year	\$ 1,924,552	\$ 1,698,329
	-----	-----

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

	2007	2006
	-----	-----
Total nonaccrual loans	\$ 5,328	\$ 78,047
	-----	-----
Accruing loans which are 90 days or more overdue	\$ 973	\$ 0
	-----	-----

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

	2007		2006	
	-----	-----	-----	-----
	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses
Loans for which there is a related allowance for credit losses	\$ 0	\$ 0	\$ 78,047	\$ 1,756
Loans for which there is no related allowance for credit losses	0	0	0	0
	-----	-----	-----	-----
Totals	\$ 0	\$ 0	\$ 78,047	\$ 1,756
	-----	-----	-----	-----

Average recorded investment in impaired loans during the year ended December 31	\$ 15,609	\$ 60,186
	-----	-----

Related amount of interest income recognized during the time, in the year ended December 31, that the loans were impaired

Total recognized	\$ 7,964	\$ 3,735
	-----	-----
Amount recognized using a cash basis method of accounting	\$ 7,964	\$ 3,735
	-----	-----

NOTE 5 PREMISES AND EQUIPMENT

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

	2007	2006
	-----	-----
Leasehold improvements	\$1,131,840	\$1,248,740
Furniture and equipment	2,279,832	2,242,519

	-----	-----
	3,411,672	3,391,259
Accumulated depreciation and amortization	(2,188,717)	(1,839,299)
	-----	-----
	\$1,222,955	\$1,551,960

NOTE 6 - DEPOSITS

The aggregate amount of time deposit accounts in denominations of \$100,000 or more as of December 31, 2007 and 2006 was \$20,523,507 and \$25,304,938, respectively.

For time deposits as of December 31, 2007, the scheduled maturities for years ended December 31 are:

2008	\$57,956,232
2009	2,433,076
2010	1,360,164
2011	960,483
2012	455,866
	-----
Total	\$63,165,821
	*****

NOTE 7 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase consist of funds borrowed from customers on a short-term basis secured by portions of the Company's investment portfolio. The securities which were sold have been accounted for not as sales but as borrowings. The securities consisted of debt securities issued by the U.S. Treasury and other U.S. government sponsored enterprises, corporations and agencies. The securities were held in safekeeping by Morgan Stanley, under the control of the Company. The purchasers have agreed to sell to the Company substantially identical securities at the maturity of the agreements. The agreements mature generally within three months from date of issue.

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

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

As of December 31, 2007, the Company has a \$2,000,000 advance with an interest rate of 4.38% which will mature in 2008.

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 and other qualified assets.

NOTE 9 - INCOME TAX EXPENSE

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

	2007	2006
	-----	-----
Current:		
Federal	\$341,346	\$222,816
State	85,883	62,305
	-----	-----
	427,229	285,121
	-----	-----
Deferred:		
Federal	(204,753)	8,330
State	(48,018)	4,636
	-----	-----
	(252,771)	12,966
	-----	-----
Total income tax expense	\$174,458	\$298,087
	*****	*****

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:

	2007	2006
	-----	-----
	% of	% of
	Income	Income
	-----	-----



Federal income tax at statutory rate	34.0%	34.0%
Increase (decrease) in tax resulting from:		
Tax-exempt income	(27.6)	(14.6)
Other	1.5	2.4
Stock based compensation	3.5	4.2
State tax, net of federal tax benefit	1.9	4.4
	-----	-----
Effective tax rates	13.3%	29.4%
	=====	=====

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

	2007	2006
	-----	-----
Deferred tax assets:		
Allowance for loan losses	\$ 625,727	\$528,352
Deferred compensation	211,835	296,329
Other	3,648	6,586
Write-down of equity securities	88,767	
Net unrealized holding loss on available-for-sale securities	165,795	226,067
	-----	-----
Gross deferred tax assets	1,095,772	957,334
	-----	-----
Deferred tax liabilities:		
Depreciation(147,322)	(204,664)	
Deferred loan costs/fees	(93,987)	(90,706)
	-----	-----
Gross deferred tax liabilities	(241,309)	(295,370)
	-----	-----
Net deferred tax asset	\$ 854,463	\$661,964
	=====	=====

As of December 31, 2007, the Company had no operating loss carryovers for income tax purposes.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES  
-----

As of December 31, 2007 the Company was obligated under non-cancelable operating leases for bank premises and equipment expiring between June 2010 and May 2016. The total minimum rental due in future periods under these existing agreements is as follows as of December 31, 2007:

2008	\$ 609,026
2009	618,048
2010	625,531
2011	377,701
2012	292,139
Thereafter	714,255
	-----
Total	\$ 3,236,700
	=====

Certain leases contain provisions for escalation of minimum lease payments contingent upon percentage increases in the consumer price index. Total rental expense amounted to \$618,592 and \$574,782 for the years ended December 31, 2007 and 2006, respectively.

NOTE 11 - FINANCIAL INSTRUMENTS  
-----

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. These financial instruments include commitments to originate loans, unadvanced funds on loans and standby letters of credit. 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 Company has in particular classes of financial instruments.

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

Commitments to originate loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may



require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company 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 Company 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, 2007 and 2006 the maximum potential amount of the Company's obligation was \$557,312 and \$428,312, respectively, for financial and standby letters of credit. The Company's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

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

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 15,753,813	\$ 15,753,813	\$ 15,805,786	\$ 15,805,786
Available-for-sale securities	24,870,548	24,870,548	37,817,246	37,817,246
Federal Home Loan Bank stock	630,700	630,700	667,800	667,800
Loans held-for-sale			268,000	268,386
Loans, net	163,765,440	162,124,009	155,512,835	153,402,000
Accrued interest receivable	808,430	808,430	894,999	894,999
<b>Financial liabilities:</b>				
Deposits	186,805,866	187,007,000	198,402,155	198,404,000
Federal Home Loan Bank advances	2,000,000	2,000,000		
Securities sold under agreements to repurchase	1,363,033	1,363,033	1,627,896	1,627,896
Due to broker	1,433,223	1,433,223		

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.

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

	2007	2006
Commitments to originate loans	\$ 2,222,250	\$ 3,520,850
Standby letters of credit	557,312	428,312
Unadvanced portions of loans:		
Construction	8,480,187	6,697,932
Commercial lines of credit	6,800,654	6,380,518
Consumer	729,769	779,823
Home equity	22,721,211	22,897,790
	\$41,511,383	\$ 40,705,225

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

**NOTE 12 - RELATED PARTY TRANSACTIONS**

Certain directors and executive officers of the Company and companies in which they have significant ownership interest were customers of the Bank during 2007. Total loans to such persons and their companies amounted to \$3,384,543 as of December 31, 2007. During the year ended December 31, 2007 principal payments totaled \$1,720,477 and advances amounted to \$1,955,705.

Deposits from related parties held by the Company as of December 31, 2007 and 2006 amounted to \$2,779,043 and \$1,857,419, respectively.

During 2007 and 2006, the Company paid \$61,939 and \$53,932, respectively, for rent and related expenses of the Company's Granby branch office to a company of which a bank director is a principal. The rent expense for the Granby branch included in Note 10 amounted to \$44,935 in 2007 and 2006.

During 2007 and 2006, the Company paid \$1,369 and \$375,876, respectively, for construction costs and related fees for the Company's Canton branch office to a company of which a bank director is a principal. These amounts are included in capital expenditures for 2007 and 2006.

NOTE 13 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Company's business activity is with customers located within the state. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Company's loan portfolio is comprised of loans collateralized by real estate located in the State of Connecticut.

NOTE 14 - REGULATORY MATTERS

The Bank is 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's 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 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, 2007 and 2006, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, 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. There are no conditions or events since that notification that management believes have changed the institution's category.

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The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollar amounts in thousands)						
As of December 31, 2007:						
Total Capital (to Risk Weighted Assets):						
The Simsbury Bank & Trust Company, Inc.	\$18,287	13.48%	\$10,955	=>8.0%	\$13,568	=>10.0%
Tier 1 Capital (to Risk Weighted Assets):						
The Simsbury Bank & Trust Company, Inc.	16,588	12.23	5,427	=>4.0	8,141	=>6.0
Tier 1 Capital (to Average Assets):						
The Simsbury Bank & Trust Company, Inc.	16,588	8.21	8,097	=>4.0	10,109	=>5.0
As of December 31, 2006:						
Total Capital (to Risk Weighted Assets):						
The Simsbury Bank & Trust Company, Inc.	17,398	12.75	10,918	=>8.0	\$13,647	=>10.0%
Tier 1 Capital (to Risk Weighted Assets):						
The Simsbury Bank & Trust Company, Inc.	15,700	11.50	5,459	=>4.0	8,188	=>6.0
Tier 1 Capital (to Average Assets):						

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 the Company will be entitled to dividends only when, and if, declared by the Company's Board of Directors out of funds legally available therefore. The declaration of future dividends will be subject to favorable operating results, financial conditions, tax considerations, and other factors.

Under Connecticut law, the Bank may pay dividends only out of net profits. The Connecticut Banking Commissioner's approval is required for dividend payments which exceed the current year's net profits and retained net profits from the preceding two years. As of December 31, 2007, the Bank is restricted from declaring dividends to the Company in an amount greater than \$2,913,642.

NOTE 15 - EMPLOYEE BENEFITS  
-----

The Company sponsors a 401(k) savings and retirement plan. Employees who were 21 years of age and employed on the plan's effective date were immediately eligible to participate in the plan. Other employees who have attained age 21 are eligible for membership on the first day of the month following completion of 90 days of service.

The provisions of the 401(k) plan allow eligible employees to contribute subject to IRS limitations. The Company's matching contribution will be determined at the beginning of the plan year. The Company's expense under this plan was \$35,123 in 2007 and \$75,868 in 2006.

The Company entered into employment agreements (the "Agreements") with the Executive Officers of the Company. The Agreements provide for severance benefits upon termination following a change in control as defined in the agreements in amounts equal to cash compensation as defined in the agreements and fringe benefits that the Executive(s) would have received if the Executive(s) would have continued working for an additional five years.

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NOTE 16 - STOCK OPTION PLAN  
-----

The Simsbury Bank & Trust Company, Inc. 1998 Stock Plan ("Plan") provides for the granting of options to purchase shares of common stock or the granting of shares of restricted stock up to an aggregate amount of 142,000 shares of common stock of the Company. Options granted under the Plan may be either Incentive Stock Options ("ISOs") within the meaning of Section 422 of the Internal Revenue Code or non-qualified options which do not qualify as ISOs ("NQOs"). No restricted stock awards or stock options may be granted under the Plan after March 17, 2008.

The exercise price for shares covered by an ISO may not be less than 100% of the fair market value of common stock on the date of grant. The exercise price for shares covered by a NQO may not be less than 50% of the fair market value of common stock at the date of grant. All options must expire no later than ten years from the date of grant. The Plan also provides the Board with authority to make grants that will provide that options will become exercisable and restricted awards will become fully vested upon a change in control of the Company.

In accordance with the Plan each non-employee director is granted a NQO to purchase 1,000 shares of common stock at the fair market value of the common stock on the grant date. These options will become exercisable in two equal installments beginning on the first anniversary of the date of grant.

The fair value of each option granted in 2007 and 2006 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2007	2006
	-----	-----
Expected volatility	12.9%	14.6%
Expected dividends	1.5%	1.5%
Expected term (in years)	10	10
Risk free rate	4.71%	5.20%

A summary of the status of the Company's stock option plan as of December 31 and changes during the years ending on that date is presented below:

Fixed Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	68,927	\$25.22	63,204	\$24.34
Granted	10,500	30.00	10,500	29.00
Exercised	(8,905)	13.77	(8,463)	16.17
Forfeited	(1,314)	36.55	(1,314)	36.55
Outstanding at end of year	69,208	27.21	63,927	25.22
Options exercisable at year-end	44,708	25.60	41,364	21.46
Weighted-average fair value of options granted during the year	\$8.11		\$8.77	

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The following table summarizes information about fixed stock options outstanding as of December 31, 2007:

Options Outstanding and Exercisable				
Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Number Exercisable	Exercise Price
\$13.625	12,766	0.4 years	12,766	\$13.625
15.65	1,311	4.2 years	1,311	15.65
16.25	2,628	3.9 years	2,628	16.25
33.25	2,625	6.5 years	2,625	33.25
34.90	1,314	6.3 years	1,314	34.90
35.00	5,250	6.8 years	5,250	35.00
36.55	1,314	6.3 years	1,314	36.55
31.50	21,000	8.0 years	14,000	31.50
29.00	10,500	8.5 years	3,500	29.00
30.00	10,500	9.6 years		
27.21	69,208	6.5 years	44,708	25.60

As of December 31, 2007, there was \$167,496 of total unrecognized compensation cost related to nonvested share-based arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.5 years. The total value of shares that vested during the years ended December 31, 2007 and 2006 was \$133,367 and \$123,810, respectively.

NOTE 17 EARNINGS PER SHARE (EPS)

Reconciliation of the numerators and the denominators of the basic and diluted per share computations for net income are as follows:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Year ended December 31, 2007			
Basic EPS			
Net income	\$1,139,711	849,468	\$ 1.34
Effect of dilutive securities, options		9,405	
Diluted EPS			
Net income	\$1,139,711	858,873	\$ 1.33
Year ended December 31, 2006			
Basic EPS			
Net income	\$ 716,933	841,191	\$ .85
Effect of dilutive securities, options		14,283	
Diluted EPS			
Net income	\$ 716,933	855,474	\$ .84

NOTE 18 RECLASSIFICATION

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

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Board of Directors

\*Chairman of Committee

Lincoln E. Young  
Chairman of the Board  
Retired Chief Executive Officer  
Turbine Engine Services Corp.  
Corporate Governance Committee\*  
Executive Committee  
Investment Services Committee  
Loan Committee  
Personnel Committee

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Vice Chairman  
Retired President and Co Owner  
Bogino & DeMaria, Inc.  
Audit & Compliance Committee  
Corporate Governance Committee  
Executive Committee  
Investment Services Committee  
Loan Committee\*

James T. Fleming  
President  
Connecticut Automotive Retailers  
Association  
Audit & Compliance Committee  
Corporate Governance Committee

Martin J. Geitz  
President and Chief Executive Officer  
The Simsbury Company and Trust Company  
Executive Committee  
Investment Services Committee  
Loan Committee

Edward J. Guarco  
Vice President  
State Line Oil  
Audit & Compliance Committee  
Personnel Committee

Gary R. Kevoorkian  
Attorney at Law  
Investment Services Committee  
Loan Committee  
Personnel Committee

Barry R. Loucks  
Retired President and CEO  
The Simsbury Bank & Trust Company  
Executive Committee\*  
Loan Committee

George B. Odium, Jr., DMD  
General Dentistry  
Audit & Compliance Committee\*  
Executive Committee

Rodney R. Reynolds  
Retired Founding Director  
Trust Company of Connecticut  
Investment Services Committee  
Personnel Committee

David W. Sessions  
President and Treasurer  
CASA Corporation  
Executive Committee  
Loan Committee  
Personnel Committee\*

Perry R. Woodford  
Real Estate Agent  
Coldwell Banker Residential Brokerage  
Audit & Compliance Committee  
Corporate Governance Committee

Officers

Martin J. Geitz  
President and Chief Executive Officer

Anthony F. Bisceglia, Ph.D.  
Treasurer and Chief Financial Officer

Gary R. Kevoorkian  
Secretary

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Board of Directors

All SBT Bancorp, Inc. Directors

Directors Emeriti:

Richard C. Anthony  
Consultant

Robert B. August  
Retired Attorney at Law

Jackson F. Eno  
Vice President  
Morgan Stanley

Jane P. von Holzhausen  
Vice President of Operations  
Southwest Region  
Prudential Connecticut Realty

Evan W. Woollacott  
Retired Vice Chairman and Commissioner  
Connecticut Department of Public  
Utility Control

Officers

Martin J. Geitz  
President and Chief Executive Officer

Anthony F. Bisceglia, Ph.D.  
Executive Vice President, Treasurer and Chief  
Financial Officer

Terry L. Boulton  
Senior Vice President and  
Chief Retail Banking Officer

Paul R. Little  
Senior Vice President and  
Chief Lending Officer

Howard R. Zern  
Senior Vice President and  
Chief Bank Operations &  
Information Technology Officer

Gary R. Kevoorkian  
Secretary

Employees

Dianna S. Anderson  
Theresa D. Bendall  
Yvonne J. Bourgoin  
Alexandra S. Bullard

Katherine P. Cain  
Carol D. Clifford  
Catherine A. Cook  
Cheryl B. Dillio  
S. Thomas Edge

Marilyn E. Ehrhardt  
Lori L. Ethier  
Deborah A. Fochesato  
Beate E. Forst

Dawna M. Fuller  
Shirley T. Gentry  
Lynn G. Godin  
Barbara A. Holcomb

Jo-Ann Horton  
Leslie S. Kane  
Regina M. Keith  
Roseline A. Kelley

Vice Presidents

James R. Babcock  
Richard A. Bahre  
Robert A. Francolini  
H. Holbrook Hyde, Jr.  
Lauren S. McCoy

Assistant Vice Presidents

Brenda J. Abbott  
Brian D. Belyea  
Susan D. Presutti, Assistant Secretary  
Kenneth S. Sklodosky  
Sophie S. Stevens  
Barbara J. Wallace

Assistant Treasurers

Margot M. Byrte  
Christine A. Gates  
Barbara J. Hariffin  
Karen G. Jepeal  
Lisa A. Morgan  
Craig S. Porter  
Salverio P. Titus

Elizabeth C. Lenhart

Francine T. Love  
Catherine L. Miller  
Irene P. Najman  
Vanessa L. Palmes  
Julia E. Pattison  
Alan G. Pollack  
Patricia A. Eschirer

Patrina C. Reid  
Elizabeth D. Rinkie  
Margaret E. Rose  
Shawna L. Santos  
Joyce Slate  
Gerald Smith, Jr.  
Irene M. Smith  
Karen E. Storms

Maria Theodoratos  
Annette M. Troutman  
Linda M. Weber  
Michelle G. Wiggins  
Sarah C. Young

Corporate Information

SBT Bancorp, Inc.  
760 Hopmeadow Street  
P.O. Box 248  
Simsbury, Connecticut 06070-0248  
(860) 658-BANK  
Fax: (860) 651-5942  
www.simsburybank.com

Notice of Shareholders' Meeting

The Annual Meeting of Shareholders of SBT Bancorp, Inc., the holding company for The Simsbury Bank & Trust Company, Inc., will be held at 5:00 p.m. on Tuesday, May 13, 2008 at 981 Hopmeadow Street, Simsbury, Connecticut.

Independent Auditors

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

Legal Counsel

Day Pitney LLP  
Counselors at Law  
CityPlace I  
Hartford, CT 06103-3499

Transfer Agent

American Stock Transfer & Trust Company  
59 Maiden Lane  
Plaza Level  
New York, NY 10005  
Shareholder Relations: (800) 937-5449

Shareholder Contact

Susan D. Presutti  
SBT Bancorp, Inc.  
760 Hopmeadow Street  
Simsbury, CT 06070  
(860) 408-5493

Trading Symbol: SBTB

COPIES OF THE COMPANY'S ANNUAL REPORT ON FORM 10-KSB WILL BE FORWARDED WITHOUT CHARGE UPON WRITTEN REQUEST TO:

Gary R. Kevorkian, Secretary  
SBT Bancorp, Inc.  
760 Hopmeadow Street  
P.O. Box 248  
Simsbury, CT 06070-0248



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## Section 2: EX-21 (EXHIBIT 21)

Exhibit 21

SUBSIDIARIES		
Name	Jurisdiction of Incorporation	Nature of Ownership (direct/indirect)
The Simsbury Bank & Trust Company Inc.	Connecticut	Direct
SBT Investment Services, Inc.	Connecticut	Indirect (a wholly-owned subsidiary of The Simsbury Bank & Trust Company, Inc.)

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## Section 3: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

### CERTIFICATION AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Martin J. Geitz, Chief Executive Officer of SBT Bancorp, Inc. (the "Company") certify that:

1. I have reviewed this annual report on Form 10-KSB of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal

control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Martin J. Geitz

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Martin J. Geitz  
Chief Executive Officer

Date: March 28, 2008

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## Section 4: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

### CERTIFICATION AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony F. Bisceglia, Chief Financial Officer of SBT Bancorp, Inc. (the "Company") certify that:

1. I have reviewed this annual report on Form 10-KSB of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/Anthony F. Bisceglie, Ph.D.

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Anthony F. Bisceglie, Ph.D.  
Chief Financial Officer

Date: March 28, 2008

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## Section 5: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

### CERTIFICATION AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of SBT Bancorp, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof, I, Martin J. Geitz, the Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

(i) The Report for the year ended December 31, 2007 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Martin J. Geitz

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Martin J. Geitz  
Chief Executive Officer

Date: March 28, 2008

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## Section 6: EX-32.2 (EXHIBIT 32.2)

CERTIFICATION AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of SBT Bancorp, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof, I, Anthony F. Bisceglia, the Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

(i) The Report for the year ended December 31, 2007 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anthony F. Bisceglia, Ph.D.

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Anthony F. Bisceglia, Ph.D.  
Chief Financial Officer

Date: March 28, 2008

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**Duersch, Corey W.**

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SBT Bancorp, Inc. Reports 2008 Results

Company Release - 02/11/2009 10:08

SIMSBURY, Conn.--(BUSINESS WIRE)-- (NASDAQ-OTCBB:SBTB) SBT Bancorp, Inc. (the "Company"), (OTCBB: SBTB), the holding company for The Simsbury Bank & Trust Company, today announced net income of \$286,000 or \$0.33 per diluted share, for the quarter ended December 31, 2008 compared to \$485,000, or \$0.56 per diluted share, for the quarter ended December 31, 2007. For the year of 2008, the Company incurred a net loss of \$645,000 or \$0.75 per diluted share primarily due to an impairment charge on Fannie Mae and Freddie Mac preferred stock of \$1,755,000. Net income for the year ending December 31, 2007 was \$1,140,000 or \$1.33 per diluted share. The Company ended the year with \$241 million in total assets, an increase of \$30 million or 14% compared to December 31, 2007.

Earnings for the year ended December 31, 2008 were impacted by several non-recurring items. These included: (1) securities impairment charges of \$1,755,000 for Company holdings of Fannie Mae and Freddie Mac preferred stock. Exposure to further charges on these securities is now limited to \$17,000. (2) Reconfiguration charges of \$485,000 for re-aligning the Company's Albany Turnpike service network. Future annual expenses to operate the Company's Albany Turnpike service network are now reduced by \$275,000. And, (3) Bank Owned Life Insurance (BOLI) death benefit income of \$328,000.

During the quarter ended December 31, 2008, securities impairment charges for Fannie Mae and Freddie Mac preferred stock were \$87,000 and Albany Turnpike reconfiguration charges were \$299,000. Additionally, the Company recognized a tax benefit of \$650,000 associated with the securities impairment charges taken earlier in the year.

On December 31, 2008 loans outstanding were \$180 million, an increase of \$14 million or 8% over a year ago. With a loan loss provision of \$200k in the fourth quarter and \$450k for the entire year, the Company's allowance for loan losses ended the year at 1.12% of total loans. The profile of the Company's loan portfolio remained relatively low-risk throughout 2008. At yearend, 73% of total loans were conventionally underwritten residential mortgages and consumer home equity lines and loans. Commercial loans represent the balance or 27% of the Company's total loans. The Company's commercial portfolio's exposure to commercial real estate concentrations is relatively conservative. Total exposure to builder and land development loans and non-owner occupied commercial real estate was \$14 million at yearend, 8% of total loans and 88% of total capital. The Company had non-accrual loans totaling \$561k, 0.31% of total loans, on December 31, 2008. Loans 30 days or more delinquent totaled \$414k, 0.23% of total loans.

3/26/2009

Total deposits on December 31, 2008 were \$221 million, an increase of \$34 million or 18% over a year ago. Core deposits (Demand, Savings and NOW accounts) increased by \$13 million or 10% and Time Deposits increased by \$21 million or 33%. The Company continues to maintain a low-cost mix of deposits. At yearend, 17% of total deposits were in non-interest bearing demand accounts, 45% were in low-cost savings and NOW accounts, and 38% were in time deposits.

Net interest and dividend income for 2008 totaled \$8,022,000, an increase of 2% or \$150,000 over 2007. This increase was driven by the 14% growth in the balance sheet. Non-interest income in 2008, excluding securities impairment charges, equaled \$1,601,000, an increase of \$8,000 over non-interest income in 2007. Several items contributed to this difference. Revenue from service charges and fees increased \$115,000, or 12%. Gain on sales of securities was \$10,000 in 2008 compared to a loss of \$86,000 in 2007. Offsetting these increases in revenue was a decline in Bank Owned Life Insurance death benefit income from \$613,000 in 2007 to \$328,000 in 2008.

Non-interest expense for 2008 totaled \$8,831,000, an increase of \$930,000 over 2007. The bulk of this increase was from one-time charges of \$485,000 for reconfiguration of the Company's Albany Turnpike service network. Also contributing was an increase for FDIC Insurance assessed to all banks. This amounted to approximately \$100,000 for the Company.

Capital levels for the Simsbury Bank & Trust Company remain well in excess of those required to meet the regulatory "well-capitalized" designation.

Capital Ratios

12/31/08

	The Simsbury Bank & Trust Company	Regulatory Standard For Well-Capitalized
Tier 1 Leverage Capital Ratio	7.00%	5.00%
Tier 1 Risk-Based Capital Ratio	10.88%	6.00%
Total Risk-Based Capital Ratio	12.13%	10.00%

"We are currently in the midst of a financial market crisis unlike any since the 1930's" said (NASDAQ-OTCBB:SBTB) SBT Bancorp President and CEO, Martin J. Geitz. "During 2008, (NASDAQ-OTCBB:SBTB) SBT Bancorp's results were dominated, like many other financial institutions throughout the country, by an impairment charge on Fannie Mae and Freddie Mac preferred stock. Despite this one-time charge, the Company remains well capitalized and enjoys a strong and liquid balance sheet."

"Over the past several months we have taken action to position the Company to weather the current economic storm. Although the Company's capital position is secure and balance sheet is solid, we will be participating in the U.S. Treasury Department's Capital Purchase Program. The additional capital will enhance our capacity and flexibility to serve the needs of our consumer and business customers. During

the second half of 2008 we reconfigured our Albany Turnpike service network which will allow us to operate more efficiently in that market. Additionally, we have taken steps to reduce annual operating expenses by more than \$400k. These steps include eliminating 2009 salary increases and bonus payments, paring back discretionary expenses such as marketing, and re-negotiating contractual professional fees."

"As we face the challenges brought about by these difficult economic times, we will focus on leveraging our low-cost deposit funding and low-risk loan portfolio to maintain (NASDAQ-OTCBB:SBTB) SBT Bancorp's strong capital position and build shareholder value."

The Simsbury Bank & Trust Company is an independent, locally-controlled, customer-friendly commercial bank for businesses and consumers; the Bank has approximately \$240 million in assets. The Bank serves customers through full-service offices in Simsbury, Avon, Bloomfield and Granby, and a Business Office in Canton, Connecticut, SBT Online Internet banking at [simsburybank.com](http://simsburybank.com), free ATM transactions at 2,800 machines throughout the northeastern U.S. via the SUM program in addition to thousands of ATM locations world-wide, and 24 hour telephone banking. The Bank's wholly-owned subsidiary, SBT Investment Services, Inc., offers securities and insurance products through LPL Financial and its affiliates, Member FINRA/SIPC. The stock of the Bank's parent company, (NASDAQ-OTCBB:SBTB) SBT Bancorp, Inc., is traded over-the-counter under the ticker symbol of OTCBB:SBTB. Visit the Bank's website at [http://cts.businesswire.com/ct/CT?id=artlink&url=tp%3A%2F%2Fwww.simsburybank.com%2F&esheetX93160&lan=\\_US&anchor=w.simsburybank.com&index=/A](http://cts.businesswire.com/ct/CT?id=artlink&url=tp%3A%2F%2Fwww.simsburybank.com%2F&esheetX93160&lan=_US&anchor=w.simsburybank.com&index=/A).

Certain statements in this press release, including statements regarding the intent, belief or current expectations of (NASDAQ-OTCBB:SBTB) SBT Bancorp, Inc., The Simsbury Bank & Trust Company, or their directors or officers, are "forward-looking" statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements.

SBT BANCORP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except for per share amounts)

	12/31/2008	12/31/2007
<u>ASSETS</u>		
Cash and due from banks	\$ 11,392	\$ 13,424
Interest-bearing deposits with Federal Home Loan Bank	116	26
Federal funds sold	1,800	2,300
Money market mutual funds	3,027	4
Cash and cash equivalents	16,335	15,754
Interest-bearing time deposits with other bank	7,320	-
Investments in available for sale securities (at fair value)	32,997	24,871

Federal Home Loan Bank Stock, at cost	631	631
Loans outstanding	180,091	165,690
Less allowance for loan losses	2,017	1,925
Loans, net	178,074	163,765
Premises and equipment	846	1,223
Accrued interest receivable	836	808
Bank owned life insurance	1,204	1,818
Other assets	2,513	1,520
Total other assets	5,399	5,369
TOTAL ASSETS	\$ 240,756	\$ 210,390

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>Deposits</u>		
Demand deposits	\$ 38,288	\$ 40,196
Savings and NOW deposits	98,264	83,444
Time deposits	84,327	63,166
Total deposits	220,879	186,806
Federal Home Loan Bank advance	1,000	2,000
Securities sold under agreements to repurchase	577	1,363
Due to Broker	-	1,433
Other liabilities	1,454	1,470
Total Liabilities	223,910	193,072

Stockholder's equity:

<u>Common stock, no par value; authorized</u>		
<u>2,000,000 shares;</u>		
<u>issued and outstanding 864,976 shares in</u>		
<u>2008;</u>		
850,896 shares in 2007	9,328	8,975
Retained earnings	7,543	8,603
Accumulated other comprehensive loss	(25 )	(260 )
Total stockholders' equity	16,846	17,318



TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 240,756 \$ 210,390

SBT BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME -

(Unaudited)

(Dollars in thousands, except for per share amounts)

	For the Quarter Ended		For the Year Ended	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007
<u>Interest and dividend income</u>				
Interest and fees on loans	\$ 2,484	\$ 2,453	\$ 9,814	\$ 9,657
Investment securities	292	338	1,105	1,492
Federal funds sold and overnight deposits	19	28	145	200
Total interest and dividend income	2,795	2,819	11,064	11,349
<u>Interest expense</u>				
Deposits	774	837	2,976	3,355
Repurchase agreements	4	11	48	37
Federal Home Loan Bank advances	14	14	18	85
Total interest expense	792	862	3,042	3,477
Net interest and dividend income	2,003	1,957	8,022	7,872
Provision for loan losses	200	250	450	250
<u>Net interest and dividend income after provision for loan losses</u>				
	1,803	1,707	7,572	7,622

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<u>Noninterest income</u>				
<u>(charge)</u>				
Service charges on deposit accounts	116	116	479	414
Gain (loss) on sales of available-for-sale securities	-	(86)	10	(36)
Write-down of available-for-sale securities	(87)	(228)	(1,755)	(228)
Other service charges and fees	140	132	576	526
<u>Increase in cash surrender value</u>				
of life insurance policies	12	2	61	115
BOLI death benefit income	-	613	328	613
Loss on loans sold	-	(1)	-	(1)
Investment services fees and commissions	16	45	82	211
Other income	9	10	65	29
Total noninterest income (charge)	206	603	(154)	1,593
<u>Noninterest expense</u>				
Salaries and employee benefits	1,141	1,045	4,285	4,166
Premises and equipment	406	378	1,699	1,507
Impairment of operating lease	299	-	299	-
Advertising and promotions	105	77	384	336
Forms and supplies	34	26	152	127
Professional fees	211	74	408	417
Directors fees	45	36	146	141
Correspondent	68	48	241	187

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<u>charges</u>				
Postage	28	25	106	93
Other expenses	337	224	1,111	927
Total noninterest expense	2,674	1,933	8,831	7,901
(Loss) income before income taxes	(665)	377	(1,413)	1,314
Income tax (benefit) provision	(951)	(108)	(768)	174
Net income (loss)	\$ 286	\$ 485	\$ (645)	\$ 1,140
Average shares outstanding, basic	864,976	850,896	860,030	849,468
Net income (loss) per share, basic	\$ 0.33	\$ 0.57	\$ (0.75)	\$ 1.34
Average shares outstanding, assuming dilution	865,276	859,128	860,030	858,873
Net income (loss) per share, assuming dilution	\$ 0.33	\$ 0.56	\$ (0.75)	\$ 1.33

Source: SBT Bancorp, Inc.

Contact: The Simsbury Bank & Trust Company Anthony F. Bisceglia, 860-408-5493 EVP & CFO Fax: 860-408-4679 abisceglia@simsburybank.com